Submission to Senate Community Affairs Committee: Social Security Legislation Amendment Bill 2011

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acoss

Summary

If adopted in its present form, the Bill would cut the social security payments of almost 100,000 sole parents and young people over the next four years, increasing financial hardship among these groups of social security recipients. Since those targeted by the Bill are already required to seek employment or study and their activity requirements and supports would not change if the legislation is passed, the payment cuts are unlikely to lead to any significant improvement in their employment prospects or skills. By shifting people to lower payments, the Bill would simply make them poorer.

In this regard, the Bill continues the policy initiated in 2006 by the previous Government of diverting social security recipients from higher to lower payments. As we argued at the time, this is not a fair approach to employment participation or 'Welfare to Work' policies. It is not necessary to shift people to lower payments in order to improve their employment prospects. Indeed, in many cases the change will have the opposite effect as it deprives people of the income they need to fully participate in the labour market or upgrade their skills, and entrenches them in poverty. As the Henry Report noted, the gaps between pension and allowance payments are increasing each year due to the inadequate indexation of payments such as Newstart and Youth Allowance.

The Bill would also ease the income tests for sole parents on Allowance payments and for unemployed people on Youth Allowances. This would have the beneficial effects of encouraging part time employment, increasing the disposable incomes of many social security recipients with current earnings, and assisting some to progress to financial independence. We support these elements of the Bill but do not consider that they should be financed by cutting the maximum rates of payment of sole parents and young people on income support.

1. Measures affecting sole parents on income support:

The proposed tightening of ineligibility for Parenting Payment Single would (from January 2013) end eligibility for Parenting Payment Single (PPS) for those sole parents who were on that payment prior to 2006 (whose 'old' payment rates were protected under the Coalition Government's 'Welfare to Work' policy) once their youngest child reaches 12 years. On their child's 12th birthday they would drop down to the lower Newstart Allowance (NSA). Currently this group can remain on PPS until the child reaches 16 years.

This would result **in a loss of up to $58 per week in income support for around 28,000 sole parents** over the next 4 years, saving the Government around $152 million. It is worth noting, however, that these Budget savings will reduce to zero over the next decade or so, when the youngest children of the cohort of sole parents already on PPS in 2006 (when the Welfare to Work policy was introduced) reach the age of 16 years.

The parents affected by this cut in payments are already required to seek employment of at least 15 hours a week while on PPS. Their activity requirements and employment

supports will not change, only the level of payment they receive. Many of these parents are finding it hard to secure paid work because they are caring for a child with a disability (around 1 in 7 of those affected), have a disability themselves, or have limited qualifications.

The current PPS rate for a sole parent is $321 per week (not including Family Tax Benefits), but on NSA their income support payment would fall to $263 per week[1]. The Government estimates that the average loss of income for those affected, taking account of those with earnings on less than the maximum rate, would be $50 per week.

This Budget measure in effect uses savings from income support cuts for this group of sole parents to pay for an easing of the income test for sole parents on Newstart Allowance generally. The Bill would replace the current 50% and 60% taper (benefit withdrawal) rates for this group with a uniform taper rate of 40 cents in the dollar for income above the income test free area of $31 per week.

ACOSS has consistently called for Governments to ease the income test to make part time employment worthwhile for sole parents on Newstart Allowance, especially given that this group is required to seek part time employment as a condition of their payment. We have also called on Governments to ease the income test for other Allowance recipients with similar part time job search requirements, namely partnered parents with school age children and people with a partial work capacity. We support this easing of the income test for sole parents but do not support paying for this by cutting payments for the poorest sole parents who have not been able to find paid work.

It is well established that sole parent families on income support are already among the poorest in the country. A recent OECD report estimates that two-thirds of children in single parent families who are not employed (most of whom would receive income support) are already poor[2]. This proposal would deepen their impoverishment and likely further disadvantage people in their employment prospects. The cut in payments would come at the time that their youngest child is entering high school, when parents typically face higher costs. The payment cuts would also come at a time when housing costs, household power and other essential living costs are rising sharply.

This is a budget savings measure which will take money away from already financially vulnerable families. It is not a considered strategy to improve the job prospects of sole parents on income support. ACOSS rejects any suggestion that cutting payments and plunging families deeper into poverty will force parents to secure paid work more quickly.

2. Measures affecting young unemployed people aged 21 years:

If the Bill is passed, from July 2012, 21 year old unemployed people would lose access to Newstart Allowance (NSA) and remain on the lower Youth Allowance (YA) for an extra year after their 21st birthday.

[1] They will also lose the Telephone Allowance received by pensioners ($100 per year).
[2] OECD, 2011: Doing Better for Families. France.

YA for single young people living away from home is $201pw and NSA is $243pw, so this is **a cut in payments of $42pw for young unemployed people living away from and independently of their parents**.

Where the young person is living at home with their parents, a lower YA rate of $133pw applies (that is, a $110pw cut in payments compared to NSA). Where the young person has not demonstrated financial independence from their parents, the YA parental income test will apply to this group. This would further reduce payments for these young people.

Around 70,000 young people are estimated to face an average payment cut of $65 per week ($3,500 per year) over the next four years, saving the Government around $245 million.

Two other measures affect 21 year old unemployed people. The 'earn or learn' requirements that already apply to younger early school leavers (lacking Year 12) would extend to them. Secondly, the personal income test for YA for unemployed people would be eased through a higher income test 'free area'. The Bill would increase the income free area from $31 per week to $71 per week. In addition the working credit limit value will be increased from $1,000 to $3,500 for this group of young people. In our view these other changes could be made without cutting payments for those young people unable to find paid work.

This Budget measure in effect uses payment cuts for unemployed 21 year olds to finance the easing of the income test for YA. Despite the cost of the income test changes (approximately $60 million over 4 years), the Government estimates it will save $184 million overall from the above changes to young people's income support. Unlike the Budget savings from the sole parent measure, those savings will be ongoing.

The main argument raised in favour of this measure is that the gap between lower student payments (YA or Austudy Payment) and higher unemployment allowance (NSA) discourages participation in education. We agree, but the solution is to raise the pitifully low level of student payments for people living independently of their parents ($201 per week), not to close off access to the higher NSA payment for unemployed young people.

Unemployed 21 year olds cannot always fall back on parental support, even if it considered reasonable to expect parents to do so. Unemployed young people on income support are less likely to be supported by their parents than full-time students, and more likely to be socially and economically disadvantaged than young fulltime students[3]. Their parents generally have lower incomes and often one of the reasons they are looking for paid work is that their parents cannot afford to support them. In any event, the proposal would cut the maximum rate of income support to unemployed 21 year olds regardless of their parent's income. It would indiscriminately affect those young people whose parents can afford to support them and do so, and those whose parents cannot afford to support them. There is no discount on rents, food, or other essential costs of living for young people living independently of their parents.

[3] See, for example, research findings summarised in Cobb Clark & Gorgens 2012, *Parent's economic support of young-adult children*, Melbourne Institute Working Paper 4/12.