

Submission
from
National Welfare Rights Network
to
FaHCSIA Pension Review
October 2008

1. The National Welfare Rights Network (NWRN)

NWRN is a network of community legal centres throughout Australia which specialise in Social Security law and its administration by Centrelink.

NWRN members provide casework assistance to their clients and others in the community sector, in the form of information, advice, referral and representation. NWRN members also conduct training and education for community workers, produce publications to help Social Security recipients and community organisations understand the system and maximize their clients' entitlements, undertake research and policy advocacy and support the NWRN in dealing with these issues at the national level.

Based on the experience of clients of NWRN members, the Network also undertakes research and analysis, develops policies and position papers, advocates for reforms to law, policy and administrative practice and participates in campaigns consistent with its aim to reduce poverty, hardship and inequality in Australia and to build a fair inclusive and sustainable Australia underpinned by a comprehensive, rights based Social Security safety net for all.

The NWRN advocates that the Social Security system in Australia should be characterised by an uncompromising recognition of the following rights:

- the right of all people in need to an adequate level of income support which is protected by law;
- the right of people to be treated with respect and dignity by Centrelink and those administering the Social Security system;
- the right to accessible information about Social Security rights and entitlements, obligations and responsibilities;
- the right to receive prompt and appropriate service and Social Security payments without delay;
- the right to a free, independent, informal, efficient and fair appeal system;

- right to an independent complaints system;
- the right to independent advice and representation; and
- the right to natural justice and procedural fairness

2. The need to address fundamental issues of parity and adequacy across the Social Security system

The terms of reference of the Pension Review provide:

Pension Review will investigate measures to strengthen the financial security of seniors, carers and people with disability by considering the:

- appropriate levels of income support and allowances, including the base rate of the pension, with reference to the stated purpose of the payment; and
- frequency of payments, including the efficacy of lump sum versus ongoing support; and
- structure and payment of concessions or other entitlements that would improve the financial circumstances and security of seniors, carers and people with disability.

NWRN supports the position advanced by ACOSS that any payment reforms should consider the Social Security system as a whole to avoid exacerbating the unfairness, inequalities, gaps and anomalies that exist in the current system.

Accordingly, we agree that any reforms to payment rates and concessions should be considered as part of the Henry Review since its terms of reference empower it to consider the social security system as a whole. In our view, it is crucial that within this context the Henry Review address fundamental issues of parity in respect of the rates of payments under the Social Security Act 1991 ('the Act'), the adequacy of social security payments and the current indexation arrangements and concessions to meet basic costs of living.

3. A Fair and Adequate Social Security system is intrinsically linked to the Government's response to key policy issues:

3.1 Income Support is a Human Right:

The right to income support is a fundamental human right enshrined by Article 9 of the International Covenant on Economic, Social and Cultural Rights which recognises the right of everyone to social security, including social insurance.

Significantly, Article 25 of the Declaration of Human Rights guarantees that:

“Everyone has the right to a standard of living adequate for the health and well being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood beyond his control.”

This right is of central importance in guaranteeing human dignity and, through its redistributive character, plays an important role in poverty reduction and alleviation, preventing social exclusion and promoting social inclusion.

The observance of this fundamental human right is not possible without addressing adequacy and parity issues within the Social Security system.

NWRN notes an increasing momentum to consolidate the human rights of Australians in a Bill or Charter document which would inevitably include the right to an adequate level of income support.

NWRN believes that this context can not be ignored and militates against further discrimination within the system from the perspective of parity.

3.2 Social Inclusion

Social inclusion is not possible without addressing adequacy and parity issues within the Social Security system.

NWRN notes that the Australian Government's priorities for social inclusion include:

- addressing the incidence and needs of jobless families with children;
- delivering effective support to children at greatest risk of long term disadvantage;
- focusing on particular locations, neighbourhoods and communities to ensure programs and services are getting to the right places;
- addressing the incidence of homelessness;
- employment for people living with a disability or mental illness; and
- closing the gap for Indigenous Australians.

Whether many of the Government's stated priorities can be addressed depends on a fair and adequate Social Security system.

3.3 Homelessness

The Government's Green Paper Which Way Home – A New Approach to Homelessness catalogues the serious problem of homelessness in Australia. In its response to the Green Paper, NWRN identified numerous links between Social Security payments themselves and the capacity of people to engage in social and/or economic participation.

Access to adequate and fair Social Security payments and concessions is central to addressing the issue of homelessness. In its response to the Homelessness Green Paper, NWRN highlighted the following social security policies as exacerbating homelessness:

- current inadequate rates of allowances compounded by unfair and inconsistent indexation arrangements;
- inadequacy of Rent Assistance;
- very low Crisis payment levels;
- barriers to earning income – high "Effective Marginal tax rates"; and
- concession restrictions.

3.4 Closing the Gap

The National Apology to the Indigenous people of Australia as moved by the Prime Minister and unanimously adopted by the Australian Parliament on 13 February 2008 signalled a shift towards closing the gap between the advantage of non-Indigenous Australia and the disadvantage of Indigenous Australia.

Access to adequate and fair social security payments/concessions is central to improving quality of life of Indigenous Australians. Closing the gap is assisted by addressing adequacy and parity issues in the Social Security system.

3.5 Climate change

NWRN's involvement in the 'The Equity in Response to Climate Change Roundtable' has given the Network insight into the impacts of climate change on low income people and the need to address equity issues within the Social Security system.

Research which was commissioned as part of the Roundtable process found that climate change will have a disproportionate impact on low income people who will generally lack access to sufficient financial resources to even meet the increased costs of energy let alone be able to invest in energy efficiency and energy reducing capital so as to reduce their exposure to increased energy costs.

The impact of the proposed Carbon Pollution Trading scheme on Social Security recipients can not be ignored. The delivery of adequate and well targeted Social Security payments and concessions will be critical in protecting low income households against the impacts of climate change and to increased prices of energy, water and other services which will flow from Australia's response to climate change.

4 Adequacy and Parity issues

4.1 Social Security payments

The fundamental goal of the Social Security system is the provision of adequate and accessible income support for all people with the right to reside in Australia who are without adequate means of support.

A comparison of income support payments with the relevant Henderson Poverty line for various Social Security payments are set out in the Table below.

Income support payments and Henderson Poverty Line comparison

Income Unit	Social Security payment	Total payment \$per week	Poverty Line \$per week	Below Poverty line
A. Single unemployed adult	Newstart Allowance + Rent Assistance	\$279.75	\$378.08	26%
B. Single, independent full time student 16 to 24 years	Youth Allowance + Rent Assistance	\$232.80	\$378.08	38%
C. Single, dependent student 18 to 24 years	Youth Allowance	\$116.95	\$254.44	54%
D. Single adult student over 25 years	Austudy Payment + Rent Assistance	\$232.80	\$378.08	38%
E. Pension (single)	Pension	\$281.05	\$306.57	8%
F. Pension couple (each)	Pension	\$469.50	\$505.76	7%

The Henderson Poverty Line are for the quarter ending March 2008 and Weekly pension and allowance (maximum) rates are for period 20 September – 31 December 2008.

Assumptions:

- A. Newstart Allowance, single unemployed adult aged 21 or over. The recipient lives alone and receives the maximum rate of Rent Assistance. The relevant Henderson Poverty Line is the single person, “head in workforce” unit. Housing costs are included.

- B. Youth Allowance: single full time student aged 16-24 years. The recipient is assumed to be independent and thus receives the 'independent' Youth Allowance rate. The recipient is assumed to live alone and received maximum rate of Rent Assistance. The relevant Henderson Poverty line is the single person, "head in workforce". Housing costs are included.
- C. Youth Allowance, single full time student aged 18-24 years. The recipient is assumed to be dependent and thus receives the "at home" Youth Allowance rate. The recipient is ineligible for Rent Assistance. The relevant Henderson Poverty Line is the single person, "head in workforce". Housing costs are not included as it is assumed the person lives in the parental home.
- D. Austudy Payment: basic rate for single person undertaking qualifying study. The student is aged 25 years or over. The recipient is assumed to live alone and received the maximum rate of Rent Assistance. The relevant Henderson Poverty Line is the single person, "head in the workforce". Housing costs are included.
- E. Age pension: basic rate for a single person. The person may also be eligible for a Pensioner Concession Card although we do not include these benefits here. We assume the Age Pension recipient is not working or looking for work. Housing costs are included. Rent Assistance is not included as at least 53.4% are not eligible for the payment because they are homeowners.
- F. Age Pension couple: basic rate per person. The person may also be eligible for a Pensioner Concession Card although we do not include these benefits here. We assume the recipient is not working nor looking for work. The relevant Henderson Poverty Line is couple, "head not in the workforce". Housing costs are included. Rent Assistance is not included on the basis that 82.9% of Age Pension couples are not eligible for the payment because they are homeowners.

The above table illustrates that the goal is currently not being met as both Social Security pensions and allowances are inadequate to meet the basic cost of living.

Whilst pension rates have increased by 20% in real terms over the past decade, the real increase in payments for a single allowee is just a fraction of this, at 0.5%¹. The current targeting of social security payments has led to disparity and discrimination amongst social security recipients.

Payments made to those on Youth Allowance are the lowest (\$178-\$355), compared to Newstart Allowance (\$219-\$394) and pensions (\$298-\$481).

Taking into account the significant discrepancies in payment rates, the disadvantage faced by allowees must also be considered alongside that of Age, Carer, Parenting Payment recipients and Disability Support pensioners. A further matter that must be considered is how Social Security payments can be appropriately targeted to pensioners (and allowees) with little or no other income yet ensure that the benefits do not flow to retirees with substantial other income or little pension income.

¹ Pension Review Background Paper, FaHCSIA, August 2008

NWRN supports the general principle of benchmarking all Social Security payments to an Australian Minimum Standard of Living as outlined by ACOSS in its submission to the Review. This should be the goal of any social security reform package.

4.2 Youth Allowance – A study in parity and paucity

Youth Allowance is paid at a considerably lower rate than other payments. A single Independent Youth Allowance recipient receives \$81.70 less per fortnight than a single 21 year old receiving Newstart Allowance.

It is generally the case that only very vulnerable young people are in receipt of Youth Allowance at the independent rate. In order to receive Youth Allowance at the “independent rate” a person must satisfy one of the following:

- be a member of a Youth Allowance couple;
- have a dependent child;
- be an orphan;
- have parents who cannot exercise responsibilities (eg in prison);
- be a refugee;
- be in state care;
- it is unreasonable for the person to live at home;
- have been self supporting for a specified period; or
- have a “partial capacity to work”, have turned 16 and not undertaking full time study.

The difference is even greater for students deemed to be dependent on their parents. A 22 year old full time student who does not meet the Youth Allowance independent criteria receives \$215.40 less per fortnight than a 22 year old job seeker receiving Newstart Allowance.

NWRN’s report, ‘*Kicking them while they are down: Youth Allowance and Youth Poverty*’ (June 2002) made some important key research findings about the treatment of youth allowees.

The rate of payment was a key problem with participation failure:

For most of the young people interviewed in the focus groups conducted as part of the project, the primary reason for failing to complete courses of education was that they could not afford to live and meet their education costs on the \$150 per week that is paid as the full rate of independent Youth Allowance. This finding confirms a comment that appeared in the Youth Allowance Evaluation report which indicated the “level of payment” was a significant disincentive to study for young people. (p.4)

From a parity perspective research found at the time:

In all of these cases, the rate of Youth Allowance is \$54.40 per week less than the rate of a single pensioner, and 33% below the Poverty Line. The Youth Allowance evaluation report itself indicated that among Youth Allowance recipients the ‘level of payment’ was

a significant disincentive to study. All of the young people interviewed in our focus group discussions indicated that as their rate of Youth Allowance was so low, they had serious financial difficulties in paying for basics such as food and shelter let alone the travel costs of attending interviews and schools.(p10)

4.3 Indexation Arrangements

The manifest inadequacy of basic allowance rates is seriously compounded by serious flaws in the indexation arrangements.

Youth Allowance, Austudy Payment and ABSTUDY are only indexed to the Consumer Price Index (CPI) and only once a year. The ‘income free area’ for Youth Allowance and Newstart Allowance has not been indexed in almost 30 years. On the other hand, pension payments increase in real terms according to movements in Average Weekly earnings (or CPI if it is higher) twice a year. The risks associated with the declining value of payments and free areas are recognised for people on pensions, but for those in receipt of allowances the relative and actual value of their payment and income free area constantly declines.

The current indexation provisions for Social Security payments are listed below.

Table 1: Comparison of indexation arrangements for the main Social Security payments

Youth Allowance, Austudy Payment and ABSTUDY	Newstart Allowance	Pension payments
Indexed once a year in line with the annual CPI increase	Indexed twice a year in line with the six month CPI increase	Indexed twice a year in line with MTAWWE or the six month CPI increase (whichever is greater).
Indexation occurs every 12 months: 1 January indexation is linked to June of the previous year. An “indexation lag” of up to 18 months can apply.	Indexation occurs every six months; 20 March indexation is linked to six month CPI increase from the July- December period. 20 September indexation linked to the six month CPI increase from the January-June period.	Indexation occurs every six months: 20 March indexation in linked to the previous July-December period. 20 September indexation linked to the previous January-June period.

As a result of the different indexation methods, allowances are less responsive to changes in cost of living increases relative to other Social Security payments. The failure to index allowances to wages growth, through MTAWWE has contributed to the growing divergence between pension payments and allowances. Recently in Australia, average weekly earnings have risen at a faster rate than the Consumer Price Index. Pension payments have been kept in line with MTAWWE and/or the CPI whichever is the higher, while the rates of Youth Allowance, Austudy Payment and ABSTUDY, like Newstart Allowance rates, have fallen further and further behind.

The divergence of payments rates is also due to Youth Allowance, Austudy Payment and ABSTUDY being updated less frequently than other payments. While an 18 month “indexation lag” can occur with Youth Allowance, Austudy Payment and ABSTUDY, pension payments and Newstart Allowance are indexed twice a year and recipients receive compensation for price increases closer to the actual period of price increases.

Recommendation:

That the pension indexation arrangements should be applied uniformly to all Social Security payments.

4.4 Social Security concessions defy targeting trend

Concessions are also inadequate to meet the basic costs of living and the full range of benefits are not available to all on social security payments.

Whilst for those in receipt of Social Security payments, concessions are fundamental to maintaining access to important goods and services which the community expects should be available to all Australians. The current targeting of these concessions has resulted in those on the lowest incomes being denied critical concessions whilst at the same time; eligibility for concessions has been extended to retirees with substantial resources through the Commonwealth Seniors Health Care Card.

The current hierarchy of concessions means that those in receipt of a Pensioner Concession Card (pensioners and specified allowees) receive the most generous benefits while holders of Health Card Cards receive limited benefits, notwithstanding their lower payment rates. These inequities are further compounded by supplementary payments, such as Telephone Allowance, Pharmaceutical Allowance and Utilities Allowance being restricted to pensioners and certain allowees. A further problem is that the local, State and Territory concessions which are also available to card holders vary significantly from jurisdiction to jurisdiction.

Whilst the Henry Review should consider the adequacy of concessions, we believe that it is of paramount importance that it take into account how the system could be rationalised, simplified and better targeted to meet the needs of people on low incomes through the extension of a range of concessions currently not available to allowees and other Social Security recipients.