Submission to the Education, Employment and Workplace Relations References Committee

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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This submission has been prepared by United Voice National Office on behalf of United Voice members across Australia.

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Introduction to United Voice

United Voice is a union of over 120,000 Australian workers. We represent members in a range of award-reliant industries, including aged care, child care, cleaning, hotels, healthcare, restaurants, security, clubs and manufacturing. Many members work part time or casually at minimum wages. Members working casually or part time may cycle in and out of the social security system as hours increase or decrease.

The adequacy of allowance payments and the difficulty of moving between insecure work and payments, or a combination of both, are the issues we will address in this submission.

United Voice supports the submissions made by ACTU, National Welfare Rights Network and ACOSS in relation to the adequacy and indexation of Allowance payments.

Executive Summary

United Voice has become concerned that for growing numbers of our members work, often insecure and low paid, no longer provides the level of income needed to pay for basic goods and services. Members are increasingly experiencing low pay and wage suppression, eroding working conditions, greater workplace precarity, difficulties in maintaining cost of living, greater financial insecurity, lack of access to affordable housing and decreasing access to affordable quality government provided services (including health, education and aged care).

These are all symptoms of the transfer of risk, in the form of financial, social and economy costs, from business and government to workers and households. Individuals and households are increasingly expected to navigate personal risks, and its social consequences without social safety nets and service provision.

Risk taken on by households includes, for some, a constant cycling between insecure paid work and social security, a balancing act of some work, some social security merely to get by. For these people the current structure of the social security payments system does not work. It is a system that was designed to support people unable to work at all due to disability or age, or people between full time work. What we now see is a growing group who fit in neither of these categories, a group of people who are working but in such insecure jobs that work alone can not hope to support them and who need to rely on social security as well.

It is for this new group of social security recipients that the not only the adequacy of allowance payments need to be addressed but also the very structure of the payments

system itself. United Voice recommends (see recommendation four) that it is time for discussion and debate on how to address this, be that by return to work income supplement or by some other means. We are not advocating any one approach rather that a discussion on a new alternative is needed.

Adequacy of Allowance payments

When looked at through this prism, where working people on modest incomes can not enjoy decent living standards, those relying on allowance payments, which currently sit at only 42% of the Federal Minimum wage, even for short periods of time, are condemned to poverty.

Recommendation 1 : United Voice recommends that Allowance payments be increased by $50 per week in line with the Henry Review recommendation.

A further problem impacting the adequacy of allowance payments is the manner in which they are indexed, by CPI. Indexing Allowance payments by CPI, which measures prices rather than movements in wages exacerbates the inadequacy of the payments as CPI has not risen as much as wages have in recent times. From 2005 to 2011 CPI rose by 17% while wages rose by 23%.

This is distinct from Pension payments which are indexed by the greater of Male Total Average Weekly Earnings (MTAWE), CPI or the Pensioner and Beneficiary Cost of Living Index. Applying the different indexation rates has led to the discrepancy between Pension and Allowance payments rates widening. Where the allowance rate was 91% of the Pension rate in 1997, it is now just 65% of the Pension rate.[1] If this indexation rate is maintained by 2020 Allowance rates will be just 57% of pension rates ($296.50 per week as compared with $518 per week for Pensions)[2]

This inequitable indexation creates an arbitrary distinction between groups in society. A cohesive society is one in which the floor moves equitably with the ceiling. While wages income takes one trajectory, bringing pension payments with it, allowance recipients moving by a different measure face further entrenched inequity.

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[1] Whiteford, Peter. *Social Security Reform: The tax Forum and Beyond*. Economic Papers, Vol 31 no 1 March 2012 pp 24-29

[2] ACOSS factsheet. *$35 a day: not enough to live on*. At http://www.acoss.org.au/images/uploads/Newstart%20Allowance%20brochure%20FINAL_March%20version.pdf

Recommendation 2: United Voice recommends that Allowance payments be indexed by the same measure as Pensions (that is the higher of CPI, MTAWE or the Pensioner and Beneficiary Cost of Living Index).

The income free area for Allowances is another area contributing to inadequacy. The income free area for Allowances has not been increased (apart from a small adjustment of with the introduction of the GST) for some 30 years and remains at $31 per week. This means even a four hour shift at minimum wage will start to reduce the already inadequate payment.

Recommendation 3: United Voice commends that the "income free" area for Allowances be increased.

Interaction of Labour Market and Payment System

The nature of the Australian labour market has changed dramatically since the Allowance payment system was designed and introduced. Despite some minor changes it remains out of touch with the reality of the current nature of work for many Australian workers.

Australia has an increasing number of workers in insecure, casual, part-time and low paid work arrangements. People working in these jobs have increasing interactions with the social security system as they move in and out of insecure work and as income from this work does not provide for basic needs. This "labour market cycling" poses a problem for the design of our social safety net.

This interaction is becoming increasingly important as the social security system fails to keep pace with the changing labour market. The system was designed to meet the needs of those who were unable to work, ie aged and people with disabilities and those who were temporarily between full time work. As the nature of work changes with more and more people working part time and casually the social security system no longer meets the need of people on low incomes or who cycle regularly between some work and social security. The reality for many working Australians is their entire working life will be comprised of part time, casual, intermittent work.

This constant cycling creates a distinct set of issues relating to the allowance payment system as outlined below. These issues are exacerbated because of the "on off" nature of engagement with the social security system. In a world where a person claims a payment once then returns to full time work these are not such impediments, but as that world is increasingly less relevant these issues come to the fore.

Issues for those transitioning between the labour market and social security or balancing both

- **The claim process**. The process for claiming a payment is especially arduous. While there are many good reasons for stringent identification requirements, proof of income and asset requirements there are ways in which the system could be streamlined.

  This is also the case where someone has been off payment for a period of time, perhaps due to paid work and then needs to "reclaim". Despite abridged reclaim provisions in some circumstances it can still be an onerous task.

  A particular issue for people undertaking irregular casual employment is the need to provide an "employment separation certificate" on claiming a payment. This certificate needs to be completed by an employer stating the reason for the cessation of employment and any leave or other entitlements paid. People who undertake casual work for short periods of time can have great difficulty in getting employers, who they may hardly know, to complete this certificate. Additionally many people reliant on casual work do not want to "hassle" an employer for the certificate for fear they will not receive work in the future. This is particularly problematic where people have more than one employer or where the actual employer is not always clear.

- **Income declaration**. Any income earned though employment must be declared to Centrelink in the fortnight in which it is *earned*, ie when the work is done. This is not necessarily the same fortnight as when the income is *received* depending on the employers pay cycle. This means a person declaring income may receive very little or no allowance in that fortnight despite not having actually received payment from the work undertaken, resulting in zero total income for the fortnight. People reliant on low paid casual work and allowances rarely if ever have savings to tide them over in these fortnights.

  It is also difficult for people working in casual employment to advise of the correct amount of income earned. People may not have yet received a pay slip (if they are provided at all) nor know the rate of hourly pay. Incorrect declaration of income can lead to overpayments. These overpayments are then repaid from future allowance payments reducing that fortnights income too.

The need to declare income when earned and not received can prove a disincentive to work or to declare income from work. The problems associated with the current income declaration requirements and casual work is summed up well by ACOSS in its submission to the Independent Inquiry into Insecure Work in Australia.

A key problem with the operation of social security income tests for casual employment is the volatility of income from fortnight to fortnight. Even in cases where the income test is relatively liberal (for example, the pension income test), people are often discouraged from taking on casual work because of the uncertainty of the impact on their social security payments. This undermines the income stabilisation role of the social security system as well as work incentives. The earnings credit was designed to ease these problems by in effect allowing people to average their casual earnings over a longer period than a fortnight. However, the earnings credit is unnecessarily complex and poorly understood. It would be simpler, for example, to increase income test free areas for allowance payments and then allow people to store up their free area over longer periods than a fortnight. Administrative reforms such as the British "better off in work" calculations could also make the system easier to understand and negotiate for casual employees.[3]

While the Working Credit Scheme is designed to mitigate some of these problems it is complex and not well known. Additionally a person working a small number of casual hours most fortnights will not have the opportunity to build up any substantial amount of credit.

- **Loss of concessions**. Concessions provided by the Health Care Card are vital in assisting people on the inadequate rate of allowances to meet medical, transport and other costs. Removal of concessions, even after starting low paid work can mean a dramatic increase in costs that may offset income from employment.

- **High effective marginal tax rates.** The most often cited disincentive faced by recipients of social security entering employment is that of high effective marginal tax rates (EMTR's). High EMTRs arise due to our targeted social security system, means testing designed to ensure the most needy receive payment, also means those just over income testing limits face withdrawal of payments and thus high EMTRs.

  An estimated 7.1% of Australians will face EMTR's of over 50%[4] An effective tax rate higher than that faced by the most wealthy.

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[3] Australian Council of Social Services, as cited in *Lives On Hold*. Report of the Independent Inquiry into Insecure Work in Australia. 2012

[4] Harding, A. Vu, QN. Payne, A &Percival, R. *Trends in effective Marginal Tax Rates 1996-97 to 2006-07*. National Centre for Social and Economic Modelling. AMP NATSEM Income and Wealth Report Issue 14 September 2006.

- **Job Services Australia System:** The focus of the Job Services Australia system is one that prioritises job finding over skill development and adaptation to a changed labour market. A system that effectively serves to "blame" the un or under employed person for their inability to gain full time employment and focuses on behavioural change and obtaining "any" job rather than assisting a person to gain skills and experiences to get out of the cycle of social security payments and the insecure job market.

  "A policy that focuses on attitudes is not enough to deal with the complexity of current labour market challenges – the problems of long term skills, of exits onto DSP, of locational disadvantage, of the nature and quality of work. No amount of "hassling" will address these structural issues".[5]

  The nature of the current JSA system is not structured to deal with labour market cycling faced by many workers in todays labour market.

Recommendation 4: United Voice recommends that a further inquiry, such as the Australia's Future Tax System Review Panel on the Retirement Income System (the Harmer review) looks at the broader issues relating to the changed labour market and the interaction with the social security system. This could include, but would not be limited to;

- **Simplification of the claim and reclaim process**
- **Simplification of income declaration**
- **Investigating the impact of the loss of concessions with a view to mitigating that loss for example through longer eligibility to concessions once entering work**
- **Investigating high effective marginal tax rates and reforming the income test system such that no tax rates are higher than the highest income tax rate**
- **The Allowance payment structure, particularly in relation to Newstart Allowance as a means to provide adequate income to people caught in a cycle of insecure employment and some reliance on social security to fill the gaps. This includes investigation and discussion of alternative assistance for people in low paid insecure work, such as programmes that supplement income on moving into work in conjunction with support to retain work and skill development**
- **The Job services Australia System, particularly in relation to how employment assistance is best devised in a labour market with high levels of insecure and low paid work**

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[5] Fowkes, Lisa. *Rethinking Australia's Employment Services*. Whitlam Institute, Perspectives. March 2011 pg 14

Conclusion

Allowance payments are for many people no longer temporary payments between bouts of full time employment. They instead help cobble together an insufficient income comprised of insecure work and social security payments. People rely on the social security system to top up low wages. The nature of this cobbled together income places high degrees of stress and uncertainty on people, as they struggle with increasingly insecure work and the complexity of the social security system.

While it might be that work can provide a greater gross income than an allowance payment the combination of greater expenditure associated with working such as transport and clothing, high EMTR's and the loss of concessions may leave a person worse off than receiving the full rate of allowance payment. Additionally the entry to casual work means taking on the uncertainty of income from week to week rather than the certainty of an, albeit inadequate, rate of allowance.

The in work/out of work dichotomy on which our social security payment and job search assistance systems are built is no longer relevant for those stuck in labour market cycling and low paid insecure work. It is time to look at alternatives, to accept there is a group of people whose income is derived from both work and social security and that work is often uncertain and precarious. While United Voice is not advocating any one particular solution we believe it is time to look at alternatives, be these return to work income supplements or some other mechanism or assistance.