

ACTU Submission to the Allowances Inquiry of the Senate  
Education, Employment and Workplace Relations  
Committee

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## About the ACTU

The Australian Council of Trade Unions (ACTU) is the nation's peak body for organised labour, representing Australian workers and their families. Nearly two million workers are members of the 46 unions affiliated to the ACTU.

## The Working Australia Papers

The Working Australia Papers are an initiative of the ACTU to give working people a stronger voice in the development of social and economic policy. Previous Working Australia Papers have addressed a broad range of issues, from taxation policy to productivity.

## This submission

This submission was prepared by Matt Cowgill, ACTU Economic Research Officer, along with Cassandra Devine, ACTU Research Assistant.

## Introduction from Tim Lyons

Australian unions work for a better life for all workers, whether they're currently in permanent jobs; in insecure work; or looking for work. The ACTU has long recognised that the social wage – the services and safety net provided by government – stands alongside fair conditions at work as a vital component of our social protection system. Newstart Allowance is a bedrock component of that system.

We believe that income support should protect unemployed people from poverty and help them to find work. Allowing the social wage to erode over time doesn't just affect people who are currently out of work; it exposes all workers to greater risk of poverty if they lose their job. This submission sets out a comprehensive case for an increase in the single rate of Newstart Allowance to ensure that the safety net is strong and effective.

At the moment, Australian workers on average wages who lose their jobs receive a bigger cut to their incomes than their counterparts in any other OECD country. This can leave people unable to meet their commitments – rent or mortgage payments, loans, transport costs. Trying to get by on an income as low as the current Newstart Allowance can damage people's mental and physical health. This reduces the economic and social participation of recipients. This is no way to help people to find work.

It's also important that the income support system adapts to the realities of the modern Australian labour market. While the unemployment rate is around its lowest level since the 1970s, insecure work has risen. Casual and contract work represents a larger share of employment than in the past. The income support system needs to be designed for the labour market we have today, not the one we had decades ago, which is why this submission calls for a future independent inquiry to examine these issues in depth.

You will see throughout this submission a selection of quotes from workers at the Department of Human Services, collected by the Community and Public Sector Union (CPSU). These workers are on the front line of our income support system; they see the impact that the inadequacy of the payment has on income support recipients.

We're pleased to have this opportunity to provide a submission to the Committee on a matter of such importance to Australian workers and their families. A fair society must provide adequate assistance to those who are unemployed. The current Newstart Allowance fails this test. I ask you to endorse our call for an increase in Newstart Allowance.

Yours sincerely,

Tim Lyons  
ACTU Assistant Secretary

## Summary of recommendations

The ACTU calls on the committee to make the following recommendations in its report:

- Increase the Newstart Allowance for single adults by \$50 per week, from 2013. This would result in the same ratio between the single and couple payment rates for allowances as for pensions. It would restore the Newstart Allowance to the same proportion of average wages as in 2002, and the same proportion of the minimum wage as in 1996.
- Index the Newstart Allowance and other allowances to a measure of wages, such as median full-time earnings. Failing to do improve the indexation arrangements will mean that the gap between Newstart and the poverty line, as well as between allowances and pensions, will continue to grow over time.
- Increase the amount of income that a Newstart recipient can receive before beginning to lose their payment. This 'free area' should at least be equal to three hours of work per week at the National Minimum Wage. To offset the fiscal cost of this measure and to ensure that Newstart for single adults continues to be fully withdrawn at levels of income below the full-time minimum wage, the Committee should consider recommending a consolidation of the existing payment withdrawal rates into one consistent 60% taper.

The ACTU also believes that a range of other issues and potential reforms to the income support system are worthy of further in-depth investigation. We believe that an independent review by a panel of experts, supported by a secretariat drawn from the relevant departments, should be convened to examine the allowance system and make further recommendations. The issues that should be examined by this independent inquiry include:

- Current trends in the labour market, including insecure employment, and the implications of these trends for the income support system.
- The movement towards a common base payment for people of working age, with supplements for people who face additional costs or barriers, such as those associated with disability or caring responsibilities.
- The appropriate level of income for allowances to be withdrawn completely, as well as the taper rates and thresholds that apply as the allowance is withdrawn.
- The operation of a range of technical and administrative aspects of the allowance system, outlined in detail in this submission.
- The operation of the Job Services Australia system, including the efficacy of the structure of payments to providers and the interactions between JSA agencies and other aspects of the income support system.

## Executive summary

The single rate of Newstart Allowance is inadequate. The primary goal of income support is protection from poverty. The current system is failing to achieve this goal. This submission makes the following observations regarding the adequacy of Newstart Allowance:

- The real (CPI-adjusted) value of Newstart Allowance has been virtually constant for the past two decades. When Newstart is adjusted for price changes over time by using a cost of living index based on the expenditure patterns of income support recipients, rather than the CPI, it is apparent that the real purchasing power of the allowance has fallen over time. The absolute living standards of Newstart recipients have thus fallen.
- Adequacy is a relative concept. The adequacy of an income support payment should be evaluated relative to general community standards and typical incomes.
- Newstart Allowance is lower, as a proportion of average earnings, than the unemployment benefit of any other OECD country. Australian workers who become unemployed and have to rely on Newstart suffer a greater income shock than their counterparts in other industrial countries. The gap between Australia's replacement rate and the OECD average has fallen over the past decade for most household types.
- In the mid-1990s, the Newstart Allowance was equal to the poverty line (defined as 50% of median income), meaning that allowance recipients had just enough income to not be considered 'in poverty' by this measure. As at 2009-10, Newstart was only sufficient for a single adult to have an income of around two-thirds of the relative poverty line. Newstart has also declined sharply as a proportion of the Henderson poverty line.
- Budget standards can provide a rigorous assessment of the level of income required to meet the needs of income support recipients. Updating the SPRC budget standards to 2012 suggests that a single adult Newstart recipient has an income equal to only around two-thirds of the 'low cost' budget standard.
- Newstart recipients experience substantial levels of financial stress and deprivation.

The ACTU acknowledges that income support policy choices include trade-offs against competing ends. While protection from poverty is the primary goal of the system, recipients' incentives to work and the fiscal cost are also relevant considerations. This submission argues that the existence of these trade-offs does not mean that Newstart should be allowed to drift ever lower in relative terms. Rather:

- When the payment level is very low, increasing its adequacy can improve employment participation. This is because a very low payment reduces the ability of unemployed people to meet the costs of job search, as well as the costs of living. A very low payment rate can also lead to a deterioration of the

mental and physical health of unemployed people, which does not help them move off income support.

- The gap between the Disability Support Pension and Newstart Allowance has grown substantially. Newstart is now around two-thirds of the DSP payment rate. The large gap between payments generates financial incentives for unemployed people to attempt to move to the DSP where they meet the eligibility criteria for the pension.
- DSP recipients can become 'stuck' on the payment. If they obtain employment and then lose their job, they may be moved to Newstart, which leaves them with a much lower income than the pension. The large and growing gap between the payments can discourage workforce participation among DSP recipients for fear of having to move to Newstart if the job doesn't work out.
- The gap between the DSP and Newstart will continue to grow over time due to the different indexation arrangements for the two payments. Newstart will also continue to fall behind relative poverty lines and become less adequate unless it increases in line with some measure of community living standards.

Complex trade-offs also exist when it comes to the withdrawal of income support as earnings increase. This submission argues that, in the short run, reforms to Newstart Allowance should ensure that full-time workers are not eligible to receive the payment. This places restrictions on the combination of changes that can be made to the free area, taper rates, and payment rate. The following points are made in relation to these aspects of the system:

- The current 'free area' is insufficient to allow a Newstart recipient to perform any work at all under most modern awards before beginning to lose some of their payment. The free area should be increased so that it is at least equal to three hours work at the National Minimum Wage. The value of the free area should be indexed.
- Along with the \$50 per week payment increase and the increase in the free area, the ACTU recommends a consolidation of the existing taper rates into a single consistent rate.
- Potential future reforms to the free area and taper rates should be examined by an independent inquiry.

Reforms to the working-age allowance system over the years have partly reflected the changing labour market, however change has been insufficient to ensure the income support system meets its objectives. Further reform must take into account the changes that have occurred in the labour market, and those that are likely to occur in the future. This submission notes that:

- While the unemployment rate is currently around its lowest rate since the 1970s and the employment-to-population ratio is near record highs, underemployment is persistent. The proportion of men who work full-time has fallen with each economic downturn since the 1970s, and the proportion of men who are out of the workforce has risen. Although all groups have experienced an improvement in employment outcomes in recent years, people with lower levels of educational attainment are less likely to be employed, and much less likely to be employed full-time, than people with higher levels of education.
- Insecure work has risen as a proportion of total employment. Casual workers now account for around a quarter of all employees, and a fifth of employed persons (which includes contractors and business operators). Other forms of insecure work are also widespread. Therefore, employment *per se* is no guarantee of a predictable income and the ability to plan your time. Poor quality jobs can erode health and well-being. While some workers are able to use insecure jobs as ‘stepping stones’ to full-time, ongoing work, many remain stuck in insecure arrangements for years.
- The rise of insecure work means that the assumptions underpinning the allowance system may no longer be appropriate. More workers are ‘churning’ through the income support system, moving on and off payments. People are now more likely to move in and out of employment at different stages of their life. This can make planning their time and finances difficult, and can make interactions with the income support system more complex.
- The income reporting rules can be difficult for payment recipients to understand and comply with.



## The inadequacy of Newstart Allowance

While this inquiry of the Senate Education, Employment and Workplace Relations Committee ('the Committee') is into the adequacy of the allowance payment system for jobseekers and others, the ACTU's submission focuses on the main working age payment, Newstart Allowance.

The analysis in this chapter shows that whichever measure is used, Newstart Allowance is inadequate. The adequacy of the payment has been eroded over time, and the payment is lower than the unemployment benefits in other OECD countries as a proportion of average wages. The gap between Newstart and the poverty line is large and growing.

Working Australians who lose their jobs are entitled to expect that the social safety net will protect them from poverty while they seek further employment. As Harmer put it, all Australians "should be able to meet their basic needs and participate in Australian society".<sup>1</sup> The current allowance system does not pass this basic test.

The clear inadequacy of the payment underpins the ACTU's core recommendations to the Committee: we call on the Committee to recommend an increase in the single adult Newstart Allowance payment rate of \$50 per week from 2013 and an improvement in the indexation arrangements for allowances.

## The real purchasing power of Newstart Allowance

### Key points:

- The real (CPI-adjusted) value of Newstart Allowance has been virtually constant for the past two decades.
- The CPI is not designed as a measure of the change in households' cost of living over time.
- When Newstart is adjusted for price changes over time by using a cost of living index based on the expenditure patterns of income support recipients rather than the CPI, it is apparent that the real purchasing power of the allowance has fallen over time. The absolute living standards of Newstart recipients have thus fallen.

In constant 2011 dollars, the unemployment benefit was around \$188 per week in March 1982, compared with \$244.85 in 2012.<sup>2</sup> When the unemployment benefit became Newstart Allowance in July 1991, it was

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<sup>1</sup> J Harmer, *Pension Review: Background Paper*, Department of Families, Housing, Community Services and Indigenous Affairs, 2008, p.13.

<sup>2</sup> The maximum payment rate as at August 2012 is \$489.70 for a single adult with no dependants. This is converted to a weekly figure in this submission unless otherwise noted.

worth \$233.80 in 2011 dollars. Eighty per cent of the real increase in the payment rate therefore occurred in the 1980s; the payment rate has remained more or less constant in real (CPI-adjusted) terms for the past two decades. This is shown in Figure 1.

**Figure 1: Real value of the unemployment benefit since 1982 (CPI deflated)**



Source: ACTU calculations based on ABS 6401 and FaHCSIA historical data.

The stability of the real value of Newstart is to be expected given that the allowance is indexed to a lagged measure of the change in the CPI. However, the ABS has said that the CPI “is not the conceptually ideal measure for assessing the changes in the purchasing power of the disposable incomes of households”.<sup>3</sup> The fact that Newstart has been constant in CPI-adjusted terms therefore does not imply that the purchasing power of the allowance has been maintained over time.

To more accurately measure changes in the cost of living for particular household types, the ABS produces the Analytical Living Cost Indexes. One of these indexes specifically measures the change in the cost of living for households whose principal source of income is a government payment other than the age pension or veterans’ affairs pension. The principal differences between the transfer recipients’ analytical living cost index (ALCI) and the CPI are that:

- the ALCI is based on a basket of goods that reflects the typical spending patterns of payment recipient households, rather than households generally; and
- the ALCI is based on the actual money outlays of households, rather than goods acquired by households. Prior to 1998, the CPI was also based on the outlays approach, but it is now based on the

<sup>3</sup> Australian Bureau of Statistics, ‘Explanatory notes’, *Analytical Living Cost Indexes for Selected Australian Household Types*, Catalogue no. 6463.0, ABS, Canberra, 2012.

acquisitions approach. This difference in approach leads to significantly different results in the cost of purchasing dwellings and durable items, as well as financial services.

The expenditure patterns of households that rely on transfer payments differ from that of the general population, and from other sub-sets of the population like employee households. As a result, the weights given to various components of household expenditure differ in the various living cost indexes and the CPI. The differences in the expenditure weights for the employee ALCI, the other transfer recipient ALCI, and the CPI are shown in Table 1.

**Table 1: Contribution of each expenditure group to the total index, June quarter 2012**

	<b>Employee ALCI</b>	<b>Other govt. transfer recipient ALCI</b>	<b>CPI</b>
Food and non-alcoholic beverages	16.2%	18.3%	16.1%
Alcohol and tobacco	7.6%	10.1%	7.3%
Clothing and footwear	4.1%	4.8%	4.0%
Housing*	13.8%	23.8%	22.8%
Furnishings, household equipment and services	9.2%	7.7%	9.1%
Health	5.3%	3.2%	5.4%
Transport	11.9%	9.8%	11.7%
Communication	3.0%	4.2%	3.0%
Recreation and culture	12.2%	9.2%	12.2%
Education	3.1%	2.5%	3.3%
Insurance and financial services*	13.6%	6.6%	5.2%

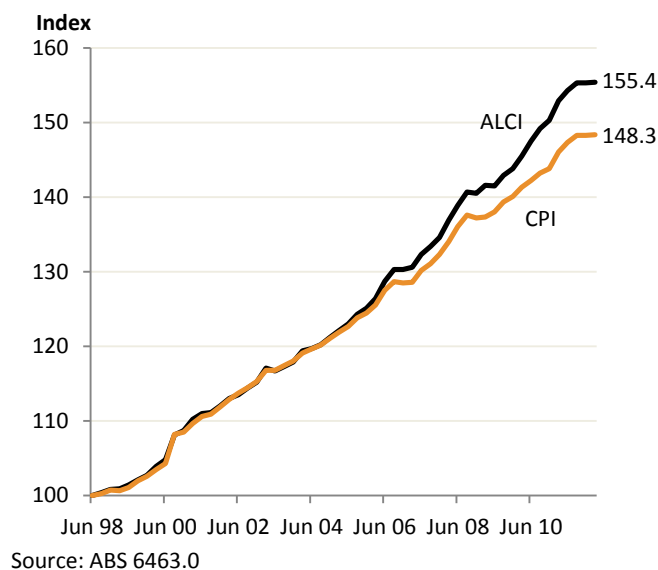
Source: ACTU calculations based on ABS 6463, explanatory notes, Table 3. \*House purchases are included in the CPI but excluded from the other indexes; the ALCIs include interest charges but the CPI does not. General insurance is calculated on a different basis in the CPI than in the ALCIs.

Between 1998 and 2005, the transfer recipients' ALCI and the CPI rose in lockstep with one another. Since that time, they have diverged. Between the June quarter 2005 and the March quarter 2012, the CPI rose at a compound annual rate of 2.9%, while the ALCI rose by an average of 3.5%.<sup>4</sup> In total, the CPI has risen by 48.3% since 1998, while the ALCI has grown by 55.4%.<sup>5</sup> Using the CPI to measure the change in the real value of Newstart therefore understates the extent to which price rises have eroded the payment's purchasing power in recent years. The cumulative change in the CPI and the ALCI is shown in Figure 2, while Figure 3 shows the effect of the divergence between the price indices on the real purchasing power of the Newstart allowance.

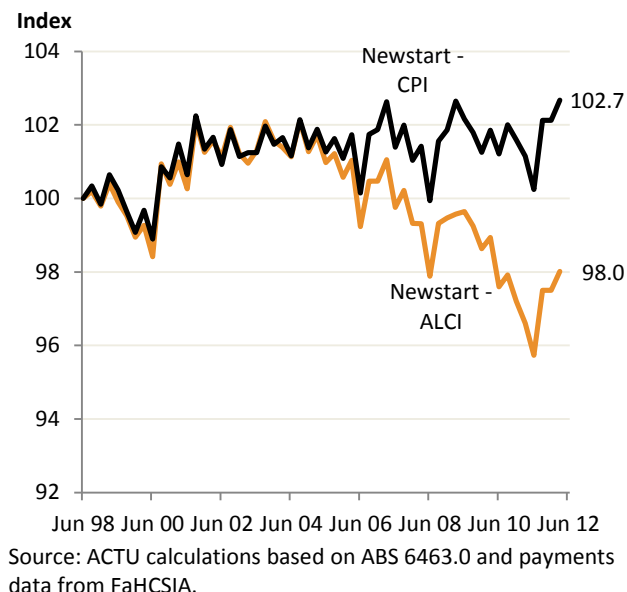
<sup>4</sup> ACTU calculations based on ABS 6463.

<sup>5</sup> ABS 6463, *op. cit.*

**Figure 2: Change in the transfer recipients' ALCI and the CPI since 1998**



**Figure 3: Real Newstart payment rate deflated using CPI and ALCI**



This divergence of price indices means that the purchasing power of the Newstart Allowance, or the standard of living of Newstart recipients, has fallen since 2005. Using the ALCI as the price deflator, the purchasing power of the Newstart Allowance fell by 2.9% between the June 2005 and March 2012 quarters. If Newstart had kept pace with the ALCI over this period, it would have been \$7.30 per week higher in March 2012.

**Department of Human Services worker:**

*[Newstart] is insufficient to meet the most basic of needs of our customers (basic needs: food, shelter, and clothing).<sup>6</sup>*

The indexation of Newstart to the CPI has meant that the living standards of Newstart recipients have fallen over time, even in absolute terms. The decline in relative living standards has been more severe. It is this decline in relative living standards that should be the most important consideration of the Committee.

<sup>6</sup> See Appendix A for further information about the CPSU survey of members at DHS.

## Measuring the adequacy of Newstart Allowance

### Key points:

- Adequacy is a relative concept. The adequacy of an income support payment should be evaluated relative to general community standards and typical incomes.

The adequacy of an income support payment should be assessed in *relative* terms; adequacy can only be measured in the context of living standards generally prevailing in the community, as well as the norms and values of the time. An adequate real income in Australia in 1900 would not be an adequate income today, and nor would the typical income of citizens in a developing country be seen as adequate in contemporary Australia.

Defining adequacy in relative terms is a long-established and accepted approach. Saunders and Wong note that the Pension Review concluded that adequacy must be defined “in the context of contemporary society, and the living standards of others”; they suggest that “the key features of this definition of adequacy are consistent with the approach taken in other reviews of the Australian social security system undertaken over the last three decades”.<sup>7</sup> The Committee should follow the Pension Review and previous reviews and adopt a definition of adequacy that stresses the value of income support payments relative to measures of typical standards of living and community norms.

The Australia’s Future Tax System Review (‘AFTS’, also known as the Henry Review) noted that there are four common measurements of the adequacy of income support payments. These are:

- Replacement rates, which compare the income of a payment recipient with that of a worker (such as a minimum wage worker or the median worker);
- Poverty lines, to which the disposable incomes of payment recipients are compared;
- Budget standards, which estimate the amount of income necessary to sustain a particular standard of living; and
- Financial stress indicators, which enable a comparison of the financial wellbeing experienced by payment recipients with that of the community as a whole.<sup>8</sup>

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<sup>7</sup> P Saunders & M Wong, ‘Pension adequacy and the Pension Review’, *The Economic and Labour Relations Review*, vol. 22, no.3, 2011, pp.7-26.

<sup>8</sup> Australia’s Future Tax System Review, ‘Section 7.3: Important impacts of the personal tax-transfer system’, *Architecture of Australia’s Tax and Transfer System*, Commonwealth of Australia, Canberra, 2009.

All four measures are considered in this submission. Replacement rates are emphasised, particularly the single adult Newstart Allowance as a proportion of the net incomes of full-time worker on the National Minimum Wage and a worker on average full-time earnings. These wage-based measures are particularly appropriate for a working-age payment for people seeking employment, such as Newstart.

## Replacement rates for single adults

### Key points:

- Replacement rates are a key measure of adequacy.
- The replacement rate of Newstart Allowance relative to average full-time wages is now at its lowest level in at least three decades. In March 2012, Newstart was equal to just 18.2% of the average weekly ordinary time earnings of full-time adults.
- The replacement rate of Newstart relative to the minimum wage is at its lowest level since 1990, with Newstart representing 41.6% of the gross earnings of a worker on the National Minimum Wage in March 2012.
- The decline in replacement rates is even steeper when net (post-tax) incomes are considered.
- A full-time worker on average earnings who loses his or her job and claims Newstart will experience a 75% drop in income.

Replacement rates are a key measure of adequacy, as they compare the incomes (and thus the material living standards) of the unemployed with workers.

Replacement rates show the income of a benefit recipient as a proportion of the income of a worker. The replacement rates emphasised in this submission are based on the incomes of full-time workers on minimum wages or average wages. These rates can be calculated in either gross (ie. pre-tax) or net (post-tax) terms.

Over the past 30 years, the value of the unemployment benefit<sup>9</sup> has risen by 31.1% in real terms<sup>10</sup>, while the real average earnings of full-time employees have grown by 43.4%.<sup>11</sup> Over the same 30-year period, real minimum wages have fallen: the C14 rate of pay in awards (which is now equal to the National Minimum Wage) has fallen by 4.2%, while the benchmark tradespersons' award rate (known as C10) has fallen by 12.7% in real terms.

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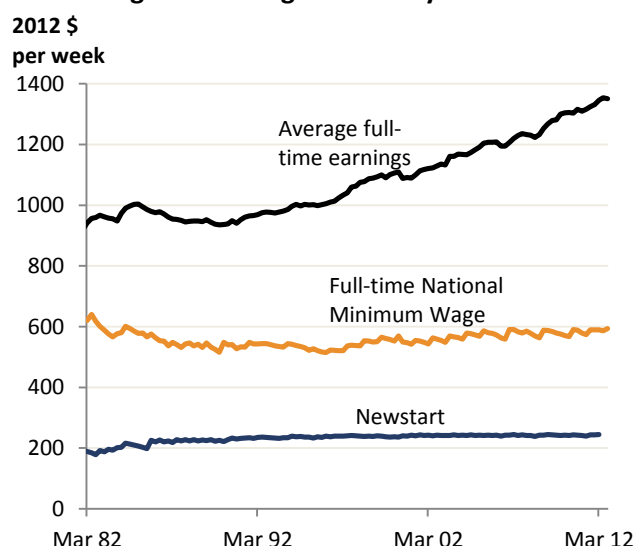
<sup>9</sup> Unless otherwise noted, references to the Newstart payment rate or the 'unemployment benefit' in this submission are references to the full rate for childless adults with no private income.

<sup>10</sup> Unless otherwise noted, changes in the real value nominal variables in this submission have been calculated using the all groups Consumer Price Index.

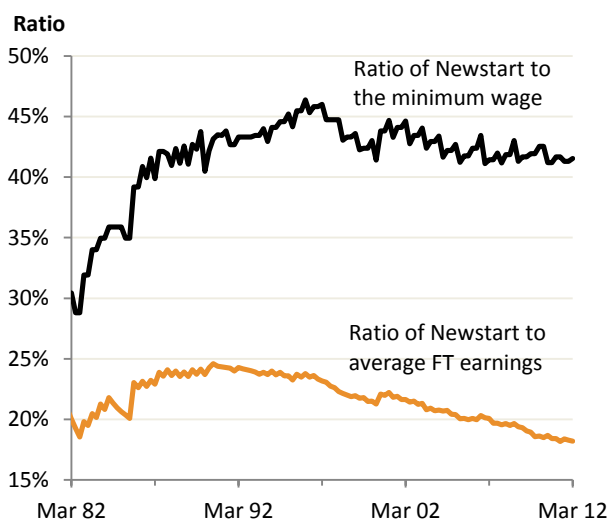
<sup>11</sup> Unless otherwise noted, references to average wages in this submission are to the average weekly ordinary time earnings of full-time adults in the public and private sectors, from ABS 6302.

However, virtually all of the real increase in the unemployment benefit occurred in the 1980s. In the past two decades, the real value of the Newstart allowance has remained virtually constant, real minimum wages have risen modestly, and real average wages have increased at a solid pace. This is shown in Figure 4. The ratios of the Newstart payment rate to the full-time minimum wage and average full-time earnings are shown in Figure 5. These ratios are gross replacement rates.

**Figure 4: Real gross weekly incomes**



**Figure 5: Gross replacement rates since 1982**



Source: Average weekly ordinary time earnings of full-time adults (AWOTE) from ABS 6302 and ABS 6304, via Foster 1996. Minimum wage data are the National Minimum Wage/Federal Minimum Wage since 2006 and the equivalent C14 rate of pay from the metal industry award prior to that time. Historical Newstart rates are from FaHCSIA. CPI is from ABS 6401.

In the early 1990s, Newstart rose slightly as a proportion of the minimum wage, because the minimum wage was falling in real terms while Newstart was constant. Since 1997, minimum wages have risen by around 14% in real terms while the real Newstart payment rate has remained constant, so Newstart has fallen relative to the minimum wage. In March 2011, Newstart was 41.6% of the minimum wage, down from a peak of 46.4% reached in 1996.

Newstart has steadily fallen relative to the average earnings of full-time workers since 1990. In March 2011, the replacement rate of Newstart relative to average full-time earnings was 18.2%, the lowest level in at least thirty years.

#### **Department of Human Services worker:**

*In my opinion, the payment rate for Newstart Allowance has been inadequate since at least the late 1990s, and the gap between it and other income support payments has only continued to widen since then.<sup>12</sup>*

<sup>12</sup> See Appendix A for further information about the CPSU survey of members at DHS.

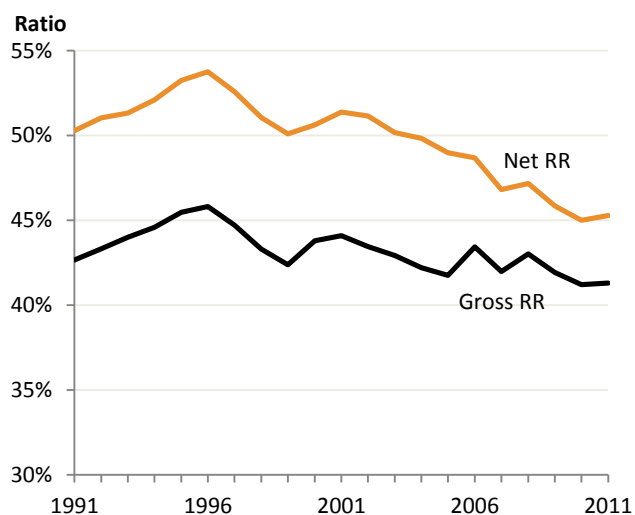
The gross replacement rates in Figure 5 are important, but incomplete. Net replacement rates, which take account of taxes, provide a clearer sense of the relative living standards of payment recipients. Net replacement rates show the ratio of the disposable (ie. after tax) incomes of Newstart recipients to the disposable incomes of workers on average or minimum wages.

The ACTU has estimated these net replacement rates for each financial year from 1991-92 to 2011-12.<sup>13</sup> Figure 4 and Figure 5 showed that the real gross incomes of Newstart recipients have lagged behind increases in real minimum wages and real average wages. When taxes are taken into account, the relative decline of the incomes of Newstart recipients in the past two decades appears even steeper. This confirms that the decline in the relative living standards of Newstart recipients has been severe.

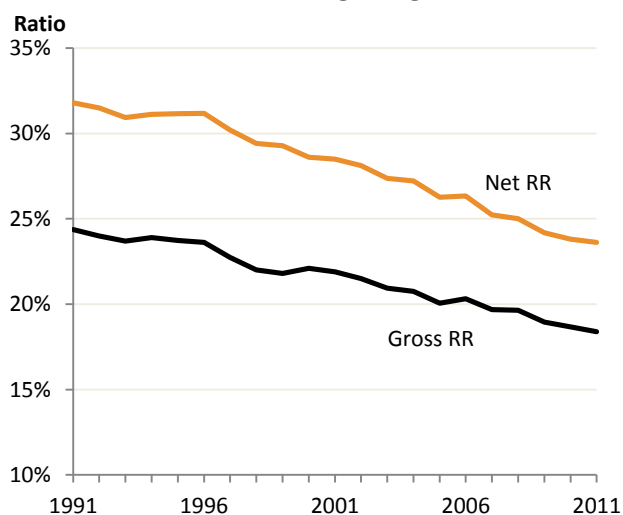
Individuals in receipt of the full rate of Newstart do not pay any income tax, due to the Beneficiary Tax Offset, the Low Income Tax Offset, and now the increased tax-free threshold. Workers on minimum or average wages do pay income taxes, but the average tax rates paid by such workers have fallen in the past two decades. This is the reason that net replacement rates have fallen more rapidly than gross replacement rates.

Between 1996-97 and 2011-12, the gross replacement rate of Newstart relative to the minimum wage fell by 4.5 percentage points. Over the same period, the net replacement rate fell by 8.5 percentage points. These ratios are shown in Figure 6. Similarly, the ratio of the net income of a Newstart income to the net income of a full-time worker on average wages has fallen further than the gross replacement rate, as shown in Figure 7.

**Figure 6: Net and gross replacement rates to full-time NMW**



**Figure 7: Net and gross replacement rates to full-time average wage**



Source: ACTU calculations using tax-transfer parameters and wage rates as at September of each year.<sup>14</sup> AWOTE from ABS 6302 and ABS 6304 via Foster 1996. Minimum wage rates from FWA. Historical Newstart rates are from FaHCSIA.

<sup>13</sup> This period was chosen as the unemployment benefit became Newstart Allowance on 1 July 1991.

<sup>14</sup> The tax liability includes the LITO, Medicare Levy, and BTO.



The significant fall in replacement rates is a matter of serious concern. In the early 1990s, a full-time worker on average earnings who lost his or her job and claimed Newstart Allowance would be left with a net income of around a third of that which he or she had when in employment. Now, the worker is left with less than a quarter of the income that he or she had when in employment. The payment was not overly generous before; now, it leaves workers exposed to a precipitous and severe drop in their income of a size that could inhibit effective job search (as discussed later in this submission). The very low replacement rates leave considerable room for an increase in Newstart while leaving substantial work incentives in place.

Increasing the base payment rate of Newstart Allowance for singles by \$50 per week would increase the net replacement rate relative to the minimum wage to around 53%, the level it reached in 1996. The net replacement rate relative to the average full-time wage would be increased to around 28%, the same level as in 2002. Employment growth was strong in this period, with no obvious deficiency of labour supply. Far from being a radical increase in the payment rates, a \$50 weekly increase would represent a modest restoration of the relative living standards of the unemployed to those of a decade ago.

A \$50 per week increase to the single adult Newstart payment rate would result in a ratio between the single rate of around 66.3% of the couple rate. This is the same relativity between the single and couple rates as for pension recipients. This relativity was recommended by the Harmer Review and subsequently implemented by Government.

**Recommendation:**

- Increase the single adult Newstart Allowance rate by \$50 per week.

## Replacement rates for different household types

**Key points:**

- The net replacement rates of Newstart allowance are low for all household types.

The analysis above showed that the replacement rates for single, childless adults have fallen over time. Replacement rates are also low for a range of other household types.

The ACTU has estimated net replacement rates for single adult and couple households, with and without children, using tax and transfer parameters as at 1 July 2012. The results are shown in Table 2. In each case, the replacement rate is the income that the household would receive if all adults were unemployed, as a proportion of the income the household would receive if all adults were employed full-time. Two rates are

given – one compares Newstart recipients’ incomes to minimum wage worker households’ incomes, and the other compares Newstart to the net incomes of workers who receive average full-time wages.

**Table 2: Net replacement rates for different household types**

	Number of children	Replacement rate (Minimum wage)	Replacement rate (Average wage)
Single adult	0	44.7%	23.7%
	1	59.2%	37.4%
	2	64.1%	43.3%
Couple	0	40.0%	21.2%
	1	50.5%	27.8%
	2	54.5%	32.5%

Source: ACTU calculations using tax/transfer parameters as at July 2012.<sup>15</sup>

A replacement rate of 50% implies that a particular household type could double its net income by moving from Newstart Allowance to full-time work. Most of the household types considered in Table 2 have a replacement rate relative to the NMW in the range of 40% to 55%, indicating that there are substantial incentives to take up minimum wage work and that the incomes of Newstart recipients are well below those of minimum wage worker households with the same composition. The replacement rates relative to average wages are well below 50% for all household types. Some households, particularly those without children, could increase their net incomes more than four-fold by moving to full-time work at average wages. These replacement rates suggest very low relative living standards for recipients; they also suggest that the payment rates could be increased while leaving substantial work incentives in place. The issue of incentives is discussed in greater depth in a subsequent chapter of this submission.

## Replacement rates in other OECD countries

### Key points:

- Newstart Allowance is lower, as a proportion of average earnings, than the unemployment benefit of any other OECD country. Australian workers who become unemployed and have to rely on Newstart suffer a greater income shock than their counterparts in other industrial countries.
- The gap between Australia’s replacement rate and the OECD average has fallen over the past decade for most household types.

Unemployed Australians receive a very low payment by the standards of the advanced industrial economies. Payment rates are best compared across countries by using the replacement rate to average wages – this

<sup>15</sup> Includes Newstart, Supplementary Allowance, LITO, the Medicare Levy, the Beneficiary Tax Offset, FTB A and B plus supplements. Does not include the Clean Energy Advance or Rent Assistance. It is assumed that the adults are aged over 25 and under 60; children are older than 8, but younger than 12; the household meets all relevant activity and liquid asset tests.

sidesteps the need to adjust for differences in the cost of living between countries, and provides an easy way to compare the incomes of unemployed people relative to the typical standard of living in each country.

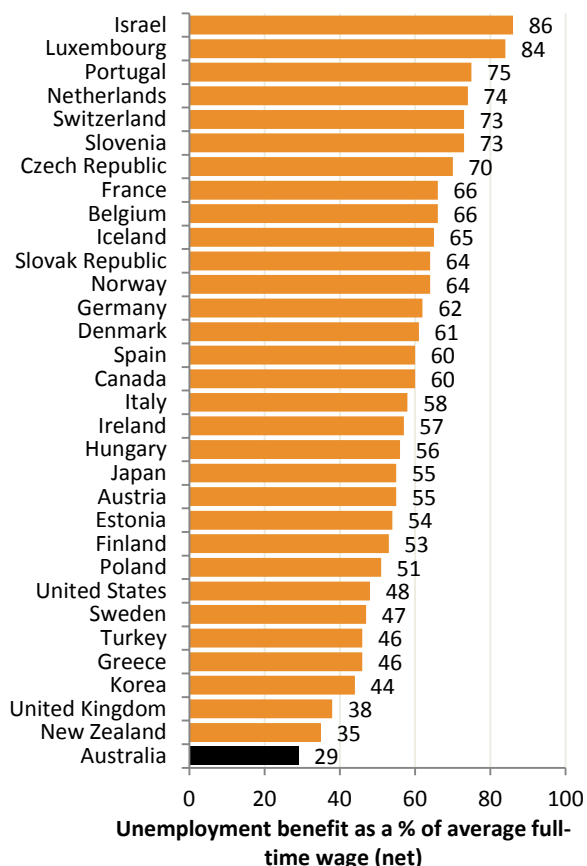
It should be noted that Australia's system of income support to the unemployed differs from that of most other OECD countries. Unlike most of the other advanced economies, Australia does not have a social insurance scheme that pays a benefit proportionate to the unemployed person's former wage. Instead, we have social assistance paid from general revenue, with no specific social security contribution, and no time limit on the receipt of the benefit, with continued eligibility instead subject to income, assets and activity tests.<sup>16</sup> Despite these differences, cross-country comparisons of replacement rates are still meaningful, as they illustrate the size of the income shock experienced by average income earners who become unemployed.

When cash housing benefits and other social assistance are included, the net income of a single unemployed adult with no children in Australia is 29% of the income of a full-time worker on the average wage. This is the lowest replacement rate in the OECD, and compares to an OECD average of 59%. This is shown in Figure 8. When housing assistance and other benefits are excluded, Australia has the second lowest replacement rate in the OECD, 23%. Only the UK rate is lower, and the OECD average is 55%. This is shown in Figure 9.

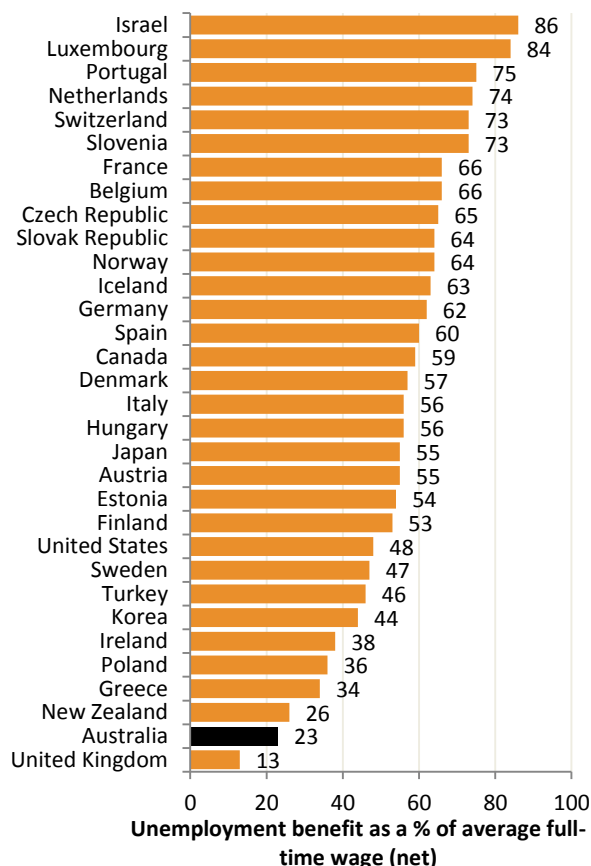
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<sup>16</sup> G Belchamber, 'Flexicurity: What is it? Can it work down under?', *Australian Bulletin of Labour*, vol. 36, no.3, 2010, pp.278-303.

**Figure 8: Net replacement rates of OECD countries – including housing assistance where applicable**



**Figure 9: Net replacement rates of OECD countries – excluding housing assistance**



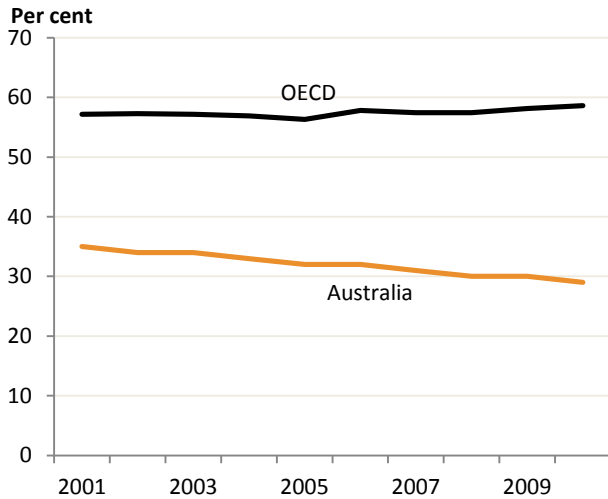
Source: OECD Tax-Benefit Models 2012: <http://www.oecd.org/els/benefitsandwagesstatistics.htm>. Charts show the net replacement rates for the first year of unemployment.

The figures above are stark. An Australian worker who loses a full-time job on average wages and claims Newstart Allowance will see his or her income fall further than their counterpart in any other OECD country, and the gap between Australia and the rest of the OECD is growing. The replacement rate (excluding housing assistance) is less than half that of the United States. Australia's unemployment benefit has fallen over time as a proportion of average wages, while the OECD average has remained more or less constant, as shown in Figure 10. The fact that Australia's replacement rate is significantly below the OECD average is not new, but the gap between Australia's rate and that of other advanced economies has increased over time.

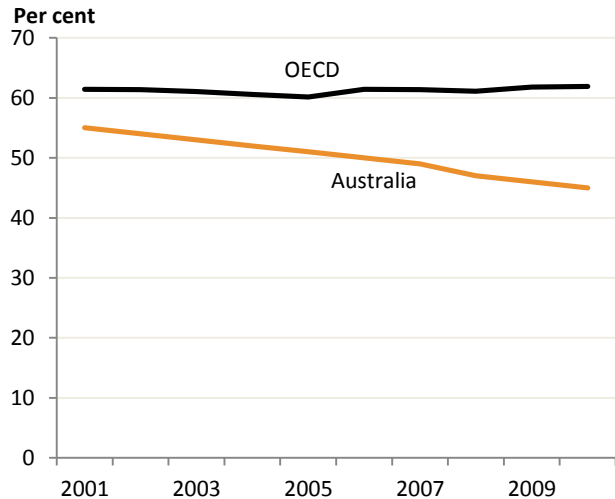
Australia's net replacement rates for household types other than single adults are also lower than the OECD average, although the gap between Australia and the OECD average is somewhat smaller for households with children. For several household types, the gap between Australia's replacement rate and the OECD average has grown over time. The figures below show the replacement rates for a variety of household types from 2001 to 2010.

## Net replacement rates for different household types from 2001 to 2010: OECD average and Australia

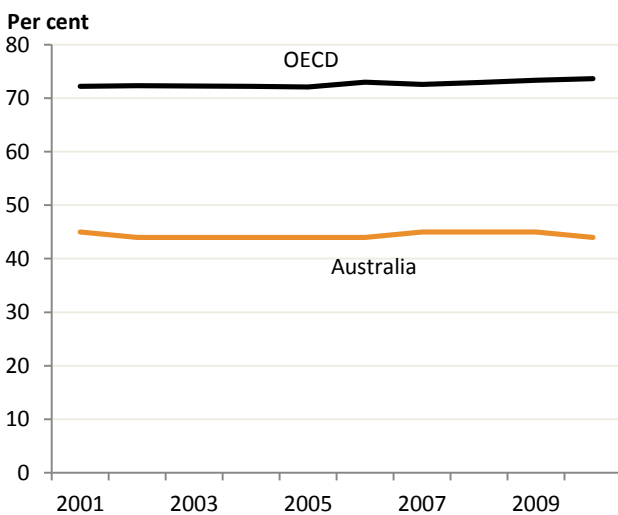
**Figure 10: Single adult, no children**



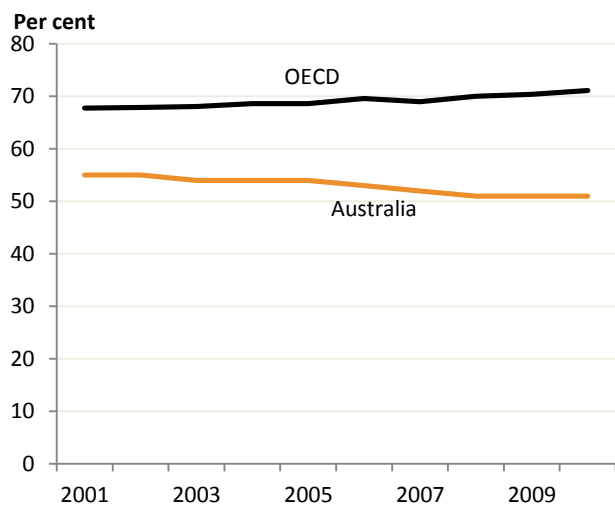
**Figure 11: Single earner couple, no children**



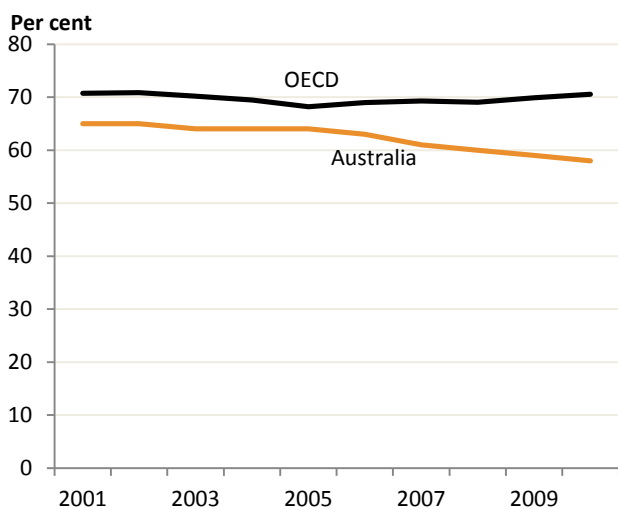
**Figure 12: Dual earner couple, no children**



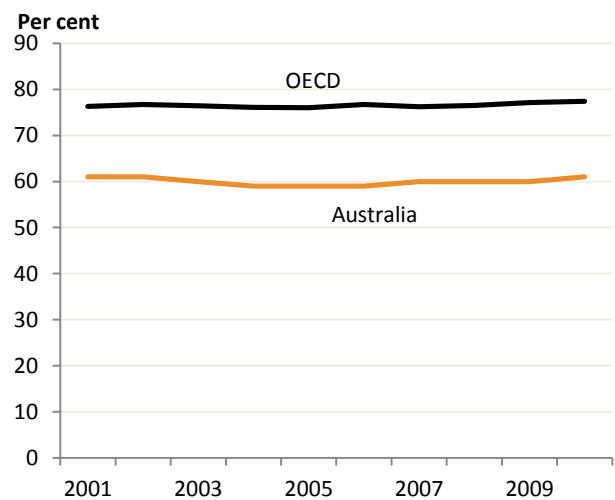
**Figure 13: Single parent, two children**



**Figure 14: Single earner couple, two children**



**Figure 15: Dual earner couple, two children**



Source: OECD tax-benefit models: [www.oecd.org/els/benefitsandwagesstatistics.htm](http://www.oecd.org/els/benefitsandwagesstatistics.htm). 'OECD' line is an unweighted average of all OECD countries. Each replacement rate is for the first year of unemployment, inclusive of housing & other assistance where applicable.

## Poverty lines and the Newstart Allowance

### Key points:

- In the mid-1990s, the Newstart Allowance was equal to the relative poverty line (defined as 50% of median income), meaning that allowance recipients had just enough income to not be considered 'in poverty' by this measure.
- As at 2009-10, Newstart was only sufficient for a single adult to have an income of around two-thirds of the relative poverty line.
- Newstart has also declined sharply as a proportion of the Henderson poverty line.
- Advanced economies such as Australia tend to use poverty lines that rise in line with typical incomes. Unless income support payments are also indexed to some measure of typical incomes, the gap between payment rates and poverty lines will continue to grow.

Australia's income support system is intended to be a safety net; "the primary focus of Australia's social security system is protection against poverty".<sup>17</sup> Given the large and growing gap between the Newstart base payment rate and various poverty lines, it is apparent that the system is failing its most basic task. Evaluating payment rates relative to poverty lines is a key measure of adequacy, as noted by Whiteford and Angenent:

*Given that alleviation of poverty is one of the primary objectives of the Australian income support system, it should be regarded as a key measure of the success or otherwise of social security spending.*<sup>18</sup>

### Department of Human Services worker:

*I have personally witnessed people living in extreme poverty with this allowance. It does not even attempt to cover current rent prices. There is no money for food or basic living expenses.*<sup>19</sup>

There is no 'official' poverty line in Australia as there is elsewhere. Researchers in Australia, as in other advanced economies, tend to use relative poverty lines.<sup>20 21</sup> Two particular lines are used most often: the

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<sup>17</sup> *Ibid.*, p.13.

<sup>18</sup> P Whiteford & G Angenent, 'The Australian System of Social Protection – An Overview', Occasional Paper No. 6, Department of Family and Community Services, Canberra, 2001, p.81.

<sup>19</sup> See Appendix A for further information about the CPSU survey of members at DHS.

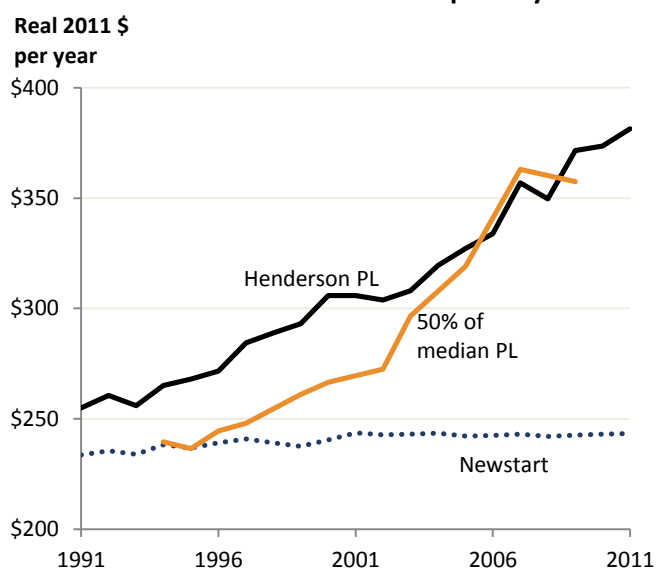
<sup>20</sup> Department of Family and Community Services, 'Inquiry into poverty and financial hardship', Occasional Paper No. 9, Submission to the Senate Community Affairs References Committee, DFAC, Canberra, 2003, p.77

<sup>21</sup> For a summary of poverty lines across the world see Figure 2 in M Ravallion, 'Poverty lines across the world', Policy Research Working Paper, The World Bank, Washington, D.C., 2010.

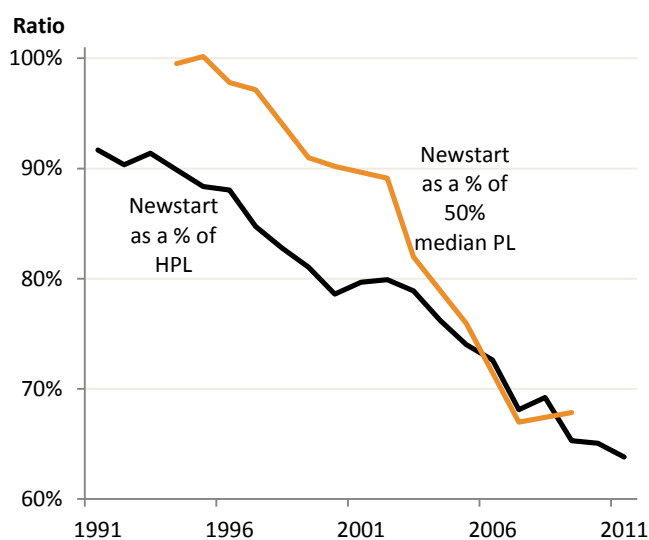
Henderson Poverty Line (HPL) and the 50% of median income poverty line. The income of a single, adult Newstart recipient is now more than \$100 per week below each of these lines, as shown in Figure 16.

In the mid-1990s, Newstart was equal to the 50% of median income poverty line; now, a single adult reliant on Newstart has an income that is barely two-thirds the level of the poverty line. The decline relative to the Henderson line has been of a similar magnitude. Figure 17 shows the Newstart payment rate as a proportion of these two poverty lines.

**Figure 16: Newstart, the Henderson Poverty Line, and the 50% of median income poverty line**



**Figure 17: Newstart as a proportion of two poverty lines**



Source: Newstart payment rates are from FaHCSIA historical data, deflated using CPI (ABS 6401). Henderson PL is from the Melbourne Institute, *Poverty Lines*. 50% of median PL is an ACTU calculation based on ABS 6523.

It's clear from Figure 16 and Figure 17 that single adult Newstart recipients' incomes have fallen further and further behind the poverty line (whichever line is used). Families that rely on Newstart also have incomes below the poverty line. Figure 18, below, compares the incomes of various unemployed household types with the 50% of median income poverty line for a household of that size.<sup>22</sup> The gap between single adults' incomes and the poverty line is greater than the gap for other household types, but all unemployed households have incomes well below the poverty line.

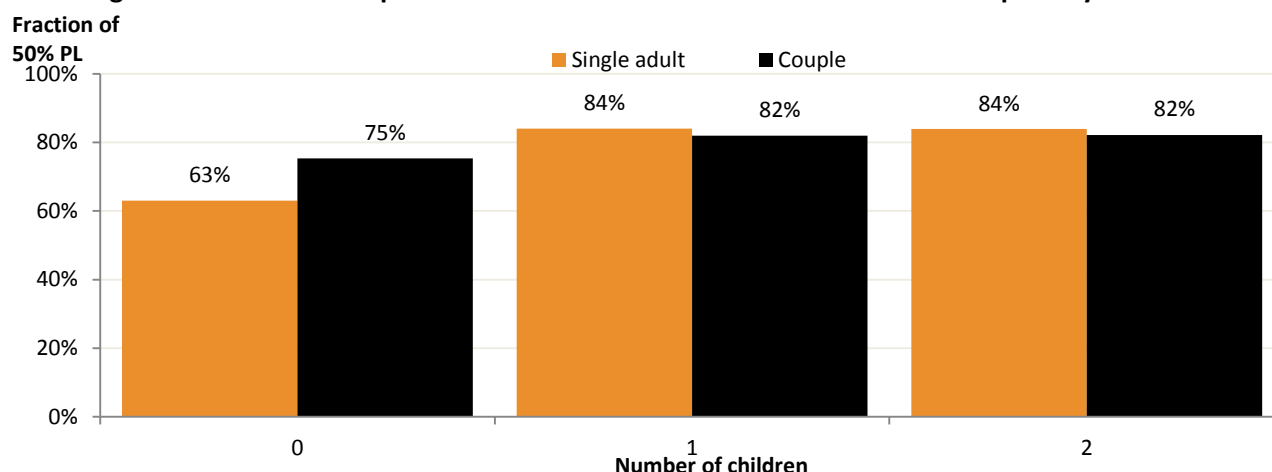
**Department of Human Services worker:**

*Newstart Allowance is well below the poverty line. How can a person be expected to survive and look for work without family support? They are vulnerable and can slip behind very quickly.*<sup>23</sup>

<sup>22</sup> The OECD modified equivalence scales have been used.

<sup>23</sup> See Appendix A for further information about the CPSU survey of members at DHS.

**Figure 18: Newstart recipients' household incomes and the 50% of median poverty line in 2012**



Source: ACTU calculations. 50% of median PL is an ACTU calculation based on ABS 6523, with the median projected to 2012 based on growth in household disposable income per capita.

The gap between Newstart and the poverty line (be it the Henderson line or the 50% of median income line) is large and growing. This is a strong indication that the payment rate is inadequate. A basic function of the safety net is to protect households from poverty. Although the choice of any particular poverty measure involves some degree of subjectivity and value judgement, a payment rate that is less than two-thirds of the level of either of the main relative poverty lines for a single adult is clearly inadequate.

**Department of Human Services worker:**

*The current amount of Newstart Allowance barely covers rent payments and leaves the receiver living below the poverty line. I am seeing more claims for customers who are homeless and in receipt of Newstart Allowance. It is very easy to slip into this lifestyle when there is no family support and the longer a person is in receipt of Newstart Allowance the worse their financial situation becomes.<sup>24</sup>*

The poverty lines examined above (the 50% of median and Henderson lines) increase along with typical incomes in the Australian community. The 50% line rises with equivalised household disposable income, while the Henderson line is indexed to a measure of household disposable income derived from the National Accounts. In contrast, the Newstart payment rate is indexed only to the CPI. Because household incomes tend to rise in real terms over time, this means that Newstart will continue to fall relative to these poverty lines unless it is indexed to a measure of incomes. The need for improved indexation arrangements is discussed further in a later section of this submission.

<sup>24</sup> See Appendix A for further information about the CPSU survey of members at DHS.



## Budget standards

### Key points:

- Budget standards can provide a rigorous assessment of the level of income required to meet the needs of income support recipients.
- Updating the SPRC budget standards to 2012 suggests that a single adult Newstart recipient has an income equal to only around two-thirds of the 'low cost' standard.
- While firm conclusions cannot be drawn from the updated budget standards, they provide some confirmation of the inadequacy of Newstart, as suggested by analysis based on replacement rates, poverty lines and other measures.

Relative poverty lines are sometimes criticised on the grounds that they will record an increase in poverty if median incomes rise while low incomes remain constant.<sup>25</sup> While all measures of poverty and deprivation have limitations and involve the exercise of judgement on the part of researchers, alternative approaches to measuring standards of living have been developed to guide decisions about income support payment adequacy. The budget standards approach involves quantifying the level of income that is required to obtain a particular material standard of living. Budget standards are still necessarily measures of relative living standards, as their construction takes into account the prevailing community standards of the time, but they are not necessarily fixed to a particular point in the income distribution in the same way as a relative poverty line.

Saunders, et al., undertook the laborious task of rigorously constructing budget standards for Australia in the mid-1990s, after receiving a commission to do so from the-then Department of Social Security.<sup>26</sup> The authors describe their task as:

*[A]n attempt to apply the budget standards methodology to produce a set of indicative standards that can inform decisions regarding standards of adequacy—absolute and relative. The budget standards approach involves specifying what households need in a particular time and place, to attain a particular standard of living. It involves working out the cost of living by pricing a typical 'basket' of goods and services that corresponds to the underlying living standard. The level at which the standard itself is set can be varied so that, in principle, budget standards can be derived at different levels.<sup>27</sup>*

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<sup>25</sup> For example, see M Ravallion, *op. cit.*

<sup>26</sup> P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', Research paper No. 74, Social Policy Research Centre, University of New South Wales, March 1998.

<sup>27</sup> *Ibid.*, p.3.

The report quantified two budget standards, summarised in Table 3. The ACTU has referred to the ‘modest but adequate’ standard in submissions to reviews of minimum wages, whereas the low cost standard is seen to be more appropriate for setting income support payment rates. The “primary motivation for developing a low cost budget was to guide the setting of income support payments”.<sup>28</sup>

**Table 3: Budget standards**

Modest but Adequate Budget Standard	Low Cost Budget Standard
“One which affords full opportunity to participate in contemporary Australian society and the basic options it offers... lying between the standards of survival and decency and those of luxury as these are commonly understood... (falling) somewhere around the median standard of living experienced within the Australian community as a whole.”	“A level of living which may mean frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community... corresponding to a standard of living which is achievable at about one-half of the median standard.”

Source: Saunders, et al., ‘Development of Indicative Budget Standards for Australia’, p.438.

The ‘low cost’ standard was \$302.80 in February 1997 for single adults in the private rental market.<sup>29</sup> If this figure is inflated by the growth in the CPI over the period to the June quarter 2012, this suggests that the current low cost budget standard for a single private renter is around \$453 per week.<sup>30</sup> A single adult would currently be eligible to receive around \$308.40 per week in Newstart Allowance and Rent Assistance (at the maximum rate of each); this therefore leaves a single Newstart recipient with an income equal to only around two-thirds of the low cost budget standard. The ratio of Newstart to the low cost budget standard is around the same level as the ratio of Newstart to the 50% of median poverty line.

This adds weight to the conclusion that the Newstart Allowance payment rate is inadequate to sustain an acceptable standard of living. However, it is not possible to draw firm conclusions from the updated budget standards. The original SPRC report provided three means of updating the standards over time: conducting the entire exercise again; repricing the elements of the baskets of goods on a regular basis; or inflating the standards using a measure such as the CPI. The third approach has been used in this submission (it was also used in the Pension Review and in a 2004 report for the ACTU by one of the original study’s authors).<sup>31 32</sup> However, updating the standards using the CPI is not preferable, particularly some fifteen years after the original analysis was conducted. The ACTU understands that the Social Policy Research Centre has obtained funding from the Australian Research Council to fully update the standards, although this will take several years.

<sup>28</sup> P Saunders, ‘Updated Budget Standard Estimates for Australian Working Families in September 2003’, SPRC Report 1/04, Social Policy Research Centre, University of New South Wales, February 2004.

<sup>29</sup> Based on the updated figures used in P Saunders, ‘Updated Budget Standard Estimates for Australian Working Families in September 2003’, *op. cit.* An average of the male and female household types has been used.

<sup>30</sup> ACTU calculations based on ABS 6401.

<sup>31</sup> J Harmer, *op. cit.*, p.18.

<sup>32</sup> P Saunders, *op cit.*

Despite this caution about the use of the updated standards, it should be noted that alternative methods of updating them would likely result in higher, rather than lower, estimates of the income required to sustain a 'low cost' living standard. For example, Professor Saunders has proposed an alternative approach that relies on 'anchoring' the standards to a particular point in the income distribution.<sup>33</sup> Given that incomes have risen in real terms since 1997, this approach would be likely to yield a higher estimate of the 'low cost' standard.

Despite the caveats around their use, the updated budget standards confirm that the incomes of Newstart recipients are not sufficient to obtain an acceptable 'low cost' standard of living.

**Department of Human Services worker:**

*I have been working with jobseekers struggling on these incomes for decades. It is distressing to see them starving, living completely on coffee in order to pay the rent, having little to no food, and their health going into serious decline. If they already have health issues they always deteriorate and it's a one-way street to Disability Support Pensions. It's way below the cost of living and does not value human beings basic rights. How people survive on these incomes is beyond me, and the expectation that they will get back into the workforce is one of the biggest jokes around, due to the severe erosion of their living circumstances due to these poor supports.*<sup>34</sup>

## Financial stress and deprivation

Another means of assessing the adequacy of income support payment is to compare the incidence of financial stress and deprivation among recipients to that of other groups. This approach adds further weight to the conclusion that the Newstart Allowance is inadequate.

As with all measures of adequacy, deprivation indices are not without their theoretical or practical difficulties, but they avoid "many of the major criticisms that have been levelled at poverty line studies... there is no need to set a policy line or rely on the judgements of 'experts'".<sup>35</sup> The findings of studies of deprivation and financial stress confirm the conclusion suggested by replacement rates, poverty lines and budget standards: the current Newstart payment rate is inadequate.

A recent study of deprivation among different population groups was conducted by Saunders and Wong.<sup>36</sup> They surveyed a representative sample of Australians and asked which items they deemed essential, not just for themselves, but for people in general. Further work was then done to assess the extent to which various

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<sup>33</sup> G Watson & S Richardson, 'Measuring the Needs of the Low Paid: Report to the Minimum Wage Panel', Fair Work Australia, December 2011, paragraph 19.

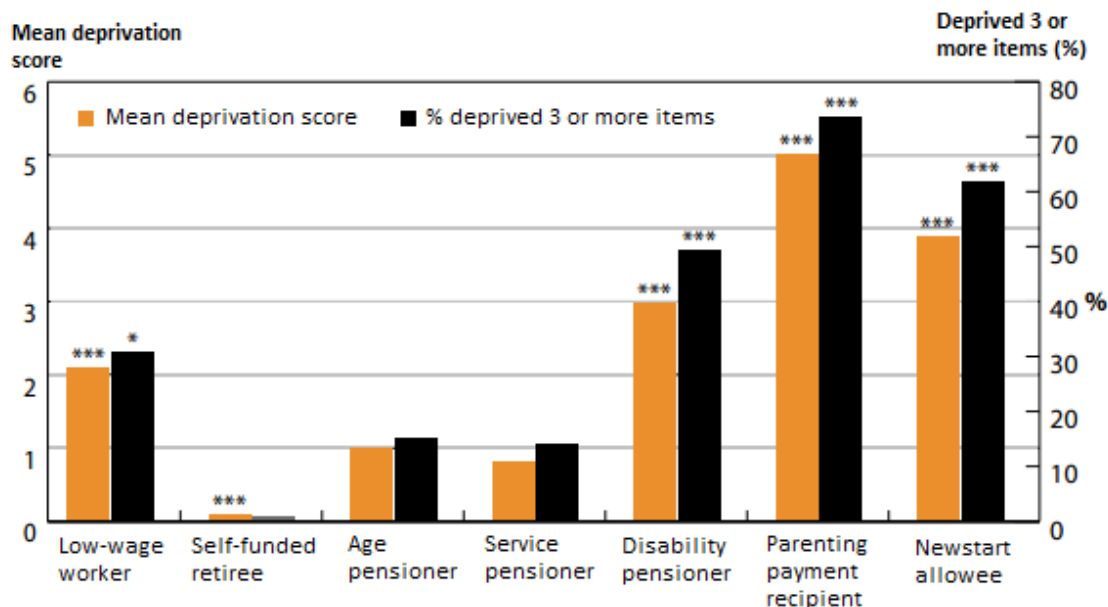
<sup>34</sup> See Appendix A for further information about the CPSU survey of members at DHS.

<sup>35</sup> Saunders & Wong, *op. cit.*, p.14.

<sup>36</sup> *Ibid.*

groups (like low-wage workers, disability pensioners, and Newstart recipients) were deprived of these essential goods. On both measures of deprivation used by the researchers, Newstart recipients had higher levels of deprivation than pensioners and low-wage workers; a result that is to be expected given the relative incomes of these groups.

**Figure 19: Rates of deprivation among different groups (2006)**



Source: Saunders & Wong 2011, Figure 1. Asterisks indicate that the difference between the group measures and those for the age pensioner group was statistically significant: \* denotes significance at the 10% level; \*\* denotes significance at 5%; \*\*\* denotes significance at 1%.

Analysis of the latest ABS Household Expenditure Survey also suggest that people receiving Newstart are more likely to experience financial stress than people who receive other forms of payments. Table 4 shows the proportion of people in households that experienced various forms of financial stress in the 12 months prior to the survey. On all indicators, people who receive unemployment and study payments are more likely to have experienced financial stress than recipients of other forms of assistance, who in turn are more likely to experience stress than people in households that do not receive pensions or allowances.

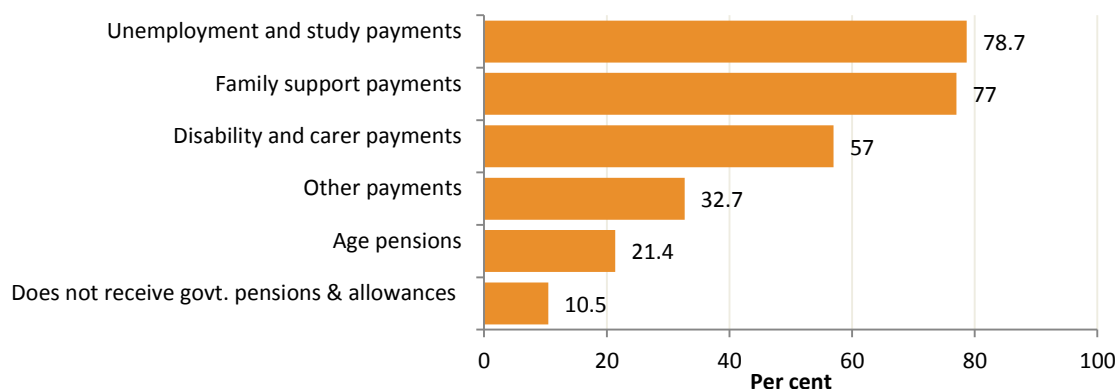
**Table 4: Proportion of persons in household that experienced financial stress in last 12 months (2009-10)**

	Receives unemployment and study payments (%)	Main source of income is government pensions and allowances (%)	Does not receive pensions and allowances (%)	All persons (%)
Unable to raise \$2000 in a week for something important	56.8	34.5	6.1	15.4
Spent more money than received	36.7	21.6	11.3	16.4
Could not pay electricity, gas or telephone bills on time	40	23.6	7.6	14.4
Could not pay car registration or insurance on time	15	8.6	2.9	6
Pawned or sold something	*12.3	6.8	1.3	3
Went without meals	*13.0	7.4	1.4	2.8
Unable to heat home	*10.0	5.6	*0.4	1.7
Sought assistance from welfare/community organisations	14.1	8.8	*0.4	2.9
Sought financial help from friends or family	27	15.6	4.8	8.4
Could not afford holiday for at least one week a year	75.3	49.8	13.6	27.1
Could not afford a night out once a fortnight	63.2	40.8	9.2	21.2
Could not afford friends/family over for a meal once a month	34.7	19.3	2.9	7.6
Could not afford a special meal once a week	41.6	29.6	6	13.1
Could only afford second hand clothes most of the time	46.1	27.8	4.5	11.6
Could not afford leisure or hobby activities	51.7	29.3	4.5	12.1

Source: ABS 6530.0.

Nearly 80% of households for which the main source of income is unemployment and study payments experienced three or more indicators of financial stress in the 12 months before the survey. This was the highest level of multiple indicators of financial stress of any type of household.

**Figure 20: Proportion of households that experienced three or more indicators of financial stress in a 12 month period, by payment type (2009-10)**



Source: ABS 6530.

The very high levels of financial stress and deprivation experienced by recipients of Newstart strongly suggest that the payment is inadequate. This confirms the analysis of the inadequacy of Newstart based on replacement rates, poverty lines, and budget standards.

## Incentives and indexation

The primary function of income support is to protect people from poverty. The analysis above showed that the Newstart Allowance is too low to achieve this objective. However, the ACTU acknowledges that other considerations are also important for the design of the income support system. The incentives that recipients face are an important consideration, as is the fiscal cost of the program. When these factors are taken into account, the ACTU remains convinced that a \$50 per week increase in the single Newstart payment and an improvement in the indexation arrangements are necessary and appropriate reforms.

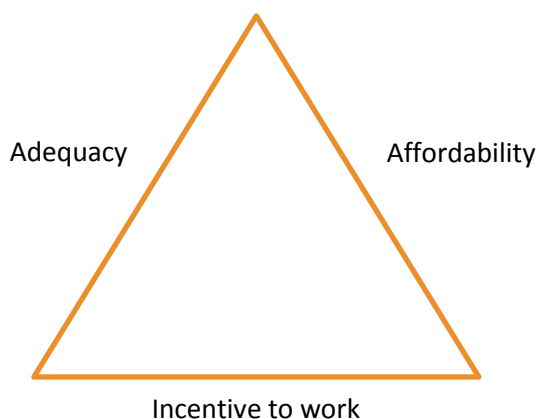
### The balance between adequacy, affordability, and incentives

#### Key points:

- It is generally believed that there is a trade-off between payment adequacy, program affordability, and work incentives. This trade-off is embodied in the replacement rate.
- However, when the payment level is very low, increasing its adequacy can also improve employment participation. This is because a very low payment reduces the ability of unemployed people to meet the costs of job search.

There is generally held to be a trade-off between the adequacy of a payment, the incentives to seek employment (or greater hours of work) for payment recipients, and the fiscal cost of the income support payment. The AFTS Review described this trade-off as an 'iron triangle', as illustrated in Figure 21. When these considerations are taken into account, the ACTU believes that a \$50 per week increase in the Newstart payment rate is necessary and appropriate.

**Figure 21: The 'iron triangle' of means tested payments**



Source: Based on Chart F1-1 of AFTS, *Report to the Treasurer*.

The smaller the replacement rate, the greater the amount by which an individual can increase his or her income by becoming employed, thus the greater the immediate financial incentive to seek employment. The replacement rate therefore embodies the trade-off that is said to exist between adequacy and incentives. At a given level of unemployment, a higher replacement rate also indicates a higher revenue cost to government of providing the unemployment benefit. In a way, then, the replacement rate gives some sense of the current trade-off between the three points of the 'iron triangle' of means-tested social assistance payments.

However, the relationship between the adequacy of the replacement rate and the effectiveness of recipients' job search activities is not monotonic. Increasing the replacement rate to 100 would eliminate the immediate financial incentive to seek work, but reducing the replacement rate to 0 (ie. abolishing unemployment assistance) would leave unemployed people socially excluded, unable to subsist, and unable to meet the costs of searching for work. Unemployed people need a sufficient income to allow them to maintain a stable home, meet all necessary costs of living, purchase appropriate clothing for interviews and employment, and pay for transport to and from job interviews and potential places of employment. Very low incomes can also lead to a decline in physical and mental health that can reduce a person's likelihood of finding employment.

The replacement rate that best balances the competing policy objectives is therefore somewhere between 0 and 100; there is no *prima facie* reason to suppose that the current replacement rate adequately reconciles the competing policy ends.

The idea that the effectiveness of job search can be eroded by low payment rates has been widely noted. For example, the OECD made the following observations in its 2010 survey of Australia:

*The low level of the unemployment allowance (Newstart Allowance) has raised concerns about its adequacy.... The relatively low net replacement rate in the first year of the unemployment spell raises issues about its effectiveness in providing sufficient support for those experiencing a job loss, or enabling someone to look for a suitable job.*<sup>37</sup>

The OECD identifies two related, but distinct, concerns that arise from a replacement rate as low as Australia's: the first is the adequacy of the payment (in terms of the standard of living it affords to recipients); the second is the effectiveness in supporting people to find employment. This suggests that the usual trade-off between

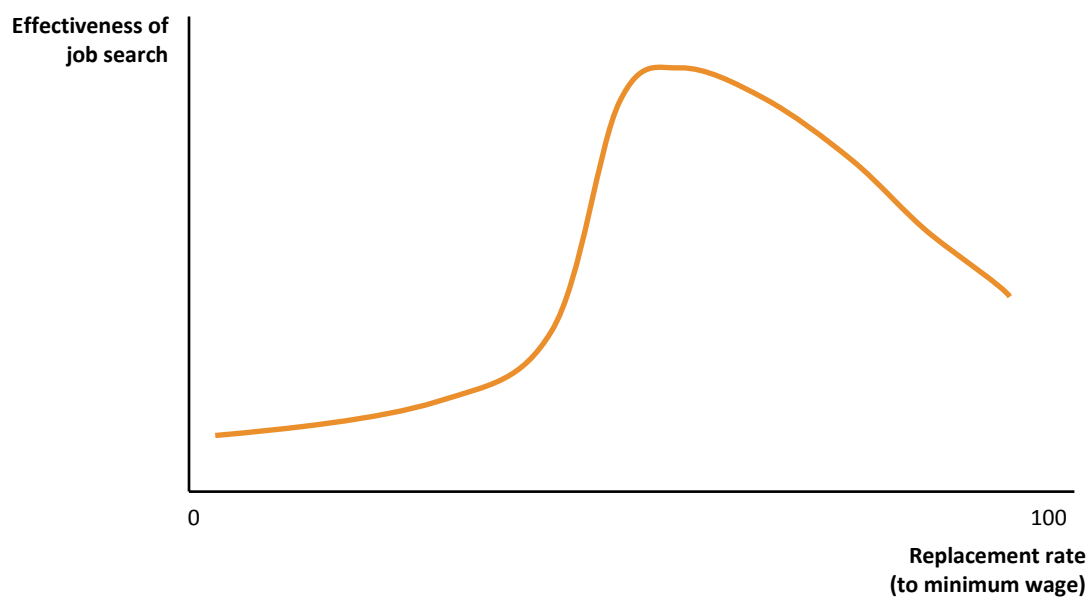
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<sup>37</sup> Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Australia 2010*, OECD Publishing, Paris, 2010, pp.127-128.

adequacy and effective work incentives can break down at low replacement rates. Increasing the payment would both improve its adequacy and better support unemployed people to find work.

This suggests a relationship between the adequacy of the payment rate and the effectiveness of job search activities that resembles the curve in Figure 22. Below a certain level, the payment is inadequate to meet the costs of job search and the effectiveness of recipients' job search is thus reduced. Above a certain level, increasing the replacement rate reduces the incentive to seek work, which also reduces the effectiveness of job search. The shape of this curve and the replacement rate at which it reaches its apex is an empirical question, but the ACTU believes that this accurately illustrates the basic relationship.

**Figure 22: Hypothesised relationship between the replacement rate and the effectiveness of job search**



The replacement rate relative to average wages at its lowest in over three decades (see Figure 5) and the lowest in the OECD (see Figure 8). The OECD has suggested that its low level “raises issues about its effectiveness in... enabling someone to look for a suitable job”.<sup>38</sup> This suggests that Newstart Allowance currently lies well to the left of the peak in the hypothetical curve depicted in Figure 22 and that its adequacy can be improved while improving the effectiveness of job search activities.

Furthermore, increasing the Newstart payment rate would also reduce the incentive to move from Newstart to the Disability Support Pension (DSP), and reduce the disincentive to move from DSP to Newstart. Closing the large and growing gap between these payments could help to encourage employment participation, which is another reason to believe that the Newstart payment rate is currently to the left of the peak in Figure 22.

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<sup>38</sup> *Ibid.*



## Newstart and the Disability Support Pension

### Key points:

- The gap between the Disability Support Pension and Newstart Allowance has grown substantially. Newstart is now around two-thirds of the DSP payment rate.
- The large gap between payments generates financial incentives for unemployed people to attempt to move to the DSP where they meet the eligibility criteria for the pension. DSP recipients are less likely to engage (or re-engage) with the labour market.
- DSP recipients can become 'stuck' on the payment. If they obtain employment and then lose their job, they will move to Newstart, which leaves them with a much lower income. The large and growing gap between the payments can discourage workforce participation among DSP recipients.

Newstart is not the only payment made to people of working age. The other major payment is the Disability Support Pension, which is paid to eligible people who "have a physical, intellectual, or psychiatric condition that stops [them] from working or being retrained for work within the next two years, or if [they] are permanently blind".<sup>39</sup> In June 2011, there were 818 850 disability support pensioners and 527 480 recipients of Newstart Allowance.<sup>40</sup>

The large and growing gap between the payment rates for Newstart and the DSP should not be ignored by this Review or by policymakers generally. The ACTU supports paying a fair and adequate support for people with disability. The DSP is not excessive by any measure; therefore closing the gap between the payments necessitates an increase in Newstart.

### Department of Human Services worker:

*The difference in the rate of payment is so much (including single and partnered rates) that long term income support recipients will look at any way to increase the amount of money in their home, and will go to any length to make sure this happens.*<sup>41</sup>

In the early-to-mid 1990s, Newstart was over 90% of the DSP rate. It is now around two-thirds of the DSP. Unless the Newstart rate increases, and/or there is a change in the indexation arrangements, Newstart will drop well below half the DSP rate by 2040. This projection was included in the AFTS report and has been

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<sup>39</sup> Department of Human Services, 'Disability Support Pension', accessed 2 August 2012, <<http://www.humanservices.gov.au/customer/services/centrelink/disability-support-pension>>.

<sup>40</sup> ABS, *Year Book Australia 2012*, Cat. No. 1301, Canberra, 2012.

<sup>41</sup> See Appendix A for further information about the CPSU survey of members at DHS.

widely remarked upon.<sup>42</sup> Table 5 shows the declining ratio of Newstart to the DSP over time, and the projected values of each payment in 2040.

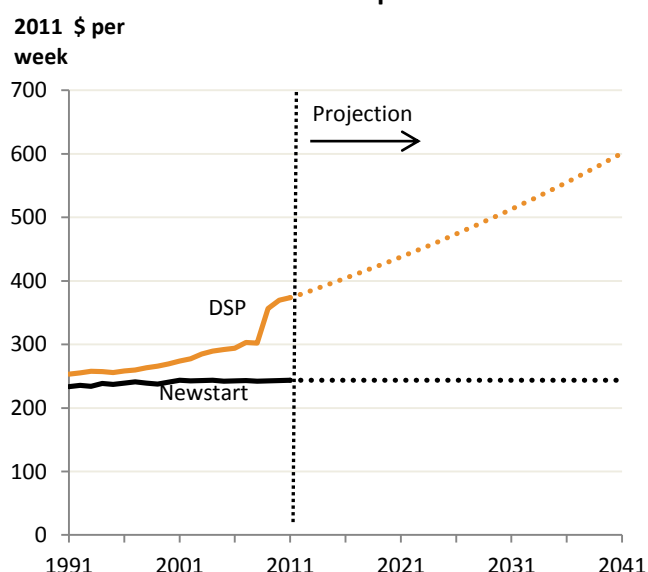
**Table 5: The declining ratio of allowances to pensions over time**

	1980	1990	2000	2010	2040
Single allowance rate	\$51.45	\$124.75	\$165.80	\$456.00	\$956.50
Single pension rate	\$57.90	\$133.23	\$185.49	\$671.90	\$2,269.00
Ratio	88.9%	93.6%	89.4%	67.9%	42.2%

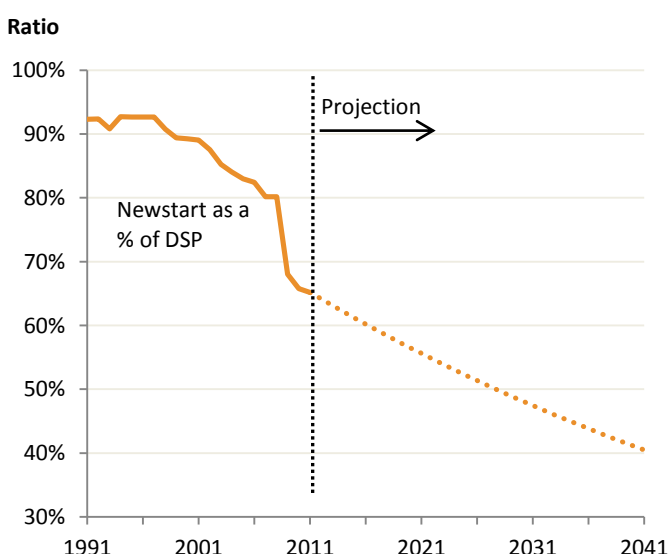
Source: ACTU calculations. Historical data from FaHCSIA. Projection to 2040 based on the assumptions in the *Intergenerational Report 2010* of 2.5% CPI growth and 1.6% real wages growth.

The real net incomes of single adult Newstart recipients and DSP recipients are compared with one another in Figure 23. Figure 24 shows the ratio of Newstart to the DSP. The charts show that DSP has already pulled away from the Newstart payment rate, with the ratio between the two payments falling substantially in the past fifteen years. Unless current policy is changed, Newstart will be less than half the DSP rate by the late 2020s, and around 40% of the DSP by 2040.

**Figure 23: Real net incomes of a Newstart recipient and a DSP recipient**



**Figure 24: Ratio of Newstart to the DSP net of taxes)**



Source: ACTU calculations based on FaHCSIA, FWA, ABS 6401, ATO. Projection to 2040 based on the assumptions in the *Intergenerational Report 2010* of 2.5% annual CPI growth and 1.6% real wages growth.

The potential incentives created by such a large and growing gap between the payments must be taken into account. Cai and Gregory found that the gap between the payment rates affects the flows of participants from one payment to another; it increases the flow from Newstart to DSP and reduces the flow in the other

<sup>42</sup> AFTS, *Australia's Future Tax System: Report to the Treasurer*, op. cit., Chart 9.2.

direction.<sup>43</sup> Notably, their analysis pertained to the period 1995-2002, in which the Newstart-DSP gap was much smaller than it is in 2012. The Productivity Commission found that “flows from DSP to Newstart are close to zero, while flows from Newstart to DSP are very large”.<sup>44</sup>

**Department of Human Services worker:**

*It is hard for job seekers to be able to afford clothes for interviews, industry-specific clothing that is required to start a job, and the costs of transport to actively seek employment. As such the goal for some longer term unemployed becomes to get onto a pension which is much more realistic in terms of covering living expenses.*<sup>45</sup>

The AFTS Review also found that large numbers of people move from Newstart to the DSP, but very few move in the other direction. It found that payment rate “differences can create disincentives to work or incentives to move to non-activity tested payments” and that “once a person receives a higher payment, there are strong reasons to avoid jeopardising it, and the evidence indicates that few people leave DSP other than to move to the Age Pension.”<sup>46</sup>

The most significant consequence of the payment gap is that people can be ‘trapped’ on the DSP. If their functioning and work capacity improves, they may be able to seek work or increase their hours of work, but there is a danger that in doing so their eligibility for DSP may cease and they would revert to the grossly inadequate Newstart.<sup>47</sup> There have been recent improvements in the DSP regulations to allow recipients to engage with the labour market to a greater degree before facing the loss of their payment, but the large gap between DSP and Newstart remains a strong disincentive.

**Department of Human Services worker:**

*The difference acts as a disincentive to work for those on a pension who believe that they will suffer financial hardship if they are forced onto an allowance at a lower rate if/when their job does not work out.*<sup>48</sup>

Addressing this problem requires two steps: an increase in the base rate of the single adult Newstart Allowance; and a change to the indexation arrangements for allowances.

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<sup>43</sup> L Cai & B Gregory, 2005, ‘Unemployment Duration and Inflows onto the Disability Support Pension Program: Evidence from FaCS LDS Data’, *The Australian Economic Review*, vol. 38, no.3, pp.233-52.

<sup>44</sup> Productivity Commission, *Disability Care and Support*, Report No. 54, PC, Canberra, 2011.

<sup>45</sup> See Appendix A for further information about the CPSU survey of members at DHS.

<sup>46</sup> AFTS, *Australia’s Future Tax System: Report to the Treasurer*, pp.508-509.

<sup>47</sup> *Ibid.*

<sup>48</sup> See Appendix A for further information about the CPSU survey of members at DHS.

## Indexation arrangements

### Key points:

- The gap between the DSP and Newstart will continue to grow over time due to the different indexation arrangements for the two payments.
- Newstart will also continue to fall behind relative poverty lines and become less adequate unless it increases in line with some measure of community living standards.

There is a common cause of the growing gap between Newstart Allowance and the poverty lines, and the growing gap between Newstart and DSP. The common cause is the indexation arrangements for Newstart. While Newstart is indexed to the CPI and therefore does not automatically rise in real terms, relative poverty lines rise in line with household income, and the DSP is maintained at a fixed proportion of male total average weekly earnings (MTAWE).

The adequacy of an income support payment should be defined with reference to the standard of living generally prevailing in the community, and thus the payment rate should rise in line with community standards. The current indexation arrangements for Newstart Allowance do not satisfy this test. Because real wages are growing over time, Newstart Allowance will fall further behind community standards and behind the DSP unless the indexation arrangements are changed.

The conceptual difficulties in deciding the adequate level of income support and the appropriate indexation arrangements are not avoided by choosing to index payments only in line with inflation. Saunders and Wong argue that:

*[I]f payment levels are adjusted for changes in the CPI but not for improvements in real community incomes, the implicit assumption is that adequacy is being evaluated in an absolute sense that takes no account of changes in general living standards (which would require a more explicitly relative approach). Such an approach thus does not avoid the problems involved in judging adequacy, but merely embodies a specific assumption that may or may not be relevant to 'prevailing community standards'.<sup>49</sup>*

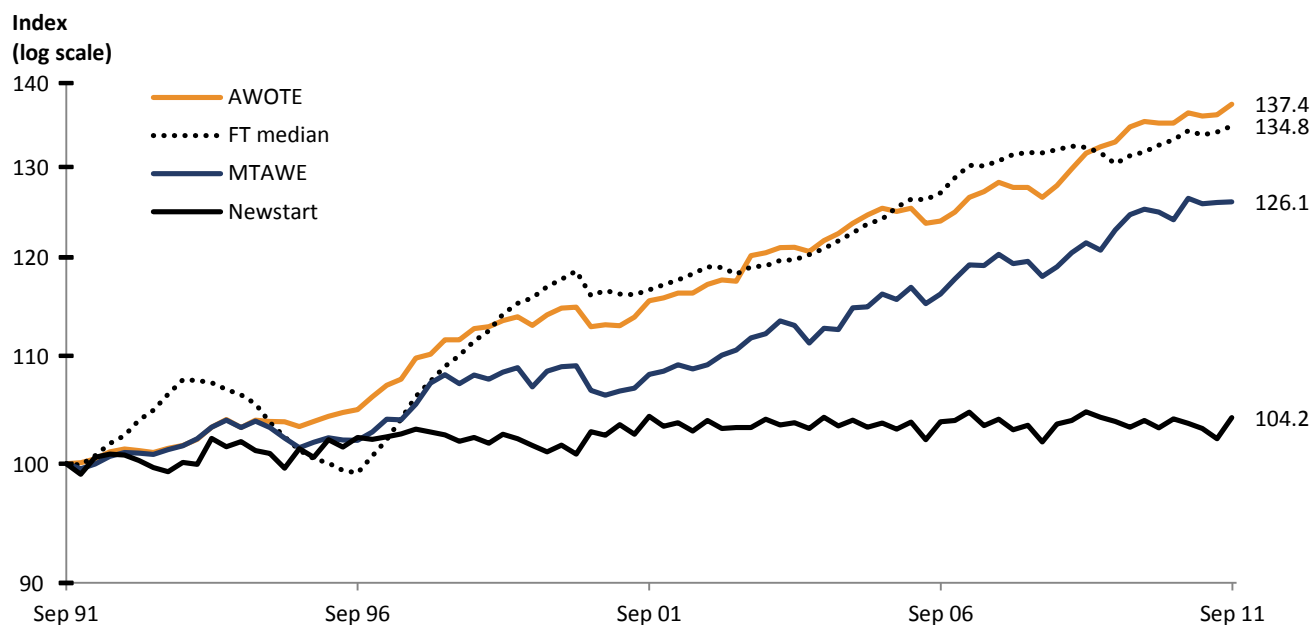
There are a range of wage measures that could be used. A measure that is less distorted by compositional change would be preferable. The measure that is used to update pensions, MTAWE, is affected by changes in the proportion of men working part-time as opposed to full-time. A full-time wage measure, such as AWOTE or

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<sup>49</sup> Saunders and Wong, *op. cit.*, p.11.

full-time median earnings, may be preferable as an anchor for income support payments. Both have risen at around the same pace over the past twenty years, as shown in Figure 25.

**Figure 25: Growth in selected measures of real wages since 1991 (log scale)**



Source: ACTU calculations based on FaHCSIA, ABS 6302, ABS 6401, ABS 6310. A log scale is used to give a clearer sense of the rate of change of each measure over time.

It is imperative that allowances rise in real terms over time in line with community standards, and wages measure provide an accessible, easily understood, and frequently updated proxy for living standards.

#### **Recommendation:**

- The payment rate for all allowances should be indexed to a measure of full-time wages. As a second-best option, the indexation arrangements that apply to pensions should be adopted for allowances.

## The relationship of Newstart to earnings and taxation

The base payment rate and indexation arrangements are not the only aspects of income support policy that affect the adequacy of recipients' incomes and shape the incentives they face. The level of private income at which the payment begins to be reduced ('the free area') and the rate at which the payment is withdrawn as private income rises ('the taper rate') are also key policy choices.

The withdrawal of income support and the payment of income tax on earnings can create high effective tax rates that can reduce the financial gains from working. Recent reforms, notably the increase in the effective tax-free threshold from \$16 000 to \$20 542 from 1 July 2012, have helped to reduce effective tax rates on low-income earners, but they remain high in some cases.

The interactions between the various elements of policy in this area can be complex. For this reason, and due to the desire to ensure that Newstart continues to be fully withdrawn from single adults without children at a level of income below the full-time minimum wage, the ACTU has recommended only minimal change in this area in the short-run. We recommend a modest increase in the Newstart 'free area' and a consolidation of the taper rates. We believe that a future independent inquiry should examine these aspects of income support policy in more detail, and consider the implications of increasing the 'cut off point' for Newstart beyond the full-time minimum wage.

### Effective tax rates

#### Key points:

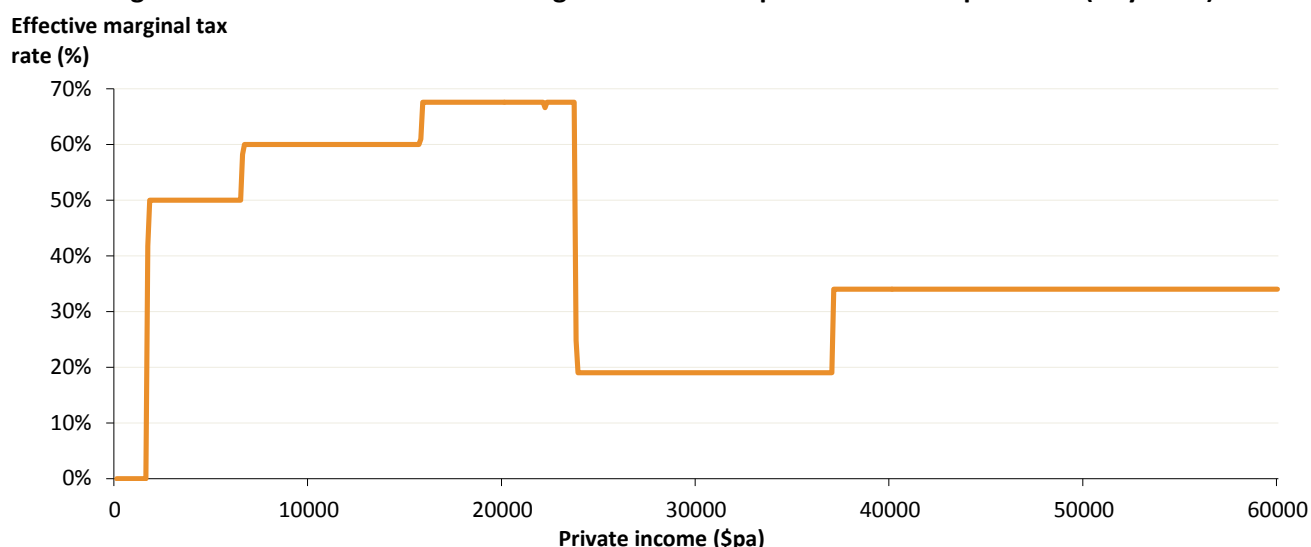
- The combination of the withdrawal of income support and the operation of the personal income tax system can mean that some workers retain only a small proportion of any increase in their labour earnings.
- High effective tax rates can make it hard for workers to get ahead, and can discourage people from increasing their labour supply.

As workers' earnings increase, their income support payments are withdrawn and they become liable to pay personal income tax. The combination of the payment taper rate and the personal income tax rate gives the effective marginal tax rate (EMTR) – the proportion of an additional dollar earned that is lost through reduced benefits and increased taxes. The higher the EMTR, the less financial incentive there is for a worker to earn an extra dollar of income.

For example, think of a single adult worker who works 25 hours per week at the National Minimum Wage. They would have earnings of around \$399 per week, receive Newstart of \$37.50 per week<sup>50</sup>, and be liable to pay \$11.16 per week in net income tax.<sup>51</sup> This gives the person a net income of \$425.30 per week. If they were to earn an additional dollar in wages, their Newstart payment would fall by 60 cents, their net income tax liability would rise by around 11 cents<sup>52</sup>, and so their net income would be around \$425.60 per week. In other words, the worker has only ‘taken home’ around 30 cents out of his or her additional dollar of wages.

An estimate of the schedule of EMTRs faced by a single adult Newstart recipient at various levels of private income is shown at Figure 26. It can be seen that the combination of payment withdrawal rates and income tax liabilities causes high EMTRs to be experienced by Newstart recipients. This can make it hard for workers to increase their net incomes through part time work. Low income earners have been found to be particularly sensitive to effective marginal tax rates; groups such as single parents and secondary household earners have been found to vary their labour supply by the greatest amount in response to changes in EMTRs.<sup>53</sup> Harding, et al., found that between 1996-97 and 2006-07 the “proportion of working-age Australians facing EMTRs of more than 50 per cent increased... from 4.8 to 7.1 per cent”.<sup>54</sup>

**Figure 26: Estimated EMTRs for a single Newstart recipient without dependants (July 2012)**



Source: ACTU calculations.

<sup>50</sup> Includes Supplementary allowance, smoothed to a weekly payment.

<sup>51</sup> Includes LITO and Medicare Levy.

<sup>52</sup> This is relatively high as this level of income coincides with the Medicare Levy phase-in range.

<sup>53</sup> H Buddelmeyer & G Kalb, ‘The effect of minimum wage changes on labour supply and income distribution’, *2008 Minimum Wage Research Forum, Volume 2*, October 2008, Australian Fair Pay Commission, pp.222-226.

<sup>54</sup> A Harding, Q N Vu, A Payne & R Percival, ‘Trends in Effective Marginal tax Rates in Australia from 1996-97 to 2006-07’, *Economic Record*, vol. 85, no. 271, December 2009, pp.449-461.

EMTRs are a useful analytical concept with which to assess the extent to which allowance recipients could increase their net incomes through a small increase in their incomes. However, workers generally don't make labour supply decisions in terms of the net expected income of an additional dollar of gross income. They are more likely to consider decisions such as "should I take an extra weekly shift" or "should I accept a full-time job". To evaluate the amount that is lost to reduced benefits and increased taxes as a result of decisions like that, the relevant tool of analysis is the effective average tax rate (EATR).<sup>55</sup> The EATR is based on the same principle as EMTRs, in that they measure the amount lost to reduced benefits and increased taxes, but EATRs calculate the change that results from a larger change in income than merely a \$1 increase. The ACTU has estimated EATRs for workers making a range of labour supply choices, as shown in Table 6. For example, a person who moved from receiving the full Newstart Allowance (ie. with no private income) to working full time at the National Minimum Wage, would experience a cut to their benefits and an increase in personal income taxes equal to around 47% of their gross increase in labour earnings.

**Table 6: Estimated effective average tax rates (EATRs) in June 2012 and July 2012**

	Effective average tax rate	
	June 2012	July 2012
From full NSA to 19 hours work at NMW	54.8%	50.8%
From 19 hours at NMW to full NMW	47.0%	43.3%
From full NSA to full NMW	48.8%	47.1%
From full NSA to 1.5xNMW	41.8%	41.0%

Source: ACTU calculations. 'NSA' is Newstart Allowance; 'NMW' is the National Minimum Wage.

It can be seen that the changes to the personal income tax scales that took effect from 1 July 2012 have reduced EATRs for Newstart recipients over all modelled spans of income, thus increasing work incentives and helping low-paid workers to increase their net incomes. Effective tax rates are affected by policy choices on both the income support side (free areas, taper rates, Working Credit) and the personal income tax side (thresholds, marginal tax rates, offsets, levies). Of course, the financial returns to work are also "affected by factors such as child care costs, public housing rent-setting, and child support liabilities or receipts".<sup>56</sup>

In general, lower effective tax rates (EMTRs and EATRs) are assumed to encourage people to increase their labour supply, either by seeking work or increasing their hours of work. A reduction in effective tax rates helps lower income earners to make ends meet. The aspects of the income support system that have the largest impact on effective tax rates – the free area and tapers – are considered in detail below.

<sup>55</sup> When an EATR is calculated as the net change in income tax liability and benefit entitlement over a span of income that begins with zero private income it is known as a 'participation tax rate' or PTR.

<sup>56</sup> AFTS, *Australia's Future Tax System: Report to the Treasurer*, vol.1, part 2, p.20.



## The Newstart Allowance free area and taper rates

### Key points:

- The current 'free area' is insufficient to allow a Newstart recipient to perform any work at all under most modern awards before beginning to lose some of their payment.
- Over time, taper rates have been reduced such that part-time workers are now eligible to receive some payment at higher levels of labour earnings. This is a partial acknowledgement of the shift towards part-time work in the Australian labour market.
- In the short run, reforms to Newstart Allowance should ensure that full-time workers are not eligible to receive the payment. This places restrictions on the combination of changes that can be made to the free area, taper rates, and payment rate.
- The ACTU recommends an increase in the free area and a consolidation of the existing tapers into a single consistent rate, along with the \$50 per week increase in the payment rate. Potential future reforms to the free area and taper rates should be examined by an independent inquiry.

Newstart recipients can currently earn only \$32 per week in wages before their payment begins to be withdrawn.<sup>57</sup> This is equivalent to just over two hours of work at the National Minimum Wage (\$15.96 per hour). Most modern awards specify a 'minimum engagement' of at least three hours of work; a Newstart recipient who performs any work at all will (if they're subject to a three-hour minimum engagement) therefore immediately lose some of their payment. The 'free area', as it is known, has been fixed at the same nominal value since July 2000, when it was increased from \$30 to \$32 per week.

The real value of the free area has been eroded significantly. In 1990, the free area was \$45 per week, which was equivalent to around 5.5 hours of work at the minimum wage. The steady erosion of the real value of the free area is shown in Figure 27; its current level is lower, relative to minimum wages, than at any point in the past two decades.

While the value of the free area has eroded, the taper rates for the Newstart Allowance have been eased somewhat. Until July 1995, Newstart recipients faced a 100% taper once they had earnings in excess of \$70 per week<sup>58</sup>. This reduced the incentive to work additional hours, particularly for part-time workers. In recognition of this, the top taper rate was cut to 70% from July 1995. This top taper rate still cut in at \$70 per

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<sup>57</sup> Newstart is paid on a fortnightly basis and its income tests are applied based on fortnightly gross income, but these have been converted to weekly figures for this submission.

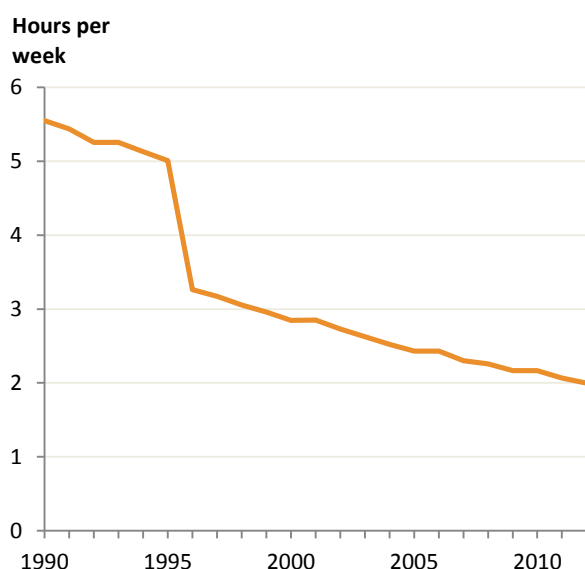
<sup>58</sup> This meant that, over a large range of earned income above \$70 a week, for each extra dollar in wages, the recipient lost a dollar of Newstart and accordingly additional hours of work paid nothing.

week of earnings, rising to \$71 from July 2000. From July 2007, the top taper rate was eased again to 60%, and applied to earnings in excess of \$125 per week.

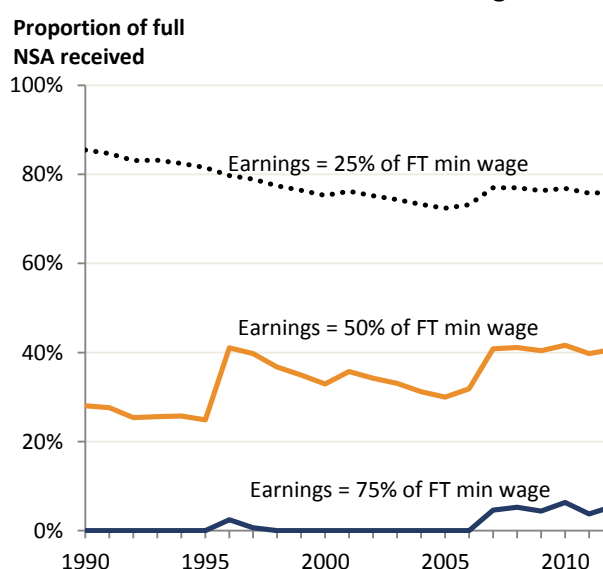
These changes – the erosion of the real value of the free area and the easing of the top taper rate and threshold – have combined to change the incentives faced by Newstart recipients and the amount that is paid to part-time workers at different levels of labour hours and earnings. In 1990, someone who earned 25% of the full-time minimum wage was eligible to receive 85% of the full unemployment payment. The erosion of the free area means that such a worker today would receive only 76% of the full Newstart payment.

However, the easing of the top taper has meant that workers with higher earnings are now eligible to receive a greater proportion of the full Newstart payment. In 1990, a worker who earned half the full-time minimum wage (eg. by working 19 hours per week at the minimum) would only have received 28% of the full unemployment benefit; this had risen to 41% by 2012. The increase in the threshold for the top taper rate has meant that someone with earnings equal to 75% of the full-time minimum wage is eligible to receive some Newstart (around 5% of the full payment) – this had not been the case during most of the 1990s and 2000s. The proportion of the full Newstart payment received by workers at these three levels of earnings is shown in Figure 28.

**Figure 27: Hours of work at the NMW required to reach the Newstart ‘free area’**



**Figure 28: Proportion of the full unemployment benefit received at different earnings levels**



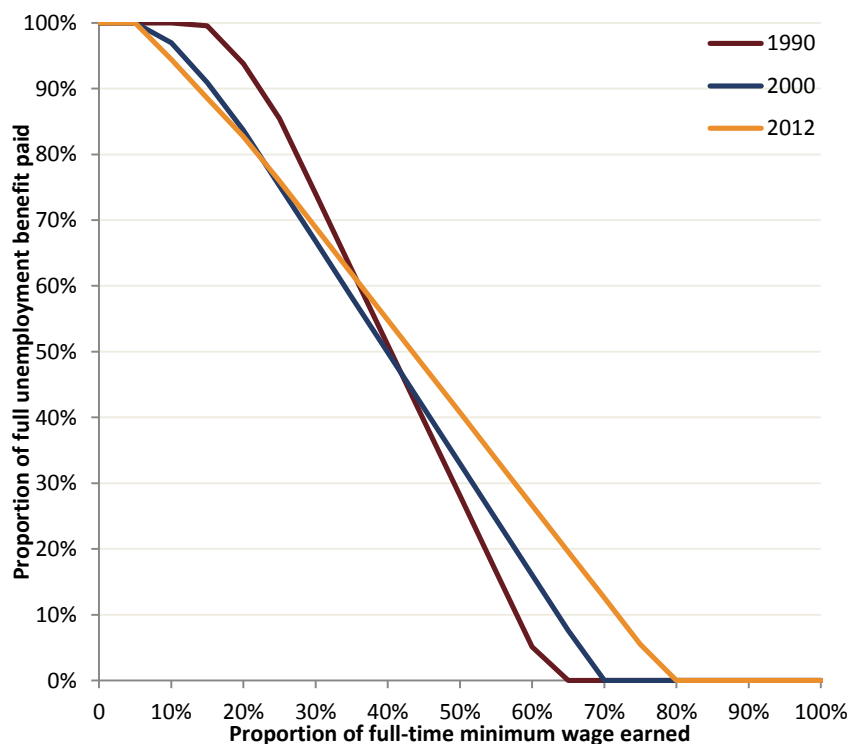
Source: ACTU calculations. Historical payment rates from FaHCSIA. Historical minimum wage rates from FWA.

These changes can be seen as a slow, partial, acknowledgement of the shift in the labour market towards more part-time employment. The 100% taper that applied before 1995 effectively required Newstart recipients to either work very few hours (around nine or fewer to avoid reaching the 100% taper) or work full-

time hours if they wanted to increase their disposable incomes. The system is no longer built around the assumption that recipients will move from the full payment to full-time work, although more could be done to accommodate the income support system to the new realities of the labour market (as discussed later in this submission).

The net effect of all these changes for a single adult Newstart recipient can be seen in Figure 29. The labour earnings of a Newstart recipient, expressed as a proportion of the full-time minimum wage, are shown along the horizontal axis, while the proportion of the full unemployment benefit that a person would be eligible to receive with that level of labour earnings is shown on the vertical axis. In 1990, people remained eligible to receive the full unemployment benefit until they had earnings of around 15% of the then-minimum wage. The payment was then withdrawn sharply; the steep slope of the 1990 line reflects the high taper rate then in effect. The payment would cut out completely at around 65% of the full-time minimum wage. The 2000 line shows a smaller free area, but a more gradual taper, with workers remaining eligible for some Newstart until they received around 70% of the full-time minimum wage. The effect of the easing of the top taper and threshold in 2007 can be seen in the contrast between the 2000 and 2012 lines; the latter is less steep, with the Newstart payment not cutting out entirely until a person has earnings of around 80% of the full-time National Minimum Wage.

**Figure 29: The withdrawal of the unemployment benefit with earnings**



Source: ACTU calculations. Historical payment rates and parameters from FaHCSIA. Historical minimum wage rates from FWA.

Figure 29 illustrates a trade-off of sorts – as taper rates are eased, the incentive to seek additional hours of work is increased for existing payment recipients, but the payment begins to extend further up the income scale. This implies that workers on slightly higher earnings levels, who would not have previously received the payment, would now be entitled to receive some Newstart. Although the effective marginal tax rates of existing payment recipients are cut, the EMTRs of workers who are now newly eligible to receive the payment are increased.<sup>59</sup>

As noted by Gregory, Klug and Thapa, changes to taper rates shouldn't be considered in isolation; policy-makers should also consider the free areas and 'taper end points' or the level of income at which the payment cuts out completely.<sup>60</sup> Pending further detailed inquiry, the ACTU considers that an appropriate upper bound for the taper end point is the full-time National Minimum Wage. In other words, single adults with earnings equal to or greater than the NMW should not receive any Newstart Allowance. To extend eligibility for (part payment of) Newstart to full-time workers would be to fundamentally change the nature of Newstart Allowance; this may have some merit, but would represent a major shift, the implications of which would need to be considered in detail. We recommend that a future independent inquiry considers this possibility.

If this is accepted, and Newstart continues to cut out before the full-time minimum wage, then the range of changes that can be made to the free area and taper rates is constrained. The level of income at which the payment cuts out is a function of the maximum payment rate, the free area, and the taper rates. The ACTU's core recommendation is for an increase in the base rate of payment for single adults of \$50 per week. Implementing this recommendation, without changing the free area or taper rates, would mean that Newstart would cut out at around 90% of the full-time minimum wage, up from the present 80%.

This means that if the free area were to increase, as we also recommend, then the system would come close to having a cut-off point in excess of the full-time minimum wage. A way to resolve this dilemma is to increase the free area, but also change the taper rates. For example, a 60% taper could apply at all levels of earnings above the free area, rather than a two-tiered taper of 50% and 60% as at present. This means that both the payment rate and the free area could be increased while still cutting off the payment before the full-time National Minimum Wage.

Figure 30 shows the effect of the two policy changes described above. The line marked '2012' represents the current payment rate, free area, and tapers. The dotted line marked 'hypothetical' is the situation that would

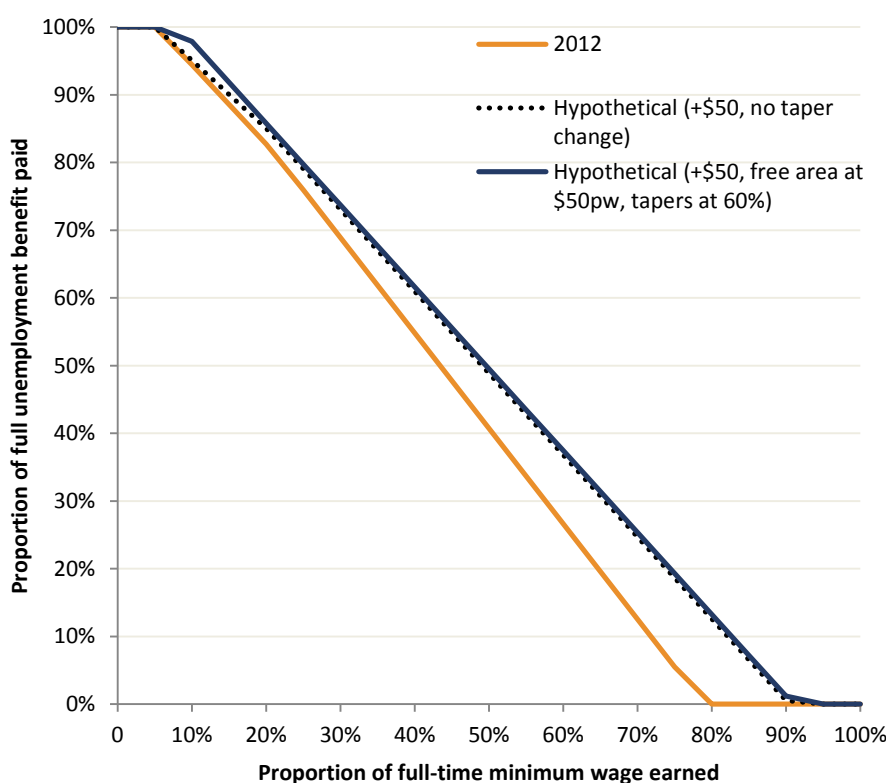
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<sup>59</sup> R Gregory, E Klug & PJ Thapa, 'Cut-offs, Knock-ons and Welfare Payment Taper Changes: An Evaluation of the July 2000 Tax and Welfare Changes for Lone Mothers', *Economic Record*, vol. 84, no. 266, September 2008.

<sup>60</sup> *Ibid.*, p.306.

apply if the payment rate was increased by \$50 per week, but no other changes were made. The blue 'hypothetical' line incorporates a \$50 per week increase to the payment rate, an increase of the free area to \$50 per week, and a consistent 60% taper above the free area. This is the ACTU's recommended near-term reform option. In this final scenario, the Newstart payment cuts out just above 90% of the full-time minimum wage.

**Figure 30: The effect of a \$50 per week increase to Newstart on the payment received at different earnings levels**



Source: ACTU calculations. Current Newstart payment rate and parameters from FaHCSIA. Current NMW value from FWA.

Although lower taper rates are generally preferable, the ACTU suggests the consolidation of the existing two-tiered taper structure into a single 60% taper for a number of reasons. First, as outlined above, this would ensure that the payment is fully withdrawn before reaching levels of income equal to the full-time National Minimum Wage. Second, for workers with labour income equal to or greater than around 20% of the NMW, this proposal would be neutral relative to a reform that increased the payment rate by \$50 but did not modify the existing tapers and free area. This means that income support receipt would not be shifted further up the scale and the proposal does not involve significant additional fiscal cost relative to a \$50 payment increase without changes to the tapers and free area. Third, effective average tax rates would be cut at very low levels of labour earnings, without increasing them (over most spans of income) at higher levels.

The recommendations for an increase in the free area and a consolidation of the existing taper rates should be considered short-term proposals. In the medium term, there is merit in more detailed examination of the structure of the income tests as part of a broader review of working-age income support arrangements.

**Recommendations:**

- In the near term, any changes to the Newstart Allowance should be consistent with the payment cutting out at a level of earnings below the full-time National Minimum Wage.
- Increase the free area for single Newstart recipients so that it is at least equal to the gross earnings of a worker who completes three hours of work at the National Minimum Wage per week. A free area of \$50 per week would achieve this.
- The two-tiered taper structure should be replaced by a consistent 60% taper, so that the payment cut-out point remains below the full-time National Minimum Wage.
- An independent review by a panel of experts should examine the income tests in greater detail as part of a broader review of working-age payments.

## Trends in the labour market and the rise of insecure work

The income support system must adapt to changes in the labour market. It has partially done so, through such policy measures as the easing in taper rates and the increased focus on 'activation' policies. However, it's important that the system continues to adapt. The rise of insecure work, in particular, has implications for the design of the income support system.

### The changing nature of the labour market

#### Key points:

- Since the 1970s, female workforce participation has risen while male participation has fallen. Unemployment has been higher than during the 1950s and 60s, though it is currently near a multi-decade low.
- Underemployment has been persistent, though the rate of underemployment has fallen somewhat.
- People with higher levels of educational attainment are more likely to be in work, particularly full-time work, though the gap in employment rates has fallen.
- The industrial composition of the Australian labour market is changing, with a shift towards the services sector.

Since the end of the Second World War, there have been two broad periods in the Australian labour market. The first, which lasted until the mid-1970s, saw the unemployment rate remain below 3.5% at all times. Frijters & Gregory describe the post-war period in the Australian labour market as a "golden age":

*During the twenty-five years following World War 2, the Australian labour market produced extraordinary outcomes, probably surpassed only by Japan during this period. The labour market absorbed 3 million immigrants, many with poor English language skills; maintained full employment with unemployment levels often below one per cent; and increased average real wages at around 2-3% a year, a rate similar to the US and those countries of Western Europe with similar levels of economic development. This exceptional performance took place within an institutional framework of strong unions, centralized wage fixing, a compressed wage structure and an extensive welfare system. Any analysis of this period would conclude that from a labour market perspective this was a golden age...*<sup>61</sup>

A range of transfer payments were introduced following World War II, but working-age income support largely comprised pensions for war veterans, people with disability, women who were eligible for the Age Pension, wives of age and disability pensioners, and widows. Unemployment was low, and thus the number of

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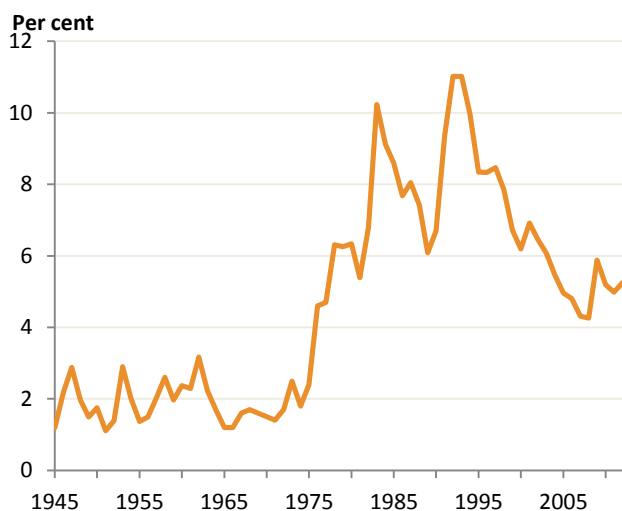
<sup>61</sup> P Frijters & R Gregory, 'From Golden Age to Golden Age: Australia's "Great Leap Forward"?', *Economic Record*, vol. 82, no.257, June 2005, pp.207-224. p.207.

unemployment benefit recipients was low. The proportion of the working-age population on pensions was only around three per cent by the 1970s, with a negligible number on other forms of income support.<sup>62</sup> The Australian system of social protection aimed to obtain broadly-shared prosperity through an emphasis on full employment and the adequacy and equity of wages; this system has been characterised as a “wage earners’ welfare state”.<sup>63</sup>

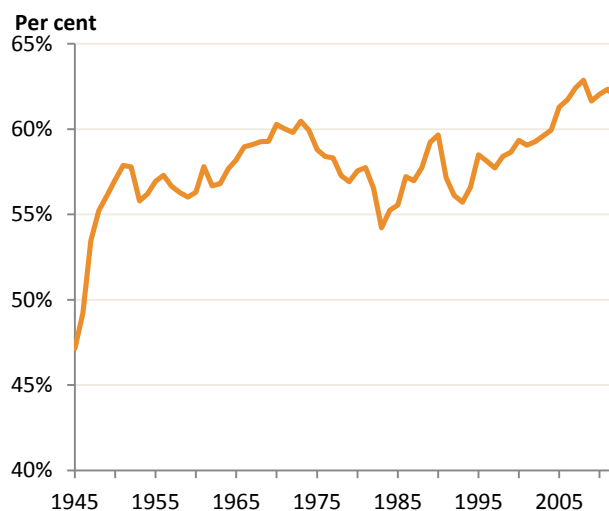
The second period in the post-war labour market began in the 1970s. Since the mid-1970s, the Australian labour market has experienced considerable change. The unemployment rate has never been below 4% in this period. However, the current unemployment rate of 5.2% is lower than those recorded for the 1980s and 90s; between 1978 and October 2004, unemployment never fell below 5.2% in Australia. Recent years have seen lower unemployment than at any time since the pre-70s period. The unemployment rate since World War II is shown in Figure 31.

Another key labour market indicator, the employment-to-population ratio, has been more stable over time than the unemployment rate. Participation in the labour force has grown, particularly among women. In the past five years or so, the proportion of the working-age population that is employed has been the highest ever recorded in Australia. This is shown in Figure 32. Of course, an increasing share of that employment is part-time work.

**Figure 31: Unemployment rate – 1945 to 2012**



**Figure 32: Civilian employment to population ratio – 1945 to 2012**



Source: Employment and unemployment data to 1964 from Butlin 1977. Population data to 1964 from ABS 3105.0.65.001. Data from 1964 to 1977 from ABS 6204 as cited in Foster 1996. Data from 1978 onwards from ABS 6202.

<sup>62</sup> Australia’s Future Taxation System Review, ‘Chapter F: The Transfer System’, *Australia’s Future Tax System: Report to the Treasurer*, Australian Government, Canberra, December 2009.

<sup>63</sup> F Castles, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand*, Allen and Unwin, Sydney, 1985.

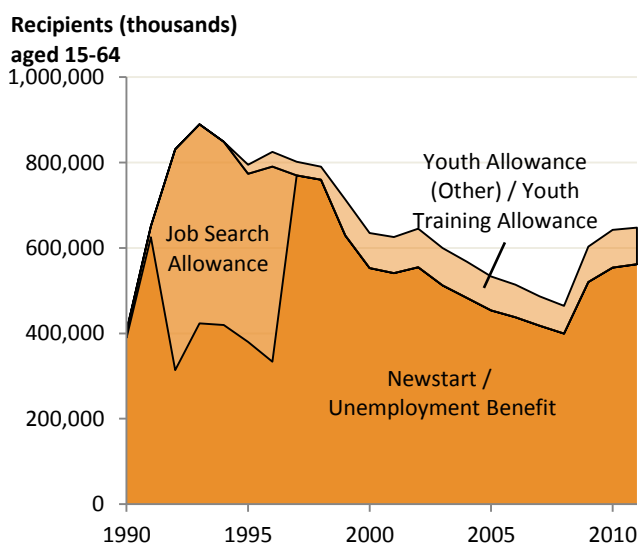


The chart above, and most analysis of unemployment, is based on data from the ABS *Labour Force* survey. This survey defines ‘unemployment’ in line with the international standard from the ILO, meaning a person who was not employed at all during the survey reference week, and:

- *had actively looked for... work at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or*
- *was waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if that job had been available then.*<sup>64</sup>

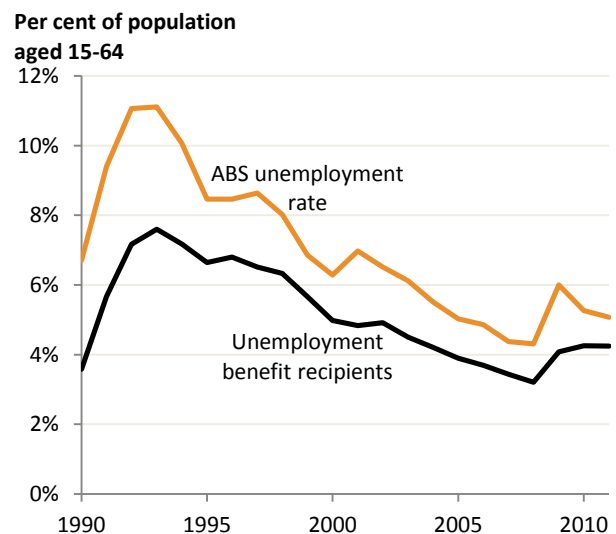
It is possible to be unemployed by this definition and be ineligible for Newstart Allowance (for example, by having assets or non-labour income that exceeds the allowable amounts). Similarly, many Newstart Allowance recipients would not be counted as ‘unemployed’ for the purposes of the Labour Force survey; if they work an hour a week, they would be counted as employed. Despite these differences, the ABS unemployment rate and the proportion of the working-age population that receives an unemployment benefit tend to follow similar trends, as shown in Figure 34.

**Figure 33: Composition of unemployment benefit recipients**



Source: Bond & Wang, FaHCSIA, ABS 6202.0, ACTU calculations.

**Figure 34: ABS unemployment rate and unemployment benefit recipients as a proportion of the working-age population**



This correlation between income support receipt and the ABS unemployment rate is imperfect, but strong enough that the labour force data can be used to analyse the trends that affect the number of income support recipients and the extent of their engagement with the labour force. When the unemployment rate is low and

<sup>64</sup> ABS, *Labour Force*, Explanatory notes, Cat. no. 6202.

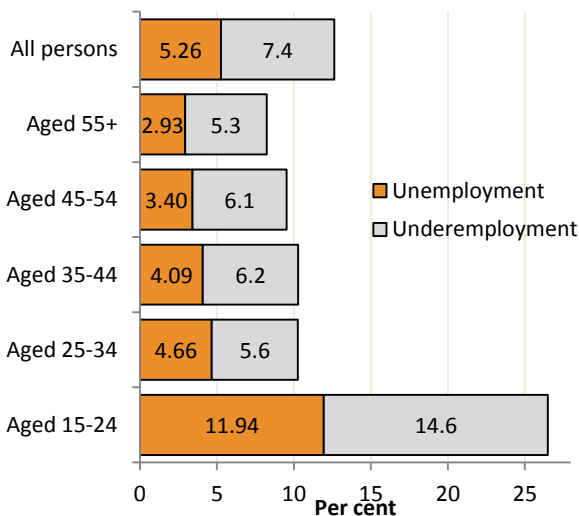
employment growth is strong, inflows to Newstart tend to be low, while outflows increase; when labour market conditions worsen, more people move onto benefits and fewer people leave them.

In the past decade, labour market conditions have been more favourable than at any time since the 1970s. The unemployment rate has fallen and the employment-to-population ratio has risen, as shown in Figure 31 and Figure 32. This is a positive development and has reduced the number of people who rely on unemployment benefits. However, there are reasons for concern about some labour market trends beneath the headline figures. These concerning trends include the rise in underemployment; falls in male full-time employment; and the fall in full-time employment among people with lower levels of educational attainment. These trends are relevant for the design of the income support system.

As noted above, the standard international definition of unemployment does not include people who perform any work at all in the reference period. As a result, people who work even one hour are counted as employed in the labour force statistics. Although part-time work can suit the preferences of many people, some who work part-time hours would like to work additional hours. These workers are counted as ‘underemployed’.

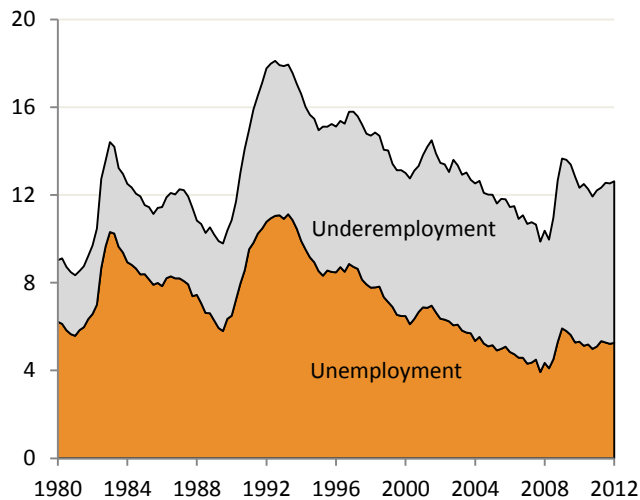
In the May quarter of 2012, there were 894 500 underemployed workers, who represented 7.4% of the labour force. Adding this underemployment rate to the unemployment rate gives the ‘labour force underutilisation rate’ – 12.6% of people in the labour force in the May quarter were either unemployed or underemployed. The unemployment rate therefore understates the degree of underutilisation that exists in the labour market, although underemployment tends to rise and fall roughly in line with unemployment, as shown in Figure 36. Younger people are more likely to be both unemployed and underemployed, as shown in Figure 35.

Figure 35: Underutilisation rates by age



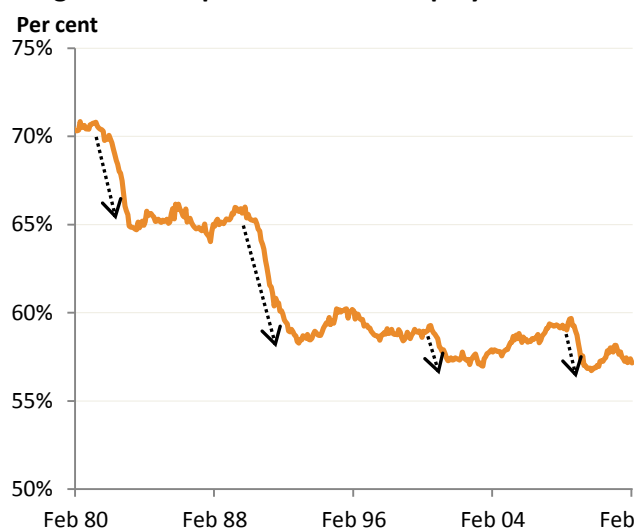
Source: ABS 6202.

Figure 36: Labour force underutilisation over time

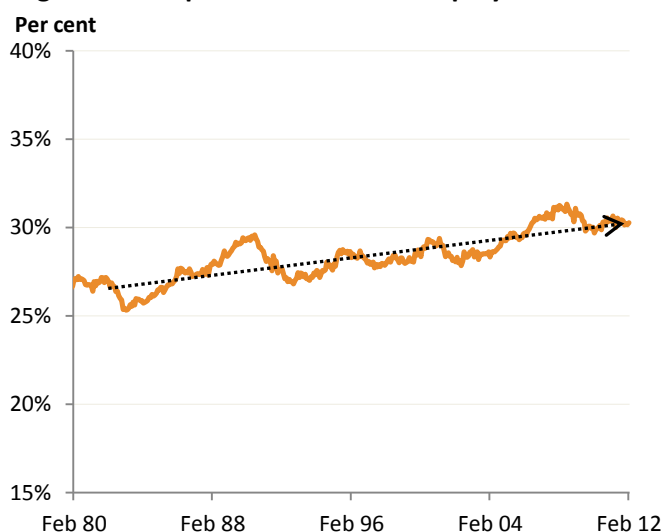


Over the past several decades there have been significant differences in the trends in labour force participation between men and women. This trend has been widely acknowledged.<sup>65</sup> The proportion of working-age men in full-time work has fallen sharply with each economic downturn before stagnating in the subsequent recovery period. The recessions of the early 1980s and the early 1990s each saw the male full-time employment-to-population ratio fall by over five percentage points. In total, this ratio fell by around 14 percentage points over the past three decades, while the female ratio rose by less than five percentage points. This means that there was a net fall in the proportion of the working-age population who are in full-time employment.

**Figure 37: Proportion of men employed full-time**



**Figure 38: Proportion of women employed full-time**



Source: ABS 6202. Charts show the full-time employment-to-population ratios for persons aged 15 and over.

The fall in full-time work among men has translated into increases in part time work (up 7.2 percentage points as a proportion of the male working-age population since 1978) and the proportion of men who are not in the labour force (up 7.7 percentage points).<sup>66</sup> Male part-time workers are also more likely to be underemployed than female part-time workers. The timing of the fall in male full-time work doesn't lend support to claims that the shift is a supply-side phenomenon and is merely the consequence of a change in the preferences of working-age men. It would be a strange phenomenon for tens of thousands of men to spontaneously and simultaneously decide that they no longer wished to work full-time, and for these bursts to coincide with economic downturns. The ACTU rejects suggestions that the decline in male full-time employment reflects

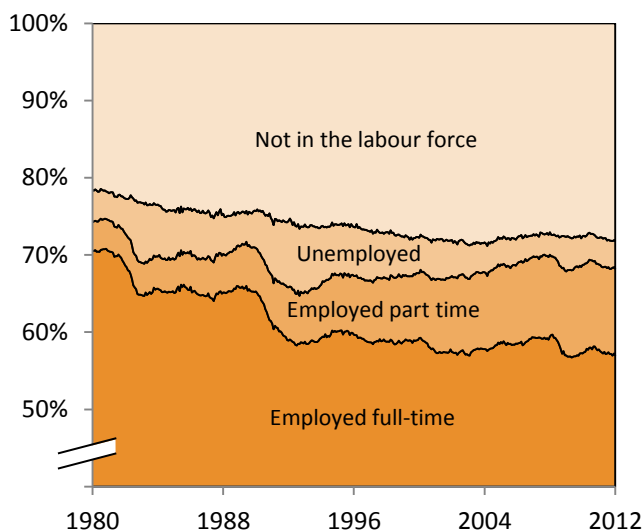
<sup>65</sup> For example in W Swan, *Postcode: The Splintering of a Nation*, Pluto Press, North Melbourne, 2005, p.85.

<sup>66</sup> The male unemployment-to-population ratio has fallen 0.8 percentage points over the same period – these figures sum to offset the 14.2pp fall in full-time work.

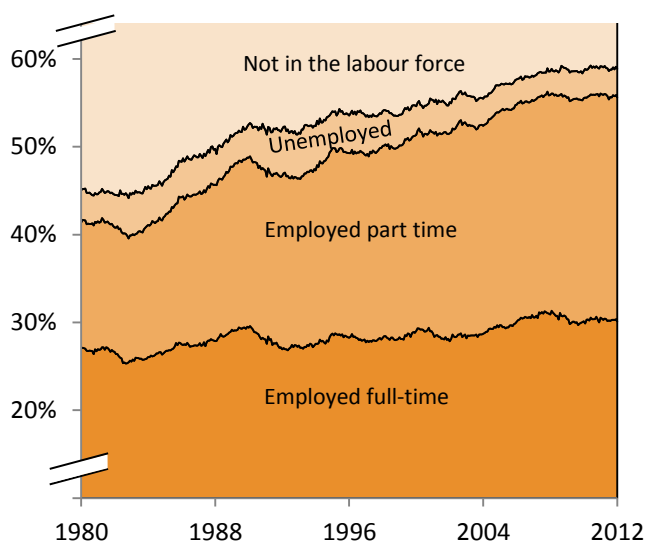
“changes in preferences” on the part of workers;<sup>67</sup> instead it is likely that these shifts are driven by changes in the industrial and occupational composition of the workforce, as well as changes in the demand for skill.

While the proportion of men employed full-time has fallen, and the proportion of men who are not in the labour force has risen, the opposite trend is true of women. Female workforce participation has risen strongly in the past three decades; female employment appears to be less affected by the state of the business cycle. Overall, women’s participation in the labour force is still below that of men.

**Figure 39: Employment status of men aged 15+**



**Figure 40: Employment status of women aged 15+**

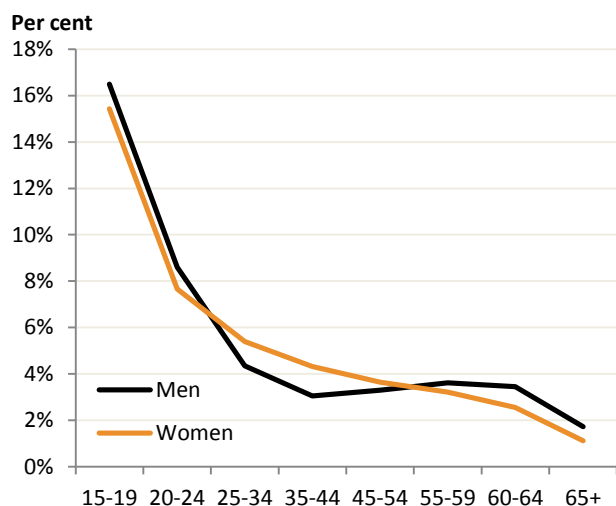


Source: ACTU calculations based on ABS 6202.

At any given age, the unemployment rate for men and women is about the same (as shown in Figure 41). However, as discussed above, women are more likely to be out of the labour force, and therefore not counted as unemployed. Clear gender differences can be seen between male and female employment-to-population ratios at all age brackets above 25. The employment-to-population ratio has risen for most age groups since 1982, particularly older age brackets, while the unemployment rate is around the same for each age group as it was thirty years ago.

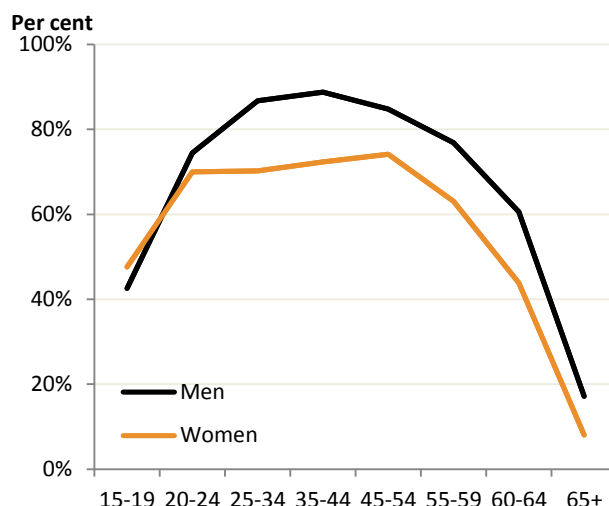
<sup>67</sup> DEEWR, FaHCSIA, DHS & DIISRT, *Submission to the Senate Inquiry on the adequacy of the allowance payment system for job seekers and others*, Australian Government, Canberra, 2012, p.41.

**Figure 41: Unemployment rate by age and gender – June 2012**

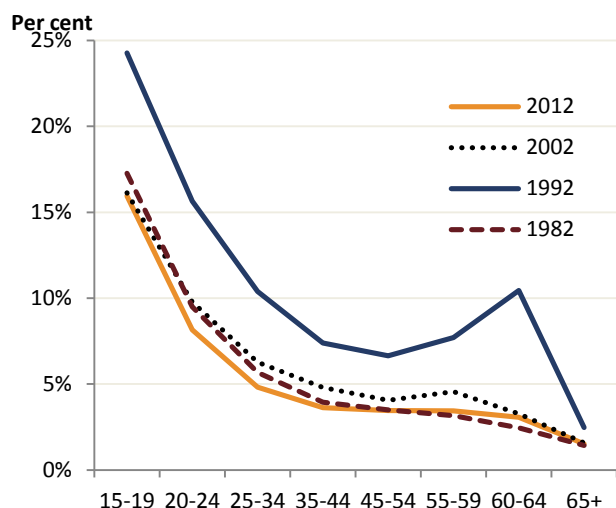


Source: ABS 6291.0.55.001.

**Figure 42: Employment to population ratio by age and gender – June 2012**

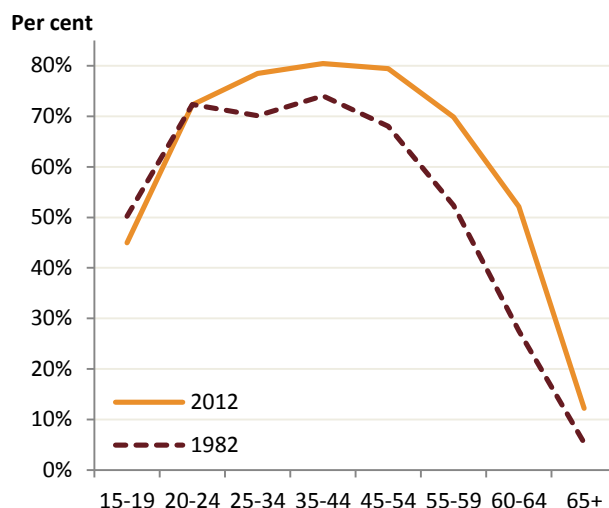


**Figure 43: Unemployment rate by age**



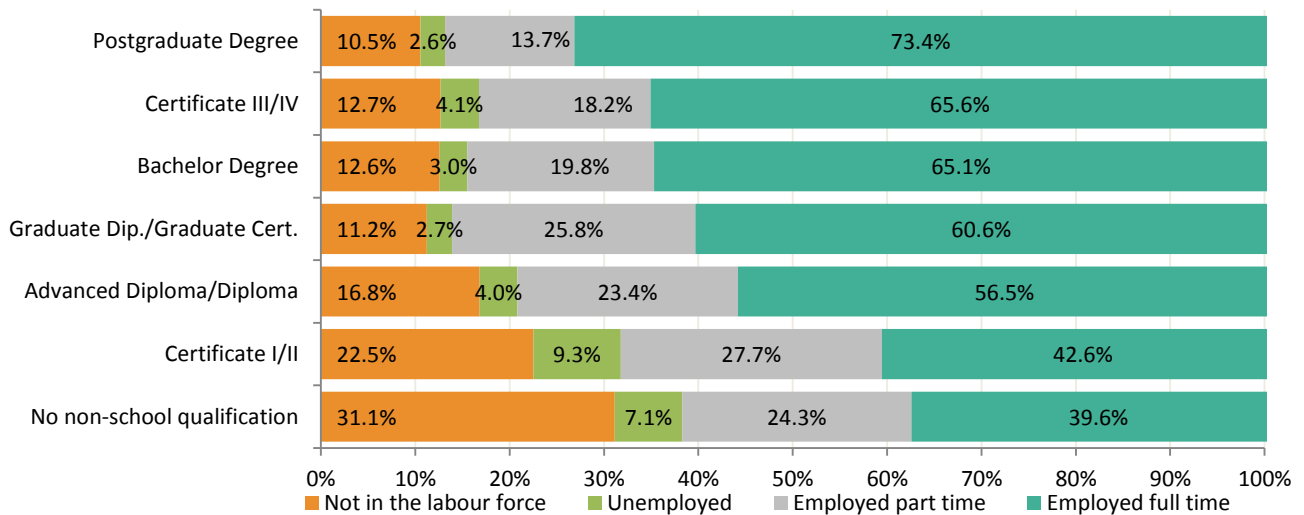
Source: ABS 6291.0.55.001.

**Figure 44: Employment to population ratio by age**

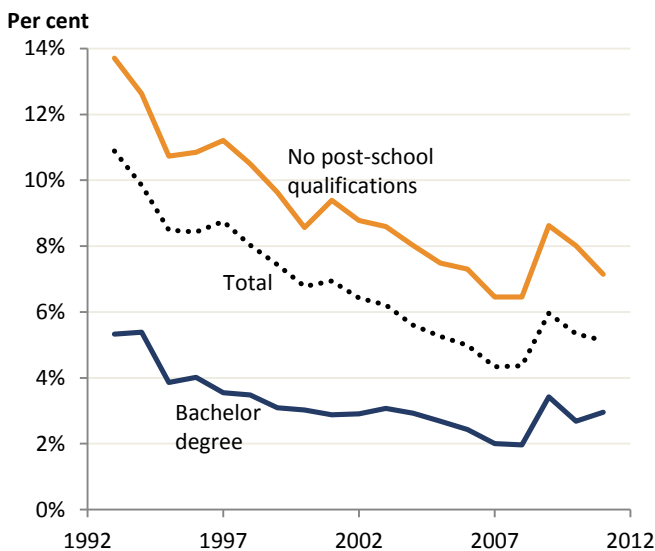


As well as divergent trends by gender and age, the overall labour force figures mask significant differences in outcomes for people with different levels of educational attainment. People with higher levels of educational attainment are more likely to work full-time, less likely to be out of the labour force, and less likely to be unemployed. This is shown in Figure 45. People who do not have post-school qualifications are far more likely to be out of the labour force (31.1%) and far less likely to be in full-time work (only 39.6%). The gap between the unemployment rates for people with a bachelor degree and those with no post-school qualification has shrunk in the past two decades (Figure 46), but the proportion of people without post-school qualifications who are in full-time work has also fallen (Figure 47).

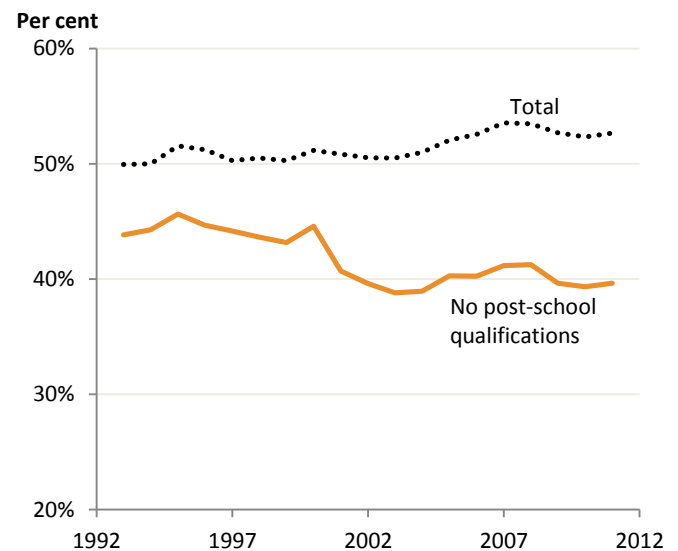
**Figure 45: Labour force status of persons by highest educational attainment – May 2011**



**Figure 46: Unemployment rate by educational attainment – May 1992 to May 2011**



**Figure 47: Full-time employment-to-population ratio for all persons and for persons with no post-school qualifications**

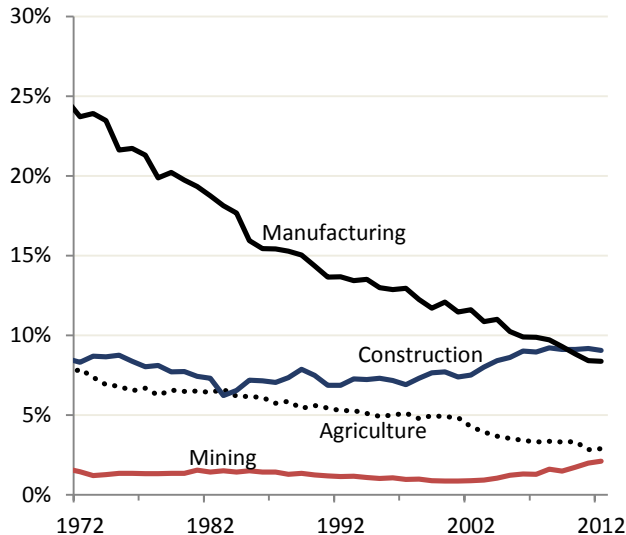


Source: ACTU calculations based on ABS 6227 (various years). All charts are for persons aged 15-64.

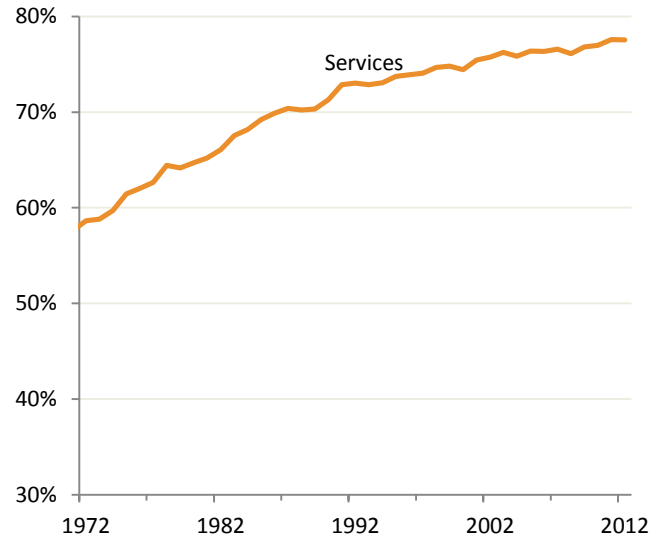
An improvement in overall labour force conditions tends to result in reduced unemployment for people at all levels of educational attainment. In some senses at least, a rising tide lifts all boats when it comes to unemployment. However, falling unemployment rates can disguise the fact that an increasing share of workers with lower education attainment are not in full-time work; many of them are not in the labour force at all. The income support system cannot operate on the assumption that there are sufficient full-time jobs for all who wish to take them, particularly for people with lower levels of educational attainment.

Part of the explanation for the fall in full-time work among people with lower levels of educational attainment, despite an overall rise in full-time employment, has been the changing industrial structure of the Australian economy.<sup>68</sup>

**Figure 48: Employment in selected industries as a share of total employment**



**Figure 49: Employment in the 'services' sector as a share of total employment**



Source: ACTU calculations based on ABS 6202.

The manufacturing industry has declined as a share of total employment; in the past few years it has also begun to decline in absolute numbers of employed persons, after remaining stable at around 1.05 million since the early 1990s. Manufacturing has provided many Australians who have low or intermediate levels of educational attainment with secure, often full-time, work, but this is now less often the case. Agriculture has also declined. Mining and construction have risen, although off a very low base in the case of mining. The vast bulk of jobs in the Australian labour force are in the broad 'services' sector, an aggregate of a range of industries. Some of these industries are less likely to employ people on a secure, full-time basis than the industries they have replaced. The rise of insecure work and its implications for the income support system are discussed in a subsequent chapter of this submission.

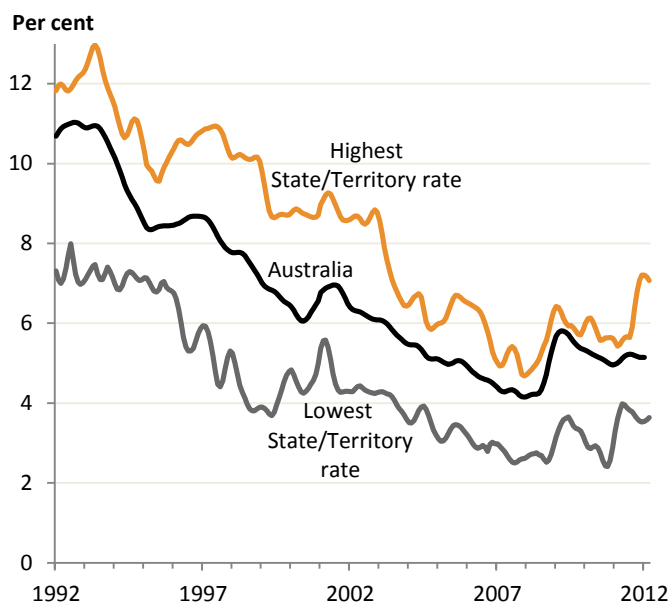
Labour market conditions are also, of course, not uniform across the country. Some regions have much higher unemployment rates and incidence of income support reliance than others.<sup>69</sup> People in regional areas can face additional difficulty in finding work. However, improvements in the overall labour market have translated into broadly-shared increases in employment and decreases in unemployment across the country. Employment remains unevenly distributed, and pockets of disadvantage clearly remain, but the unemployment rates for all

<sup>68</sup> D Black, Y-P Tseng & R Wilkins, 'The Decline in Male Employment in Australia: A Cohort Analysis', Melbourne Institute Working Paper Series, Working Paper No. 1/08, The University of Melbourne, Melbourne, 2008.

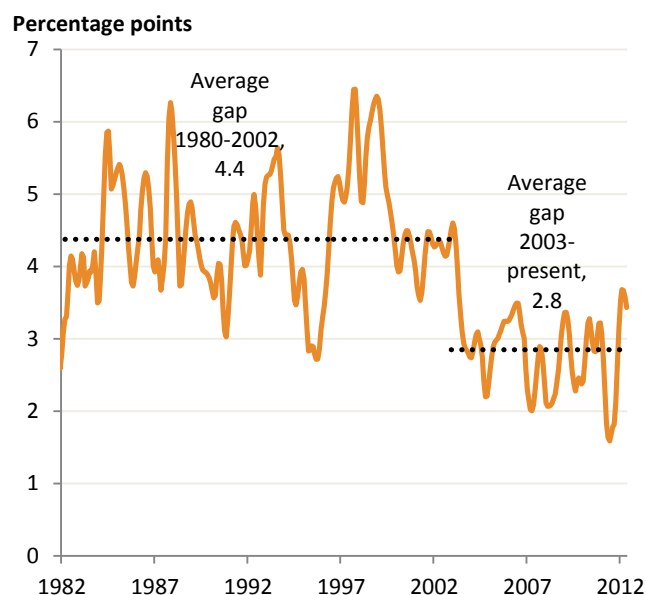
<sup>69</sup> Australian Social Inclusion Board, *op. cit.*

States and Territories have come down as the overall unemployment rate has fallen (see Figure 50). The gap between the highest and lowest unemployment rates has been lower in the past decade than in the previous two decades (Figure 51).

**Figure 50: The highest and lowest unemployment rates of the Australian States & Territories**



**Figure 51: Gap between highest and lowest unemployment rates of the States/Territories**

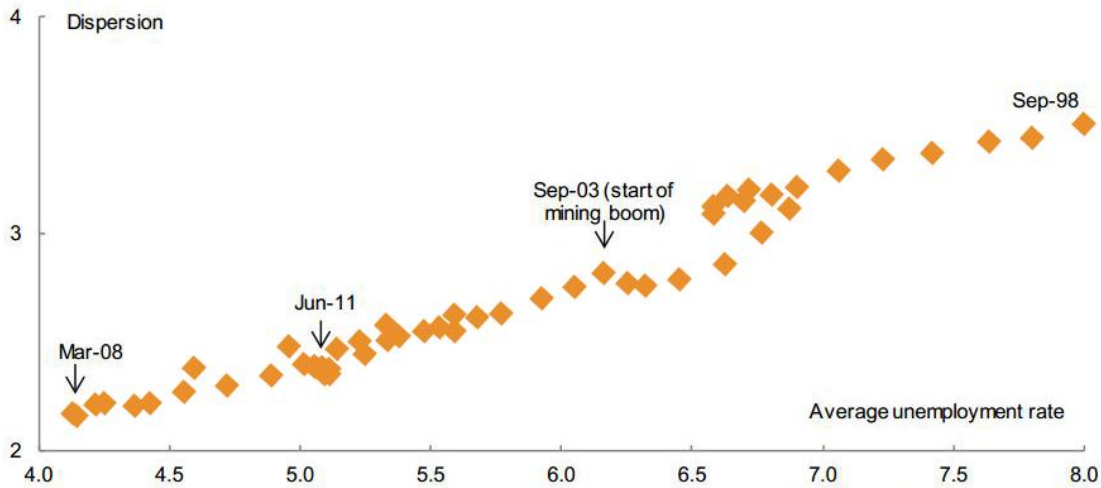


Source: ACTU calculations based on ABS 6202

Treasury analysis (Figure 52) suggests that this trend also holds true at a more granular regional level. As the average unemployment rate has fallen, the dispersion of unemployment between regions has also fallen. It appears that the most important determinant of regional unemployment is the state of the overall macro-economy.



**Figure 52: The dispersion of unemployment across small areas in Australia**



Source: Treasury and DEEWR Small Area Labour Markets database.<sup>70</sup> Each point on the scatter plot shows the weighted average and weighted standard deviation of unemployment across statistical local areas for a particular quarter from September 1998 to June 2011.

## Long term unemployment

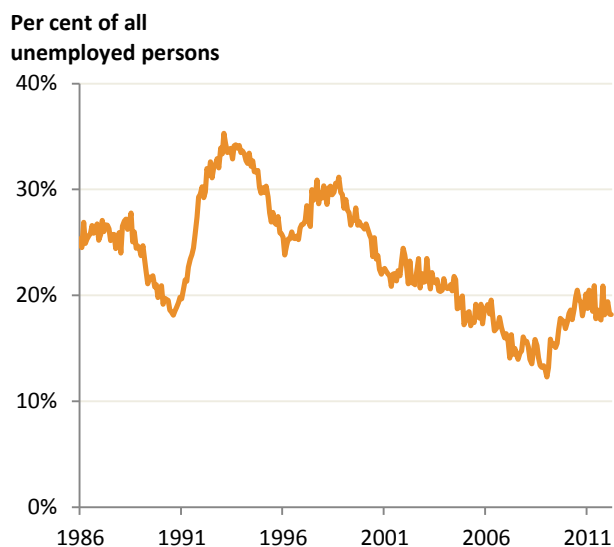
### Key points:

- Although the number of long-term unemployed people has declined according to the ABS definition of long-term unemployment, the number of long-term unemployed income support recipients is much higher.
- Long-term income support recipients can face a range of barriers to workforce participation.

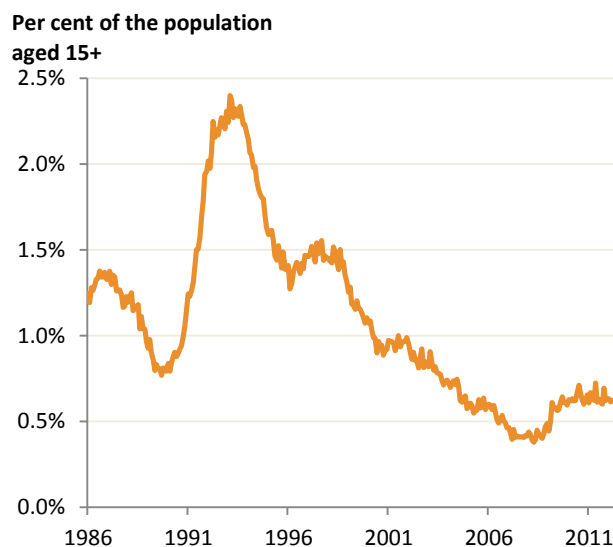
It was observed above that the ABS measure of unemployment tends to move in line with the proportion of the working-age population that receives unemployment benefits. One area where the ABS statistics are perhaps less useful to a review of income support is long-term unemployment. The *Labour Force* figures show that long-term unemployment (meaning people who have been unemployed for over a year) has declined both as a proportion of the population and as a proportion of total unemployment.

<sup>70</sup> Chart is from D Gruen, 'The Macroeconomic and Structural Implications of a Once-in-a-Lifetime Boom in the Terms of Trade', Address to the Australian Business Economists Annual Conference, 24 November 2011.

**Figure 53: Long-term unemployment as a proportion of total unemployment**



**Figure 54: Long-term unemployment as a proportion of the population aged 15 and over**

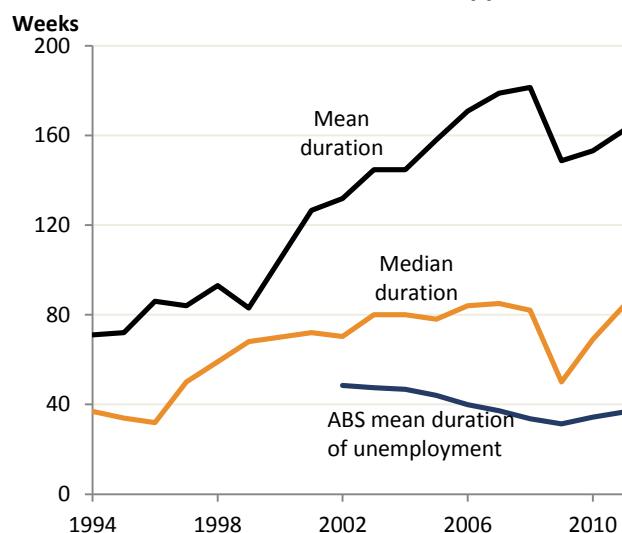


Source: ABS 6291.0.55.001, ABS 6202, ACTU calculations.

This is an important trend, and results from the general improvement in labour market conditions in the past two decades. However, there are considerably more long-term income support recipients than long-term unemployed people as measured by the ABS. The discrepancy arises in part due to the fact that the duration of unemployment as measured by the ABS is reset when a person performs any paid work at all, even one hour. In contrast, the statistics on long-term receipt of income support measure a person's duration from their income support start date; it is therefore possible to be a long term unemployed income support recipient who has performed some work. Whereas the mean duration of unemployment as measured by the ABS is around 40 weeks and trending downwards, the mean duration of income support among unemployed recipients is around four times this level and has trended up over time.<sup>71</sup>

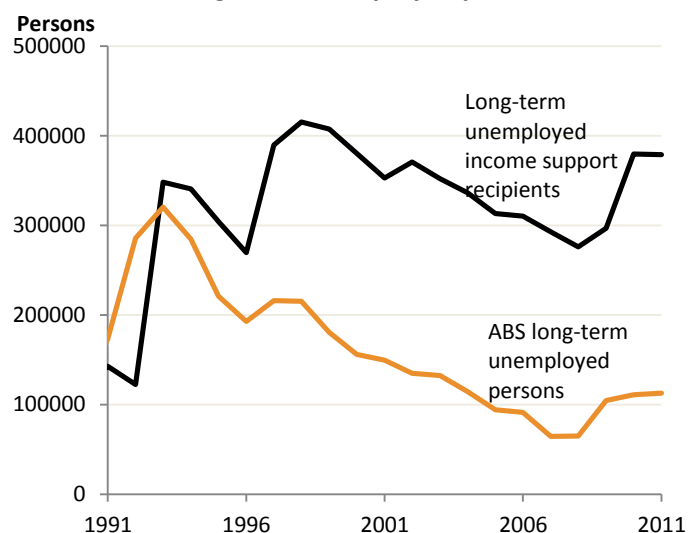
<sup>71</sup> References to long-term unemployed income support recipients in this section include recipients of Youth Allowance (Other) and Newstart Allowance.

**Figure 55: Unemployed recipients' mean and median duration of income support**



Source: ABS 6291.0.55.001, FaHCSIA Statistical Overviews.

**Figure 56: Long-term income support recipients and ABS long-term unemployed persons**



As overall unemployment (and the number of unemployed income support recipients) has fallen, those who remain unemployed are more likely to come from groups that face greater disadvantage in the labour market and multiple barriers to participation.<sup>72</sup> Davidson identifies a range of characteristics associated with poor employment outcomes:

*Characteristics associated with poor employment outcomes include being of indigenous background, having social barriers to work such as homelessness, addictions or a mental illness, being of mature age, having a disability, and low education levels. The incidence of all these (other than low education levels) has increased since the mid-1990s.<sup>73</sup>*

Allowing the steady erosion of allowance recipients' relative living standards has not succeeded in overcoming these barriers and reducing the mean duration of income support receipt. Addressing the problems of entrenched disadvantage requires 'carrots', not more 'sticks'.

<sup>72</sup> P Davidson, 'Did 'Work First' Work? The Role of Employment Assistance Programs in Reducing Long-term Unemployment in Australia (1990-2008)', *Australian Bulletin of Labour*, vol. 37, no. 1, 2011, p.54

<sup>73</sup> *Ibid.*, p.58

## The growth of insecure employment

### Key points:

- Insecure work has risen as a proportion of total employment.
- Casual workers now account for around a quarter of all employees, and a fifth of employed persons (which includes contractors and business operators). Other forms of insecure work are also widespread.

There is a growing divide in the labour market between those workers who have access to secure, ongoing work, complete with leave entitlements and other workplace protections; and those workers in insecure arrangements.

Insecure work has been defined as poor quality work with little economic security or control over working conditions; it has increased dramatically over the past two decades.<sup>74</sup> Casual, fixed-term, and independent contracting arrangements are more likely to be insecure forms of employment. Not all workers in these forms of employment are in insecure work, but their work is more likely to be insecure because they have less control over their conditions of employment as they have fewer legal protections or entitlements.

### Department of Human Services worker:

*The biggest problem in my opinion is the insecurity in the job market itself which is a disincentive to some recipients to go off payments as they desire the income security aspect more than the actual payment amount due to unreliable employment; i.e. the safety net aspect.*<sup>75</sup>

Of the 11,353,400 people employed in Australia as at November 2011, 19.3% are casual employees and a further 9% are engaged in contracting arrangements. The ABS estimates that 40% of all contractors are dependent, rather than independent, contractors<sup>76</sup>, meaning they have no authority over their own work and are economically dependent on a single client.<sup>77</sup> The composition of Australian employment is shown in Figure 57. Of those employed persons who are employees (ie. not independent contractors or business operators), around a quarter do not have paid leave benefits, and are thus assumed to be casual employees.<sup>78</sup> The rising share of casual employment is shown in Figure 58.

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<sup>74</sup> Independent Inquiry into Insecure Work, *Lives on Hold: Unlocking the potential of Australia's workforce*, Australian Council of Trade Unions, Melbourne, 2012, p.14.

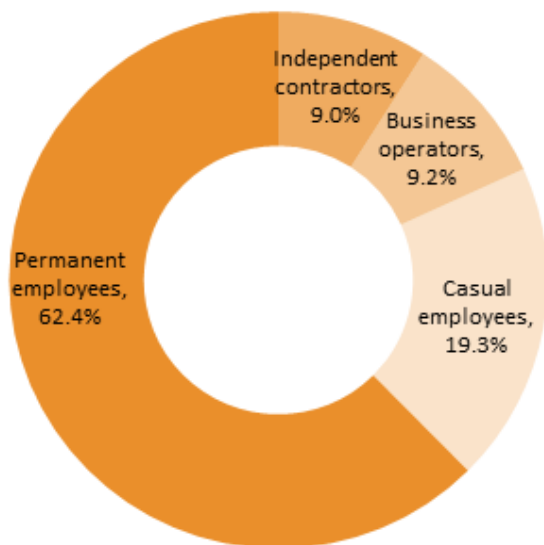
<sup>75</sup> See Appendix A for further information about the CPSU survey of members at DHS.

<sup>76</sup> Australian Bureau of Statistics, *Forms of Employment*, Cat no. 6359.0, ABS, Canberra, November 2011.

<sup>77</sup> Independent Inquiry into Insecure Work, *op cit.*, p. 16.

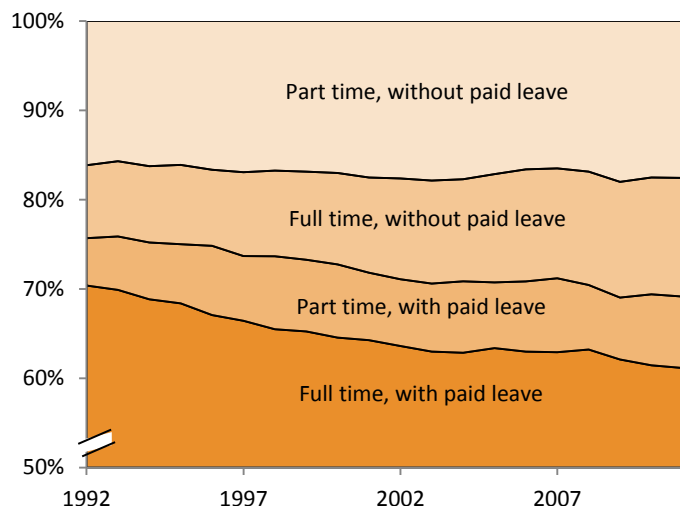
<sup>78</sup> Traditionally, casual employees are employees engaged on a non-systematic, irregular or temporary basis, with no expectation of ongoing work or regular hours.

**Figure 57: Employed persons in Australia**



Source: ABS 6359.0

**Figure 58: The changing composition of employment**



Source: ABS 6105.0

Many 'permanent' employees with paid leave benefits are still engaged in insecure employment, through fixed-term contracting or labour hire arrangements. Employees on fixed term contracts account for 4% of the labour market, although they tend to be concentrated in particular industries, such as education, where 31% of all workers are on fixed-term contracts.<sup>79</sup> Approximately 5% of workers are engaged through a labour hire company, although only a quarter of these workers are in a direct employment relationship with the labour hire company.<sup>80</sup>

Casual employment has increased steadily over the years, particularly for men. From 1984 to 1989, the proportion of male workers in casual employment grew from 9.4% to 13.1%, before steadily increasing in the 1990s to 23.6% by 2001.<sup>81</sup> The increase has been less marked for women, who have always had a higher incidence of casual employment; from 25.7% in 1984, to 29.3% in 1989 and 31.5% in 2001.<sup>82</sup> Casual employment across both genders has steadily increased from 23% in 1994 to 26% in 2004.<sup>83</sup> However, these figures mask the real incidence of precarious employment, which also includes some workers on fixed term contracts, contracting and labour hire arrangements.

<sup>79</sup> Australian Bureau of Statistics, *Forms of Employment*, *op. cit.*

<sup>80</sup> Independent Inquiry into Insecure Work, *op cit.*, p. 16.

<sup>81</sup> Australian Bureau of Statistics, *Year Book Australia*, Cat. No 1301.0, ABS, Canberra, 2006

<sup>82</sup> *Ibid.*

<sup>83</sup> *Ibid.*

### Department of Human Services worker:

*Most jobs these days are casual or part-time, so a person on Newstart Allowance is more likely to hold a job like that. It's a vicious circle between ensuring enough hours to get the minimum wage, but not enough hours to get off Newstart Allowance. Also when a casual, they don't get paid for sick days or holidays, so they continue working or don't get paid.*<sup>84</sup>

Australia now has the second highest rate of casual and temporary workers in the OECD, behind only Spain, a country which is heavily reliant on temporary seasonal workers in their agriculture industry.<sup>85</sup>

### Why insecure employment is problematic

#### Key points:

- Employment *per se* is no guarantee of a predictable income and the ability to plan your time.
- Poor quality jobs can erode health and well-being.
- While some workers use insecure jobs as 'stepping stones', many remain stuck in these arrangements for years.
- The rise of insecure work means that the assumptions underpinning the allowance system may no longer be appropriate.

The ACTU has become increasingly concerned with the growing number of workers in precarious employment. In 2011, the ACTU launched the Inquiry into Insecure Employment, chaired by former Deputy Prime Minister Brian Howe, to investigate the impact of the changing labour market on workers' job security, rights and entitlements. More than 500 submissions were received, many from individual workers in insecure work arrangements. The Inquiry also heard from dozens of witnesses at 25 hearings in 23 towns. It found that casual and insecure employment denies workers the opportunity to engage in the workforce through meaningful, long-term employment. Insecure workers also find it difficult to plan for the future, because they cannot rely on a regular income.

While employment usually leads to positive outcomes for individuals and society<sup>86 87</sup>, poor quality employment can be harmful and exclusionary. An Australian National University study by Leach, Butterworth, Strazdins, Rodgers, Broom, and Olsen found that:

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<sup>84</sup> See Appendix A for further information about the CPSU survey of members at DHS.

<sup>85</sup> Organisation for Economic Co-operation and Development, 'Chapter 3: Taking the measure of temporary employment', *OECD Economic Outlook*, OECD, 2002.

<sup>86</sup> Australian Social Inclusion Board, *Social Inclusion in Australia: How Australia is Faring*, Second edition, Australian Government, Canberra, 2012, p.5.

<sup>87</sup> D Hetherington, *Unlocking the Value of a Job: Market Design in Employment Services*, Per Capita, Surry Hills, 2008.

*Good quality work is an important pre-requisite for positive health outcomes.*

...

*[N]ot all jobs are beneficial to health. Indeed, jobs with poor working conditions can erode health and well-being.<sup>88</sup>*

Insecure jobs are more likely to be poor quality and poorly paid, with no real flexibility or opportunity for career advancement. This has been noted by a number of academics, including Watson et al. who state that “the growth in casual employment raises the prospect of creating a large pool of ‘second-class industrial citizens’”,<sup>89</sup>

There are limited legal protections for insecure workers. For example, under the *Fair Work Act 2009* (the FW Act), all businesses are exempt from unfair dismissal for the first six months of employment (12 months for businesses with fewer than 15 employees), and casuals have no access to unfair dismissal at all. Moreover, contractors are not classified as national system employees and therefore exempt from the FW Act in its entirety, including unfair dismissal and unlawful termination provisions. Because of these restrictions, it is easier for workers in insecure employment arrangements to lose their jobs.

## Labour market flows and transitions

### Key points:

- There are significant flows between labour force states. Nearly half of all people who were unemployed in June 2012 were no longer unemployed in July 2012.
- People are now more likely to move in and out of employment at different stages of their life.
- The rise of insecure work means that more workers are ‘churning’ through the income support system, moving on and off payments.

The Australian labour market is highly dynamic. As Freebairn puts it, “the Australian labour market is in a constant state of adjustment to external and internal shocks. Changes in aggregate demand, tastes and preferences, technology, institutions and government policies, and world trade conditions are examples of

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<sup>88</sup> L Leach *et al.*, ‘The limitations of employment as a tool for social inclusion’, *BMC Public Health*, vol. 10, no. 621, 2010.

<sup>89</sup> I Watson, ‘Bridges, traps & half-way houses: Casualisation and labour market transitions in Australia’, paper presented to 13th Path to Full Employment/18th National Unemployment Conference, Newcastle, 7-8 December 2011.

secular, cyclical and random forces for change”.<sup>90</sup> The dynamism of the labour market can be seen in the number of ‘gross flows’ between labour force states.

The labour force figures are usually reported in terms of net changes. For example, there were 8 064 500 full time workers in June 2012 and 8 073 700 full time workers in July, and thus there was a net growth in full time work of 9 200 persons between the months. This net change in full-time employment conceals far large ‘gross flows’ between labour force states. In the same one month period, around half a million workers moved from full-time work to part-time work or unemployment or left the labour force, and around half a million moved from one of these labour force states to full-time work.<sup>91</sup>

**Table 7: Gross flows between labour force states: June 2012 to July 2012**

		July 2012			
		Employed Full time	Employed Part time	Unemployed	Not in the Labour Force
<b>June 2012 (% and 000s)</b>	Employed Full time	93.5% 7485.1	4.6% 367.0	0.5% 40.9	1.4% 114.7
	Employed Part time	11.8% 406.0	80.6% 2767.9	1.2% 42.2	6.3% 216.8
	Unemployed	6.8% 40.3	10.3% 61.3	57.2% 339.1	25.6% 151.7
	Not in the Labour Force	1.7% 108.4	3.2% 207.2	2.4% 154.5	92.8% 6044.3

Source: ACTU calculations based on ABS 6202.0. These estimates are illustrative and approximate, based on a subset of the full labour force sample.

Only around 57% of people who were unemployed in June 2012 remained unemployed in July. Of the remainder, a small majority left the labour force. Around 10% of unemployed people in June were employed part time in July, and around 7% were employed full time. People who were employed part time in June were over twice as likely to be unemployed in July as people who were employed full-time in June. Part time workers are also much more likely to leave the labour force month-to-month than full-time workers.

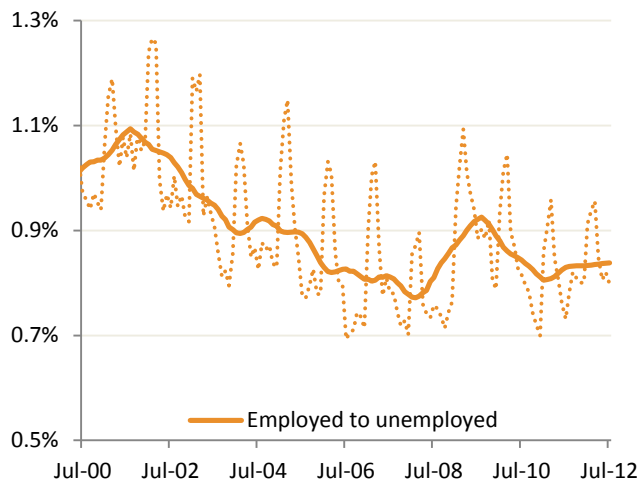
The gross flows between June and July 2012 are typical of the longer term trends. People are more likely to move between part time work and unemployment (in both directions) than between unemployment and full-time work. Substantial numbers of people move into and out of the labour force each month. The trends in monthly gross flows are shown in Figure 59 to Figure 64. They show the proportion of people who left a particular labour force state (eg. employment) in one month and moved to another state (eg. unemployment) in the following month.

<sup>90</sup> J Freebairn, ‘Microeconomics of the Australian Labour Market’ in G Debelle & J Borland (eds.), *Unemployment and the Australian Labour Market*, Proceedings of a conference held at the HC Coombs Centre for Financial Studies, Reserve Bank of Australia, Sydney, 1998, p.110.

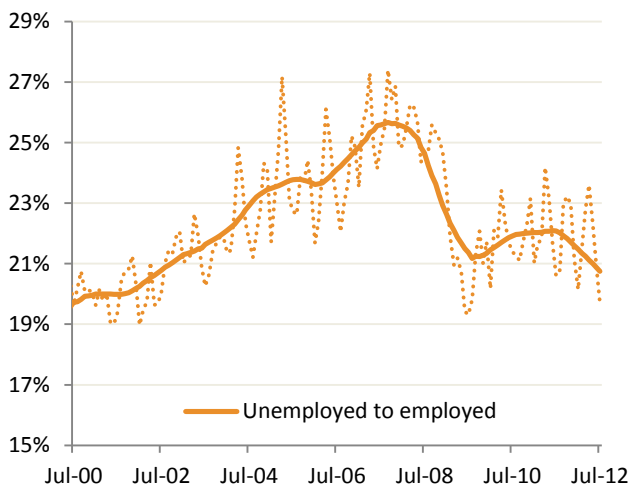
<sup>91</sup> The ABS labour force ‘gross flows’ are measured using a matched sample that is around 7/8ths the size of the full labour force sample. The figures given here and in Table 7 have been ‘grossed up’ on the assumption that the flows of the matched sample are representative of the full sample (and thus of the population). The estimates should be regarded as illustrative and approximate.



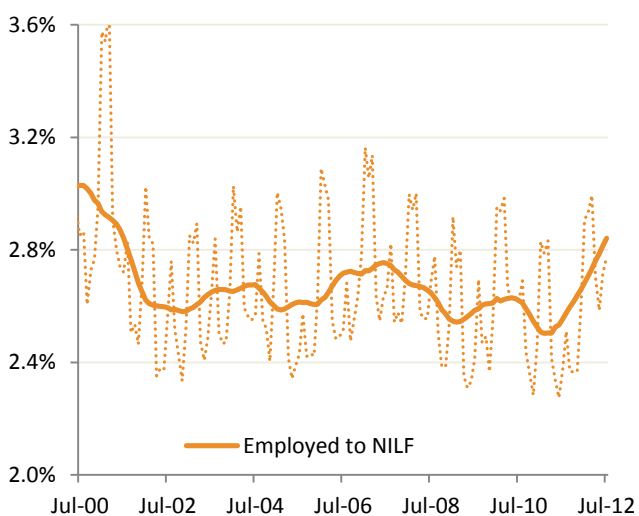
**Figure 59: Gross monthly flows from employment to unemployment**



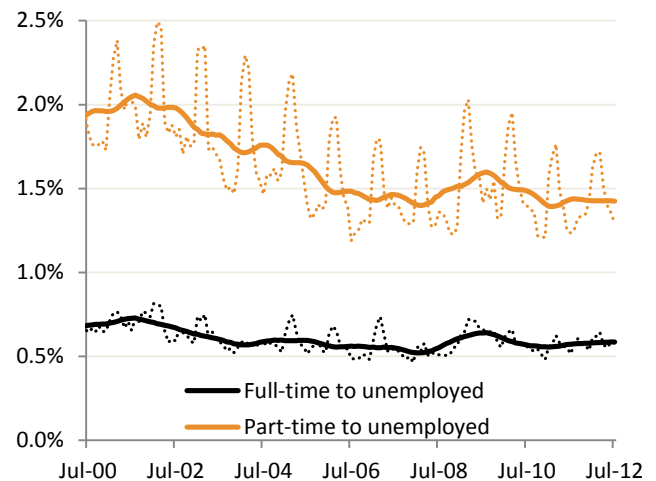
**Figure 61: Gross monthly flows from unemployment to employment**



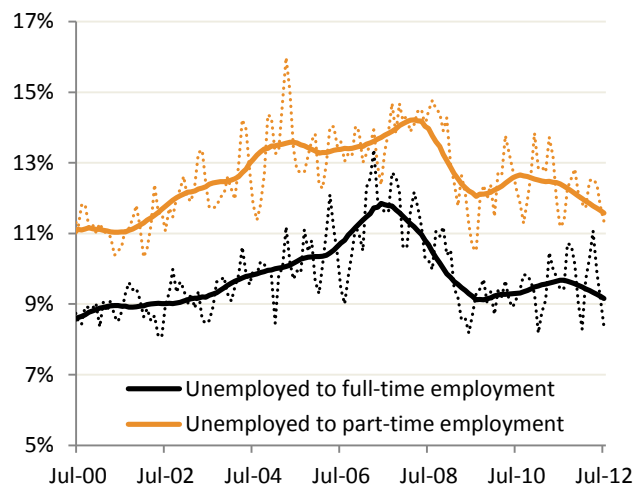
**Figure 63: Gross monthly flows from employment to 'not in the labour force'**



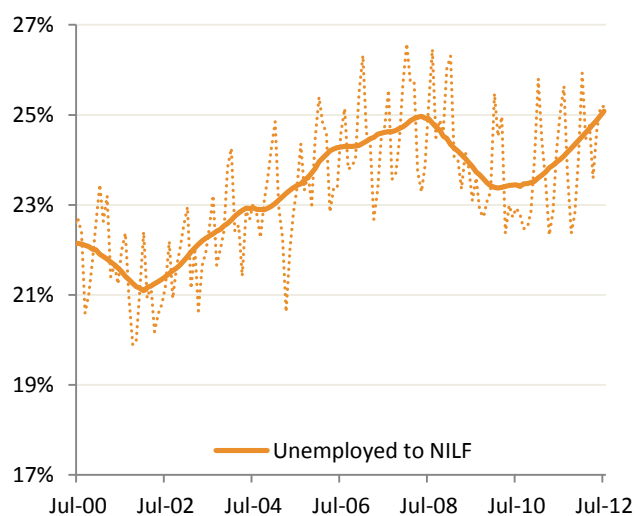
**Figure 60: Gross monthly flows from employment to unemployment (by employment type)**



**Figure 62: Gross monthly flows from unemployment to employment (by employment type)**



**Figure 64: Gross monthly flows from unemployment to 'not in the labour force'**



Source: ACTU calculations based on ABS 6202.0. The faint dotted lines in these figures are 3-month trailing moving averages. The darker lines are trends estimated from the original data using LOESS regression, alpha=0.15.

The traditional work/life transitions, from education to full-time employment and then into retirement, has changed. People are now more likely to move in and out of employment at different stages of their life, taking into account family-based activity as well as periods of unemployment, ongoing education, and retirement (which may include a transition period of continuing employment).<sup>92</sup> These transitions may occur by choice; for example, women may take extended time out from the workforce to fulfil caring responsibilities. However, there are also more instances now of people moving in and out of employment through circumstances beyond their control.

During the recent Global Financial Crisis (GFC), the Australia at Work survey found that the majority (82%) of men in work in the 24-44 age category maintained continual employment from 2005-2009, compared to only 67% of comparable women. Of those women who reported continual employment, only 35% reported continual *full-time* employment, indicating a reduction in hours worked for a large number of women. As the survey notes, “this has serious implications for women’s financial security and their eventual retirement incomes.”<sup>93</sup> The survey also noted that job changes were more frequent among workers in insecure employment; in 2009, workers with stable jobs and no job changes were most likely to be permanent employees (69%) or self-employed (21%).<sup>94</sup>

It is becoming more common for people to transfer between different types of allowances and pensions to meet their needs at different stages of their life. The Henry Tax Review provided a detailed analysis of interactions and transfers between different payment types. In 2008:

- 307,500 people transferred between categories of working-age income support
- The majority of these transfers were to Carer Payment and DSP
- 57,000 people transferred from Newstart Allowance to DSP, Carer Payment, or Parenting Payment Single
- 682,100 people exited income support
- 870,900 people entered the income support system
- 60% of people have been on Newstart Allowance for less than one year
- 135,000 people have been on Newstart for more than two years
- There were significant movements between Newstart Allowance and Youth Allowance, reflecting movements due to commencement or cessation of full-time study

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<sup>92</sup> G Schmid, ‘Towards a theory of transitional labour markets’ in *The Dynamics of full employment: social integration through transitional labour markets* in G Schmid & B Gazier (eds), Edward Elgar, Cheltenham UK, 2002

<sup>93</sup> van Wanrooy *et al.*, *Australia at Work: In a Changing World*, University of New South Wales, Sydney, 2009, p. ii

<sup>94</sup> *Ibid.*, p. 30

In discussing these transfers, the Henry Review reflected that:

*From one point of view the large number of transfers between working-age payments shows that the income support system is responsive to changing personal circumstances. However, it also suggests there is a large group of people with a similar capacity to work who receive very different levels of income support.*<sup>95</sup>

It is becoming increasingly common for workers to move off income support into part-time, rather than full-time, employment. Many workers in this situation might prefer full-time employment, but will accept part-time employment if it becomes available. There is some debate over whether the move from unemployment into part-time or casual work acts as a stepping stone to long-term work, or whether it acts as a revolving door for workers moving in and out of employment.

Low-paid jobs can serve as stepping stones, allowing people to acquire and develop their skills and experience and eventually move into full-time employment. However, not all part-time or casual employment acts as a stepping stone to long-term employment. The Australia at Work survey found that 25% of all survey respondents who found work after being unemployed in 2008 subsequently lost their job within 12 months. In addition, 11% of casual employees lost at least one job between 2008 and 2009.

Van Wanrooy, et al., point to this as:

*[E]vidence of organisations shedding casual workers, who are often regarded as the most vulnerable employee group in times of economic instability....*

*Jobs without paid leave entitlements in Australia are just as likely to play the role of conveyor belt out of the labour market as they are to be an escalator up to better and brighter jobs.*<sup>96</sup>

This increased incidence of multiple employment episodes is known as 'job churning'. The DFCS report notes that job churning is more common for those on Newstart Allowance than it is for those on other forms of income support, such as Parenting Payments.<sup>97</sup> There has also been some criticism of the structure of incentive payments to employment service providers, as the same incentives are paid regardless of whether a

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<sup>95</sup> Australia's Future Taxation System Review, 'Chapter F: The Transfer System', *op cit*.

<sup>96</sup> Van Wanrooy *et al.*, p. 54.

<sup>97</sup> Department of Family and Community Services, *Policy Research Paper no. 12: How do income support recipients engage with the labour market?*, p. x.

client is placed in short-term or long-term employment, thereby increasing the incidence of job churning among the unemployed. Recent reforms to the Job Services Australia (JSA) system have mitigated this somewhat by focusing more on outputs and providing more flexibility in tailoring an employment programme to the needs of the jobseeker.<sup>98</sup> However, the system is largely driven by short-term, rather than long term, outcomes and incentives. A possible option to improve this system would be to offer JSAs further incentives or bonuses if jobseekers remain in their employment 12 months after placement.

**Department of Human Services worker:**

*Whilst many employers arrange their employment practices ethically and build up the community of employees and customers that enable their business to succeed, some hire, fire or keep employees hanging by the phone in hopes. This last category of employers is effectively beneficiaries of the allowance payment system, because employees who top up their low earnings with benefits may not be wary of the anodyne effect, financially. They can be desensitised to the need to have a better paying, more secure job because at least they get some help. The employer can experience less guilt about providing inadequate hours for employees to make a reasonable living, because a payment system is there, even if it does not entirely compensate for the employers omission.<sup>99</sup>*

The increasing frequency of interactions with income support as a result of transitions in the labour market generates significant additional administrative costs on the government. The aim of the allowance payments system should be to promote long term attachment to the workforce, not just a short-term exit from income support.

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<sup>98</sup> Australian Council of Social Service, *Towards more efficient and responsive employment services: submission to APESA, ACOSS, Strawberry Hills, 2012*, p. 5.

<sup>99</sup> See Appendix A for further information about the CPSU survey of members at DHS.

## The design of the allowance payment system

A number of changes have been made to Newstart Allowance over the years, including the reductions in taper rates and the recent loosening of the liquid assets test. However, further changes are needed to ensure that the allowance payment system is appropriately designed for the contemporary labour market.

### Changes to the income support system

#### Key points:

- Changes to the income support system have been made over the years to reflect the changing labour market.
- However, these changes may not have been sufficient to ensure an income support system that meets its objectives of poverty alleviation and assistance into employment.

The income support system has been modified a number of times over the years, partly to accommodate the changes to the labour market. The AFTS Review notes several of these changes:

*Partners of the unemployed have been required to claim income support payments in their own right. Payments made to women because they were wives of age or disability pensioners or partners of allowance recipients have been closed to new entrants. Payments to single parents, introduced in response to the rising incidence of single parenthood and concerns about poverty in that group, have been adjusted in line with increasing rates of workforce participation of mothers and women more generally.<sup>100</sup>*

The administration of income support has also undergone some revision in line with a new emphasis on activation and mutual obligation. Monitoring and compliance activities have intensified over the past two decades.<sup>101</sup> In the 1980s, Australia introduced activation requirements to unemployment benefits, with welfare recipients required to report on their job search activities. This was followed by the introduction of activity agreements in 1991, and the Work for the Dole scheme in 1997.<sup>102</sup> Work for the Dole was not a

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<sup>100</sup> Australia's Future Taxation System Review, 'Chapter F: The Transfer System', *op cit*.

<sup>101</sup> N Cooper, 'A review of Australian government labour market policies since 1945', Working Paper, HC Coombs Policy Forum, The Australian National University, 2011.

<sup>102</sup> Department of Family and Community Services, *Occasional Paper No. 6: The Australian system of social protection—an overview*, report prepared by P Whiteford & G Angenent, DFCS, Canberra, 2001.

success, with research finding that it reduces job search activity and is therefore more likely to 'lock in' participants into long-term unemployment.<sup>103</sup>

There has been an increasing focus on training activities as a means of increasing the skill levels of the unemployed. Generally, the emphasis on employment assistance has been effective, since activity requirements combined with strong training and support can improve skills and work experience and thereby overcome some of the major barriers to employment.<sup>104</sup> However, a focus on job search assistance alone is less likely to lead to long-term employment than a capacity-building approach, particularly for more disadvantaged jobseekers who have spent a long time in unemployment.

### Individual interactions with the allowance system

#### Key points:

- The current allowance system is not well equipped to deal with individual interactions with the allowance system, with an onerous application process that recipients must undertake each time they move on and off income support.

To apply for Newstart Allowance, recipients must first lodge an intent to claim, which can usually be done over the phone, although a number of forms must also be filled out and signed, necessitating a visit to a Centrelink office. To be approved, applicants must provide evidence of their income and assets. If an individual has more than \$5000 in savings (\$10,000 for a couple or for an individual with dependents), he or she must serve a Liquid Assets Waiting Period (LAWP) of up to 13 weeks.<sup>105</sup> This threshold was increased on 1 July 2012 from a lower amount of \$3000, which the ACTU welcomes. The AFTS Review noted that the LAWP acts as a disincentive to save, and therefore recommended that it be removed entirely.<sup>106</sup>

There is also an Income Maintenance Period (IMP) if the applicant received any annual leave, severance pay or notice payments on termination. Any payout received is treated as weekly income and delays the start of Newstart Allowance by a corresponding number of weeks. There is no 13 week maximum for the IMP and it is not considered a waiting period, so if, for example, an applicant receives a payout equivalent to 40 weeks'

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<sup>103</sup> J Borland & Y Tseng 'Does 'Work for the Dole' work?', Melbourne Institute Working Paper No. 14/04, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, Melbourne, 2004.

<sup>104</sup> P Davidson, *op. cit.*

<sup>105</sup> All information on allowance eligibility, application process and waiting periods from Department of Families and Housing, Community Services and Indigenous Affairs, *Guide to Social Security Law*, v. 1.188, Australian Government, Canberra, 2012.

<sup>106</sup> Australia's Future Taxation System Review, 'Chapter 12: List of recommendations', *Australia's Future Tax System: Report to the Treasurer*, Australian Government, Canberra, December 2009.

salary, they are required to wait 40 weeks before they can claim Newstart Allowance, even if they have run out of money during this time. Applicants can apply for a full or partial waiver from the LAWP on financial hardship grounds, but there is no equivalent exemption from the IMP. The ACTU considers the IMP unnecessary given the existence of the LAWP. If an applicant receives a payment on termination and that payment exceeds \$5000 then they will already be required to serve the LAWP, making the IMP an unnecessary duplication with no safeguards for applicants who have run out of money and have no income.

**Recommendation:**

- A future independent inquiry should examine the Liquid Assets Waiting Period and the Income Maintenance Period.

It should also be noted that Centrelink requires applicants to provide an Employment Separation Certificate from their employer as evidence of any payments on termination; however, the FW Act contains no provisions for an Employment Separation Certificate, meaning that employers are not legally obligated to provide one on termination. The Centrelink requirement places the onus on the terminated employee to pursue their former employer for a document that the employer has no legal obligation to provide. The ACTU would recommend allowing appropriate alternative arrangements for applicants whose employers have not provided them with an Employment Separation Certificate on termination, such as a statutory declaration.

**Recommendation:**

- Allow workers who have not been provided with an Employment Separation Certificate to provide a statutory declaration to the same effect.

The application process is even more complex if you are a casual or seasonal worker or have been working as a contractor. Seasonal and temporary workers are subject to a Seasonal Work Preclusion Period (SWPP). Any employee engaged in seasonal, temporary or fixed term work who earned above the average weekly ordinary time earnings (AWOTE) is subject to an additional waiting period. This is based on the number of weeks they would have been paid for the same amount of work at the AWOTE. Like the IMP, there is no limit to the duration of the SWPP, although unlike the IMP it may be waived on severe financial hardship grounds. Even though they may be earning no income during this time, seasonal workers are not entitled to a Health Care Card during their preclusion period.

It should be noted that full-time employees are not subject to an equivalent additional waiting period, even if they previously earned above the AWOTE. Although the SWPP is in place as an integrity measure, the ACTU is

concerned that the SWPP may unfairly disadvantage casual and insecure workers in comparison to those formerly in secure full-time employment.

**Recommendation:**

- A future independent inquiry should examine the Seasonal Work Preclusion Period.

Once on the Newstart Allowance, there is a Working Credit system in place which allows recipients to keep more of their income before having their payment reduced when they obtain work. There is evidence that the scheme has had some success. Wilkins and Leigh “find evidence that the introduction of the Working Credit increased employment rates, earnings and exits for those on income support” and did so at a lower fiscal cost than other schemes, although data limitations precluded an examination of the effectiveness of the scheme in increasing long-term outcomes for income support recipients.<sup>107</sup>

There is considerable merit behind the basic idea of a scheme that increases the net income that recipients can retain upon returning to work, and particularly a system such as Working Credit that provides the greatest benefit to those who have been on unemployed for longer periods. However, the ACTU believes that a future inquiry into the income support system should examine ways to make the system simpler and easier to understand, as well as boosting the amount of assistance it gives to recipients.

**Department of Human Services worker:**

*Use of the kiss principle - "keep it simple stupid" - would be great. That refers to the policy and the language of the policy.*<sup>108</sup>

The system allows Newstart recipients to accrue a maximum of 1000 working credits at the rate of up to 48 credits per fortnight where they do not earn any income. At this rate, it would take 21 fortnights, or nearly a year, of total unemployment before 1000 Working Credits are accrued. Assuming that a recipient managed to accrue 1000 Working Credits, this would allow them to earn \$1000 in income before their payments were affected. At the current full-time minimum wage of \$606.40 a week, it would take just over eight days before the Newstart Allowance was affected. Even if a recipient starts off with a full Working Credit balance, the credits are rapidly depleted once a person obtains full-time work; at that point, the income test would reduce their payment to zero.

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<sup>107</sup> R Wilkins & A Leigh, ‘Effects of temporary in-work benefits for welfare recipients: An evaluation of the Australian Working Credit Program’, *Fiscal Studies*, (forthcoming).

<sup>108</sup> See Appendix A for further information about the CPSU survey of members at DHS.



An increase in the maximum balance and the rate of accrual of Working Credit may act as an additional incentive for recipients of Newstart Allowance to seek work. From 1 July 2012, the Working Credit Balance for jobseekers under 22 years of age on Youth Allowance was increased from 1000 to 3500 credits. The ACTU believes there may be merit in increasing the Working Credit Balance of the Newstart Allowance to 3500 credits to bring it in line with the jobseeker Youth Allowance.

**Recommendation:**

- A future independent inquiry should consider the design of the Working Credit system, including its complexity, the maximum credit balance, and the rate of accrual of credit.

Once a recipient has left the allowance payment system, they must reapply if they lose their employment. They also lose their entitlement to their Health Care Card after a period of time (assuming they are not eligible for the Low Income Health Care Card, which has a low threshold), meaning that they face additional public transport costs, and may lose their place in the queue if they are booked in for any procedures through the public health or dental systems.

This can act as a disincentive to apply for short term or temporary positions, thereby negating any potential 'stepping stone' effect that these roles might have. The ACTU believes there may be merit in allowing individuals moving off the income support system to be entitled to retain their Health Concession Card for a longer period of time after gaining employment. This could be restricted to individuals who have spent at least a year on income support. Six months would be an appropriate time frame given that businesses with more than 15 employees are exempt from unfair dismissal laws in the first six months of employment, and this is also a standard probation period in some workplaces. As noted above, there should also be special exemptions for fixed term contractors and others who reapply for income support within a short time frame. The ACTU would suggest that the application process be streamlined as far as possible for any individual who loses their employment within a year of exiting income support. These measures would help to assure income support recipients that if they take up work, and the job doesn't last, their incomes will be adequately protected by the system.

**Recommendations:**

- Individuals who leave the income support system and gain full-time employment should be entitled to retain their Health Care Card for a longer period. This would be of particular merit in the case of long-term payment recipients.
- The payment application process should be streamlined for workers who lose their jobs within a year of exiting income support.

## The inadequacy of the income reporting system

**Key points:**

- The income reporting rules can be difficult for payment recipients to understand and comply with.

The income support system includes onerous and complex income reporting rules that can be difficult for income support recipients to understand and comply with, particularly for those whose income varies from one fortnight to the next.

On Newstart Allowance, recipients must report their earnings every fortnight. The start and end dates for the income reporting period are predetermined by Centrelink, based on dates that are sent out every 12 weeks as part of a Reporting and Income Statement. Recipients must report their income during a Centrelink reporting period which may straddle more than one pay periods from their employer, meaning they have to match up earnings across multiple pay periods. The onus is placed on income recipients to calculate their hours and income across multiple pay periods, which requires a high degree of functional numeracy and financial literacy to do correctly. This is a particular issue for insecure workers who may have multiple employers for which they must calculate multiple hours and earnings.

Furthermore, income must be reported in gross, rather than net, amounts, which can be very confusing for many recipients, particularly if they haven't yet received a payslip from their employer. In this instance, recipients are advised to estimate their earnings during the Centrelink reporting period by keeping a logbook of all hours worked for each employer, then multiplying the number of hours worked with the before tax hourly rate. However, this system does not account for the payment of penalty rates, overtime, or shift loadings, all of which can vary the hourly rate of pay. The fortnightly income reporting system leads to inefficiencies as recipients with varying pay and hours are required to contact Centrelink twice in each reporting period; first, to provide an estimate of the earnings in that fortnight, and again, to correct the estimate with an exact figure.

Moreover, although employers are legally obligated to provide their employees with a pay slip within one business day of payment under the FW Act, in reality many employers do not provide their employees with payslips. This makes it virtually impossible for recipients to estimate their earnings before tax.

Another problem is that the Centrelink reporting period is based on an accrual method, rather than a cash method, of accounting. This means that recipients must declare their earnings based on their hours worked, even when they haven't yet received payment for that work. A recipient's payment may be reduced or cut off based on these reported earnings before being paid by their employer, with employers only obligated to pay their employees on a monthly basis under Section 323 of the FW Act. This could place the recipient in financial hardship for that fortnight or month.

It is difficult for workers, particularly those in insecure employment, to accurately report their earnings to Centrelink on a fortnightly basis. If earnings are accidentally underreported in a particular reporting period, this can lead to an overpayment of the Newstart Allowance. The repercussions of an overpayment are potentially severe; once identified, the recipient is forced to pay this back, even if the mistake was partially caused by an administrative error on the part of Centrelink staff. Recipients can make a payment arrangement with Centrelink to repay a debt over a period of time; however, even a small debt repayment can leave recipients vulnerable by stretching their budgets to breaking point. If a recipient does not pay back their debt, Centrelink has the option to prosecute. Prosecution occurs quite frequently; for example, in 2009-2010, Centrelink prosecuted 3461 cases.<sup>109</sup> In extreme cases, Centrelink prosecutions can lead to criminal sanctions, resulting in a criminal record and further hindering recipients' job search abilities. Davidson found that "while on the face of it the legislated penalties were reduced [from the mid-1990s to the mid-2000s]; they were more frequently applied, including the maximum penalty".<sup>110</sup>

## The resourcing of the income support system

For the income support system to deliver the best long-term outcomes to its recipients, the workers administering the system, to taxpayers, and to society, it must be well-resourced. Staff must have adequate time to assist job seekers with their needs. An approach that seeks to cut costs for short-term budgetary gain will not result in the best long-term outcomes. The independent inquiry that we have called for should examine the administrative requirements of the income support system. The inquiry should make arrangements to hear the views of people who work in the income support system at DHS and elsewhere.

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<sup>109</sup> Centrelink, *Centrelink Annual Report 2009 – 2010*, Australian Government, Canberra, 2010, p. 71

<sup>110</sup> Davidson, *op. cit.*, p.59.

## Fixing the system

The recommendations made in this submission fall into two categories. First is a package of immediate reforms that are needed to make Newstart adequate. This includes a \$50 per week increase in the payment rate, a change to the indexation arrangements for allowances, an increase in the free area, and a consolidation of the taper rates.

Second, we have suggested that more wide-ranging reform to the income support system should be considered, and that an independent inquiry should be convened to examine options in depth. We have called for an independent inquiry, supported by a secretariat drawn from the relevant departments. This inquiry should consult widely and publish background research prior to submitting a report to Government.

A range of potential reform areas should be examined in further detail by this independent inquiry, including:

- The potential extension of income support to single adults working full-time.
- The merits of a system of income support that consists of a base rate and supplements for additional costs (such as those associated with disability). These supplements would have a different income test to the base allowance, and could be extended to low-paid workers. Rent Assistance, for example, could be extended to single adult full-time workers on low incomes.
- The withdrawal of allowances as individuals' earnings rise, including the operation of the Working Credit system.
- The complexity of the allowance system for recipients, and options to simplify its operation.
- The appropriateness of various aspects of the allowance system for the contemporary labour market, given the rise of insecure work
- The level of staffing and resourcing at the DHS and the impact of staffing levels on recipients' interaction with the allowance system.

### **Department of Human Services worker:**

*Simplify the types of payment. Use "universal allowance" with "universal eligibility criteria" but with different "add-ons" that are specific to different situations such as job seeker, disability, carer, student so that people can still continue to receive the "universal allowance" while they go through transitions such as from studying to looking for work or becoming ill.<sup>111</sup>*

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<sup>111</sup> See Appendix A for further information about the CPSU survey of members at DHS.

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## Appendix A: CPSU survey results summary

The CPSU conducted a survey of its members at the Department of Human Services on issues related to Newstart and the current allowance system for input into the ACTU's submission to the Allowances Inquiry.

The survey questions were based on the Terms of Reference for the Inquiry. Overall, the survey received 226 responses from members. The survey results and a selection of quotes from DHS workers are included below.

### Adequacy of Newstart

63.7% of DHS respondents do not believe the allowance payment system is adequate. Many DHS respondents commented on the inadequacy of Newstart:

*Newstart Allowance is well below the poverty line. How can a person be expected to survive and look for work without family support? They are vulnerable and can slip behind very quickly.*

*The rates of payment are inadequate when you consider accommodation costs, expenses involved in participating-phone & transport costs (even with a Health Care Card or Pensioner Concession Card) and other everyday living expenses. It is the same whether or not you are a jobseeker, student or carer. The combination of financial pressures, anxiety about the future and being the target of cruel & malicious press and radio hosts, all lead to ill-health and often a lack of self-care. Depression & anxiety are conditions that are prevalent amongst Allowance recipients.*

*The money is a disgrace in this day and age. People cannot maintain their rent payments, never mind a mortgage and the compounding impact of not eating well, stress, inability to pay for medical and dental treatment means people end up sick and the cycle keeps them out of the workforce! Their debt also spirals and they become homeless - it's an absolute disgrace! The view that we shouldn't pay a decent allowance so people will be forced into work doesn't hold water, especially currently with basically full employment and the casualisation of the workforce. Often these people have serious barriers to finding work anyway and keeping them in penury is inhumane.*

*It is an outrageously low rate of payment. Even more outrageous when there are expectations that the Newstart recipient will use some of his meagre ration to transport self to activities decreed to be compulsory conditions for continuing eligibility.*

*Newstart allowance guidelines are really only suitable for single job seekers with no other responsibilities. Anyone with family, or caring or studying responsibilities cannot meet the rigorous requirements.*

*It's too low and when the payment was introduced it was designed for short term unemployment. That is not the case anymore. It does not suit the demographic of long term unemployed people, who in all likelihood will never be employed*

*In my opinion, the payment rate for Newstart Allowance has been inadequate since at least the late 1990's, and the gap between it and other income support payments has only continued to widen since then.*

*The Newstart allowance is supposedly a payment intended to cover a short gap between paid jobs, but many people face a long time between jobs. They already begin with whatever savings they had seriously depleted by the 8 week preclusion period. Having \$0 in the bank means every cash flow problem is a crisis. Even with a modest increase in Newstart allowance for long term unemployed, there remain many other incentives to find paid work. Most people who are long-term unemployed are not lazy - they have genuine disadvantages and barriers beyond their control*

A number of respondents also commented about their personal experience working with Newstart recipients and seeing how they have struggled:

*I have personally witnessed people living in extreme poverty with this allowance. It does not even attempt to cover current rent prices. There is no money for food or basic living expenses.*

*I have been working with jobseekers struggling on these incomes for decades. It is distressing to see them starving, living completely on coffee in order to pay the rent, having little to no food, and their health going into serious decline. If they already have health issues they always deteriorate and it's a one-way street to Disability Support Pensions. Its way below the cost of living and does not value human beings basic rights. How people survive on these incomes is beyond me, and the expectation that they will get back into the workforce is one of the biggest jokes around, due to the severe erosion of their living circumstances due to these poor supports*

*The current amount of Newstart Allowance barely covers rent payments and leaves the receiver living below the poverty line. I am seeing more claims for customers who are homeless and in receipt of Newstart Allowance. It is very easy to slip into this lifestyle when there are is no family support and the longer a person is in receipt of Newstart Allowance the worse their financial situation becomes.*

## Incentives to work

DHS respondents were asked whether they thought the current system created effective incentives to work. 66.8% do not believe the current system creates effective incentives to work. Many stated that the current system of referrals for job seeker assistance has not been effective or met the needs of clients:

*The current system of referrals to job service providers are a waste of time, with the majority of providers doing nothing for a customer looking for work.*

*The Job Network members are not very helpful for Indigenous and disadvantaged customers. Many have literacy issues and social problems. We need to be addressing those so that they are in a better position to apply for positions. Not many unskilled jobs around any more that people can apply for.*

*The Job Seeker Assistance Provider network is profit driven, not customer needs driven. Irrespective of the actual payment, this is an integral part of the system and the part that is letting us down*

*Unless a person is long term unemployed Job Services Australia will not assist. Often Job Services Australia has no interaction with the customer for 13 weeks. This impacts on the customer and their incentives/self esteem. It also gives incentive for customer to be longer term unemployed to obtain support from Job Services Australia.*

Many respondents identified financial disincentives that currently exist with Newstart allowance:

*The system does not result in significant incentives to gain and maintain work and in some instances if clients have to travel significant distances for employment it can be a financial disadvantage to undertake low paid work.*

*The minimal level of payment means that most recipients are concentrating on living expenses and reducing expenditure not looking for employment.*

*The reporting of income is so difficult many people give up because they try and report and there are system glitches or they are on hold on the phone for hours, they end up getting cut off payments because they haven't supposedly reported correctly. The person just gets so stressed, they give up and find it easier to stay on benefits. The problems with under-staffing at Centrelink are really impacting on customers, especially those on Newstart. Many people on Newstart have medical conditions including significant mental health issues. I have personally tried to call up with several of my clients on Newstart and got really frustrated and stressed myself!!*

*The difference acts as a disincentive to work for those on a pension who believe that they will suffer financial hardship if they are forced onto an allowance at a lower rate if/when their job does not work out.*

*The difference in the rate of payment is so much (including single and partnered rates) that long term income support recipients will look at any way to increase the amount of money in their home, and will go to any length to make sure this happens.*

*Moving to Newstart when a child reaches a particular age is a huge cut from Parenting Payment Single for people. The differences between payments are ludicrous. Payments should be a flat rate for single or married people plus add-ons for children or caring. We should not discriminate by payment type. The payments are for people to live on so why should they be different rates?*

*Disability Support Pensions are an eagerly sought after payment as it is much more than Newstart allowance. Changes to Disability Support Pension qualifications have seen huge increases in appeals and workloads and long term Newstart allowance recipients are causing increased workloads and subsequently delays with increased customer aggression.*

Some respondents identified insecure work as a major disincentive. They commented that often clients fear the inability to get secure, long-term work while losing their entitlements.

*The biggest problem in my opinion is the insecurity in the job market itself which is a disincentive to some recipients to go off payments as they desire the income security aspect more than the actual payment amount due to unreliable employment; i.e. the safety net aspect.*

*Most jobs these days are casual or part-time, so a person on Newstart Allowance is more likely to hold a job like that. It's a vicious circle between ensuring enough hours to get the minimum wage, but not enough hours to get off Newstart Allowance. Also when a casual, they don't get paid for sick days or holidays, so they continue working or don't get paid. Low income or take time off, just deciding on that is stressful.*

*People are often reluctant to move from a pension into full-time work in case they are unable to sustain the work and do not want to risk losing the associated benefits and entitlements*

## Transition between work and other activities

61.3% of respondents to the survey do not believe the current system creates effective incentives to facilitate transitions between work and other activities or in the event of illness or help to overcome barriers to employment.

*In my opinion, the allowance system is not well geared to some transitions. It is geared to employment compliance, and those with short term medical conditions. It does not cater well for customers who are not in a position to gain full-time employment who have ongoing medical issues but do not qualify for Disability Support Pensions, especially psychological barriers. The system does not recognise to a sufficient extent that some recipients will never be able to hold down full-time or even part-time stable employment because they have conditions which affect motivation and have difficulties interacting with others for various reasons. They are regarded often as malingerers and fall foul of compliance regimes, in my opinion often through no fault of their own.*

*The current allowance system does not provide effective incentives that facilitate transitions between working and other activities. Nor does it help the sick or disabled to overcome barriers to employment. The system is designed to make things as difficult as possible for those who need it to qualify in the first instance and then to continue to remain eligible the system forces them to jump through hoop after hoop. There are staff who genuinely try to assist the needy and cannot as the bureaucracy prevents it.*

*The system is confusing, unwieldy, misunderstood and in a state of constant flux.*

*The Job Network system is punitive, and lacks inducements for clients to move into employment. Making people wait an hour to get through to Participation Solutions Team when they have missed a job service provider appointment is unfair, and feels like punishment. There are also not enough disability support services to help people with mental health and other health issues back to work. Those who are on stream 1 assistance do not receive any support from job service providers, but if they miss an appointment they have to go through hoops to have payment restored.*

*Under staffing means we do not have enough time to discuss options with customers or encourage them into new and more meaningful areas.*

*There is very little help or incentives for people to overcome barriers to employment. Job Services Australia has inadequate funding. Disability management service has cut services and vocational rehabilitation has been cut so customers no longer get any funding to help with rehabilitation so they can get back into the work force or provide extra training to get into a new field of work.*

*Because of changes to Disability Pension eligibility rules Newstart allowance has, by default, become a long term payment. Its rate as a long term payment is woefully inadequate. Disability Support Pensions changes say that even though a disability may be permanent unless a support programme has been attended the person is not eligible so they stay on Newstart allowance until they have met these requirements as well. This new rule is a little more complicated than that.*

## The impact of insecure work and lack of unskilled jobs

74.8% said that from their experience, insecure work and the lack of unskilled jobs affects the nature and frequency of interaction with the allowance payment system. A number of respondents spoke about the cycle of short-term employment causing people to go on and off Newstart.

*They are referred to locally as "revolving door claims". Employed for a few months, laid off, claim Newstart, new job, laid off, claim Newstart over & over again. The tedious round of compliance interviews can mean that a customer misses out on some work because he can't afford to not attend appointments.*

*There's a merry-go-round of people going in to short-term employment, or casual employment, and going on and off payments, to the stage where people may no longer comply with their notification requirements, and incur large overpayments because they are, quite frankly, sick of jumping through the hoops and negotiating the red tape.*

*Whilst many employers arrange their employment practices ethically and build up the community of employees and customers that enable their business to succeed, some hire, fire or keep employees hanging by the phone in hopes. This last category of employers is effectively beneficiaries of the allowance payment system, because employees who top up their low earnings with benefits may not be wary of the anodyne effect, financially. They can be desensitised to the need to have a better paying, more secure job because at least they get some help. The employer can experience less guilt about providing inadequate hours for employees to make a reasonable living, because a payment system is there, even if it does not entirely compensate for the employers omission.*

*Customers are not willing to leave 'safety blanket' of their payment with risk of losing entitlement of health care or pension card or incur a waiting period when having to re-claim after seasonal or temp/casual work.*

*The alarmingly increasing nature of insecure work means many people cannot break free from welfare dependence. They are then caught up in a stressful and complex cycle of having to report their earnings to Centrelink and risk being over or under paid and often this occurs not art the fault of the person but flaws in the system. This leads things like increased customer aggression.*

## Overpayment and underpayment of allowances

52.5% of respondents thought insecure work affected the over and underpayment of allowances. A number of respondents commented that the process of reporting earnings can be confusing and is often the cause of these problems.

*People in unsecure casual work have to report their earnings. Many of these people do not understand the difference between gross and net earnings for income reporting purposes and this relates to poor knowledge of things financial. Debts result all the time*

*It is very difficult for customers to advise their income when they haven't actually been paid, especially if they normally get paid shift or other allowances. They cannot use their payslip to advise their income as this doesn't match their Centrelink payment cycle. I would expect that most Newstart customers who are working irregular hours/days would easily be overpaid through no fault of their own. Unfortunately, the Government likes to publicise the amount of money they are recovering from "Centrelink cheats" when in a lot of cases it is the process that causes people to be overpaid even when they try and do the right thing.*

*People are confused by the system. They have to declare to the job network or Disability Management Services provider and to Centrelink. It is structured to catch people out, as providers we have to 'chase' people for evidence when Centrelink has the evidence. We can only access it on a limited basis and*

*there is little time with high caseloads and high levels of administration to be freed up to chase people around for evidence. Clients are always concerned with underpayment, overpayment and being 'cut off' and of course there is always the resubmitting of paperwork that seems to disappear down a black hole. I have supported clients to make transitions on payments and often we resubmit paperwork 2 and 3 times and people end up with fragmentation in their payments and added stress. As previously mentioned there is very little additional support for those making a positive effort to training or attend TAFE or vocational placements to improve their future employment prospects a real disincentive to upskilling.*

*People's inability to access regular paid hours of work affects their ability to accurately report income meaning that customers face raising overpayment debts. Many chose to overestimate income and therefore reduce their eligibility meaning in real terms they have lesser incomes.*

*Customers, and even some staff, do not fully understand how working credits actually work, and this can result in under & over payments. Some customers knowingly get underpaid by declaring too much because they are terrified of getting an overpayment'. However if the correct declaration process was explained to them, it is almost impossible to get an overpayment or under payment. The last point for this question is the fact that a lot of people cannot afford to live on benefits, so they incur personal debts (paying bills late, deferring car or mortgage payments.) while they are on benefits, therefore if they do pick up some casual work they are often reluctant to declare it as they need the money to catch up on their bills, and because they have no job security, they do not know when they will work again, so they are also reluctant to declare because of this.*

*In my opinion, a major reason for not reporting income is insecure work as the recipients use the work income to try & catch up with their expenses. The treatment of income is smoothed somewhat by working credit arrangements but does not overcome the ongoing income insecurity aspect of the recipient's situation & the natural fears that go with it. There are also huge inconsistencies between the relatively generous student income bank and the much less generous arrangements for other benefit recipients.*

*Working in the Debt side to DHS, I see it all the time that customers get overpayment debts because they don't know how much work they have done, their hourly rate of pay, any hourly loadings they may other receive and how many shifts they may be likely to do. Customers have told me they have had to make educated guesses and, sometimes, have had to correct their earnings which have resulted in overpayment debts.*

## Resourcing of the allowance payment system

Workload has been a major concern amongst DHS members, particularly as the 2012-13 Budget papers have indicated a loss of 440 ASL from DHS<sup>112</sup>. CPSU members were asked about the level of resourcing available to support clients and whether it was adequate. 69.1% of respondents did not think enough resources are provided to adequately support clients who interact with the allowance payments system.

*Staffing levels, as per usual, make it very difficult for people to be seen as soon as their problems arise. Breaches, of course, lead to more financial problems for clients, which can then turn into even more visits to Centrelink, already under-staffed.*

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<sup>112</sup> Budget 2012-13, Budget Paper No.1, Statement 6, Table C5, p.74



Respondents gave numerous examples of the under resourcing of DHS and how it affected clients that rely on the allowance payment system:

*Customers often require and prefer face to face service. The call centre is overloaded and wait times are too long. Customers are financially disadvantaged when they ring on a mobile.*

*We are drowning in customers and with redundancies and the efficiency dividend are very thin on the ground.*

*Centrelink are always understaffed, especially at Customer Service Centres. This means staff do not have enough time and resources to adequately assist customers fully. There are too many people waiting to be seen in the queue, and I know that staff are pressured by managers to hurry up. There is the same situation with Call Centres. Lots of mistakes and errors are being made due to being high workload, being rushed and inadequate training.*

*Call centre wait times are ridiculous and queues at the service centres are too long. Resources are being put into quick cheap fixes – i.e. online access and self service telephones*

*Staff are under extreme pressure from management to get customers in and out the door as quickly as possible and to get them onto online services. Not enough information provided to customers at claim stage, and when there is it is given out in such a manner (at speed) that the customers cannot comprehend all the information.*

*Increased valuable interaction is required to assist customers transition to work. Centrelink staff levels in Service Centres are inadequate to address participation requirements with customers effectively in order for the requirement to actually have some benefit to the customer returning to work. Call Centres are understaffed and customers experiencing unacceptable wait times to have concerns addressed.*

*There are long queues at Customer Service Centre and long waits on the phone. Shoving a customer onto self-serve kiosk or online is simply not adequate. It only alienates customers and leads to customer aggression.*

*Customers can access information via the internet or they can phone or attend a Customer Service Centre. The only problem with phoning is extended wait times and customer run out of phone credit, and when they attend a Customer Service Centres they can experience extended wait times due to high customer traffic and minimal staff.*

*More money is being directed to online services for customers to communicate but there are less staff at offices. The ability for staff to interact and support clients who have been on payments for a long periods of time is not occurring. More face to face time, going through a customer situation with a customer needs to be funded, if the Government wants customers to be assisted with finding employment and for staff to identify barriers to employment.*

*Both Customer Service Centres and Call centres are grossly understaffed. Call wait times are as long as 90 minutes - some customers report longer waits. Customer Service Centres can, by mid morning, be in the position of telling customers to come back this afternoon for a walk in interview. Recently, the local office was advising customers to return the next (working) day by mid morning - due to two Customer Service Officers calling in sick. There MUST be a large, sustained, increase in Call and Customer Service Centres staffing.*

*One only has to look at Centrelink offices to see long queues and if you've called a general Centrelink number, you are often faced with such lengthy delays that customers have told me they put their phone on speaker and do the washing up, etc. Customers have often told me they are waiting for 40 minutes plus. Centrelink is most definitely under staffed.*

*Less face to face contact means customers are more likely to misunderstand Centrelink requirements. Many indicate that they do not understand the letters they receive, and that some of these letters are contradictory (different dates for same appointment)*

It is deeply concerning that a number of respondents indicated that workload pressures have forced staff to “cut corners” and it has affected the support and information clients receive.

*People are actively discouraged from contacting. Staffing is WAY too low. There is no training, no time and faceless processing teams who aren't accountable. If you try to do the job properly you are disciplined and told not to spend so much time getting it right.*

*Staffing in the Service Centres and in Call Centres has been depleted to such an extent that there is always a feeling of too much to do too little time to do it in. Corners are cut and customers are not getting the information they need to ensure they understand their responsibilities correctly. This can be because the staff are no longer knowledgeable enough to ensure this understanding, or the staff is under so much stress they do not have the time.*

*Customers often have claim done over phone and then have a rushed and underfunded contact at a Service Centre. In the past, time was taken to explain obligations, options, how to report, how to declare income, what options may exist in looking for work. Service Centres no longer have the resources to provide this information in an effective manner leaving the claimant in the dark*

79.5% said that workload and staffing levels have affected the quality of assistance they have been able to provide with clients who interact with the allowance payment system. Respondents indicated that advice is often rushed and information that may be of use to clients is often “glossed over” because of workload pressures:

*Staff are under immense pressure to get through queues of people, so quality is overlooked. As a result, staff are trying to get through as many customers as possible because otherwise they get into trouble so of course we are giving out wrong information.*

*When I have been so rushed to see clients in the past, I have forgotten extra information I could have given them - the things I could have said sometimes come to mind later, and I feel incredibly guilty that I could not think of it at the time, and therefore provide the client with much more help. It also makes me wonder how many times I have forgotten things, only NOT to remember them later - I wonder just how often I have not provided sufficient service, and have caused my clients more problems than necessary as a result. I always feel guilt about this when I think of it.*

Respondents also indicated that the level of assistance provided to clients is minimised in order to meet Key Performance Indicators:

*I have to get rid of the person quickly so that I serve my quota for the day. The temptation to gloss over things and to not raise an issue if the customer hasn't raised it, is par for the course these days.*



*We are chronically understaffed, this causes frustration for customers, stress for staff, and mistakes & rework needed. Minimal service is given to customers instead of First contact resolution.*

*Efforts to do less with more are proudly touted as a virtue, but I can see the human cost around me in the workplace each day. The frequent changes in procedures and rules also have a very dispiriting effect.*

*I work in a Smart Centre and I am continually being told that I can no longer provide the level of customer service that I once did. The new benchmarks simply do not allow for 'overservicing' of customers.*

*We are under extreme pressure with messages being sent regularly from management to ask how long we will be with our customers. We have been directed not to provide them with a holistic service, but only to address the question they had come in to ask. i.e. only update the one bank account they say has altered, don't check any other income or assets even if it has not been updated for years.*

*Call demand is so high, pressure is placed on staff to meet performance metrics in relation to call length and meet the customer demand. This results in issues not being effectively resolved and customers passed from one department to the next with quick band aid fixes that provide tick in the statistic box but don't actually help the customer.*

*Customer are rushed out of the door as there are so many others also requiring assistance and KPIs mean that only a limited amount of time should be allotted to each customer. Management pressure to keep to those KPIs can mean customers are told to come back another time to address different issues that could probably be dealt with at the one appointment.*

## Customer aggression

The CPSU's 2011/12 *What Women Want* survey found that staff in the Department of Human Services had amongst the highest incidents of customer aggression in the Australian Public Service. 61.9% of What Women Want survey respondents working in Centrelink indicated they experienced customer aggression over the past year.

Members were asked about the factors which they believe may cause customer aggression. 82.0% indicated they believe that the current system is a cause of customer aggression by some clients and 64.2% said it was because the system was too complex to understand. 63.7% said payments are not adequate enough and 80.8% said it was because there are not enough resources to provide quality assistance.

Comments included:

*All these factors are causes of aggression as well as other causes such as poor treatment by staff and impact of drug use and mental illness amongst others. Centrelink has from the Access Centres due to the high rate of aggression associated with these decisions. Participation Solutions Team is a prime example. The phone aggression is huge in Participation Solutions Team.*

*Customers are being forced to interact with a system that is under funded and does not meet their individual needs. Unless they are articulate and know what they need/want, they can quickly become frustrated and feel that no one is trying to help them.*

*The system is constantly being made more complex - when it should be simplified. Income limits have not been increased for many years. The unemployed are being pushed down more and more.*

## Improving the system

DHS respondents were asked what changes would make the allowance payment system more effective and improve the quality of assistance. There were a variety of different suggestions including increasing staffing numbers, better training, simplifying the system and increasing payments. Comments included:

*Staff need better training and support to do our current roles correctly so that we can educate customers nicely at first about what is expected.*

*Increase staff numbers so staff have more time to assist customers.*

*Use of the kiss principle - "keep it simple stupid" would be great. That refers to the policy and the language of the policy.*

*Simplify the types of payment. Use "universal allowance" with "universal eligibility criteria" but with different "add-ons" that are specific to different situations such as job seeker, disability, carer, student so that people can still continue to receive the "universal allowance" while they go through transitions such as from studying to looking for work or becoming ill.*

*Increase allowances to meet pension rates. There is absolutely no good reason for the disparity and the high rates of poverty amongst allowees is unacceptable under any circumstances. Remove the Compliance Framework, tougher rules and the loss of payments that system attracts and affects our most disadvantaged in high numbers.*

One respondent summed up most of the changes that respondents suggested:

*More staffing, less complexity in payment rules, and a recognition that some customers will need long term income support even though they may not qualify for pensions. The allowance regime can be harsh, inflexible and scary for these customers as they have to cope with a regime that appears to judge them as being unwilling to help themselves and doesn't treat them in a manner that pension recipients seem to receive. There is definitely a two tier system in every respect. Having said this, I am well aware that there are some customers who are comfortable on welfare and need to have compliance regimes to encourage them to participate.*