



Income support in a time of low unemployment

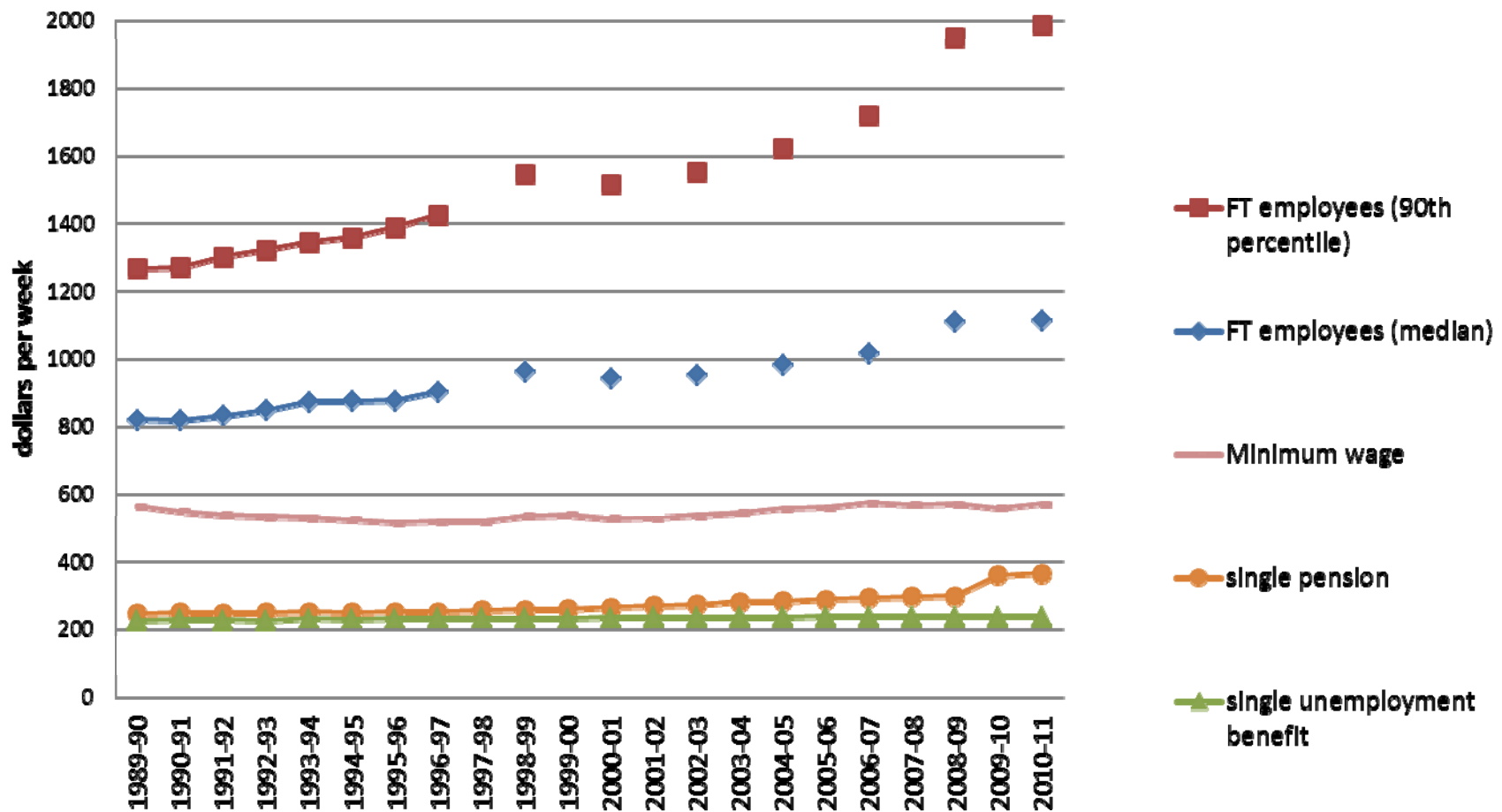
Peter Davidson, Senior Policy Officer ACOSS
Economic and social outlook conference,
University of Melbourne 30 July 2011

Who's doing it tough?

- Is Australia a lucky country that doesn't know its luck?
- Or are some people down on their luck?
- Benefits of the boom have been distributed unevenly

Who's doing it tough?

Trends in real individual incomes (\$2010)



Unemployment payments were last increased in 1993, when.....

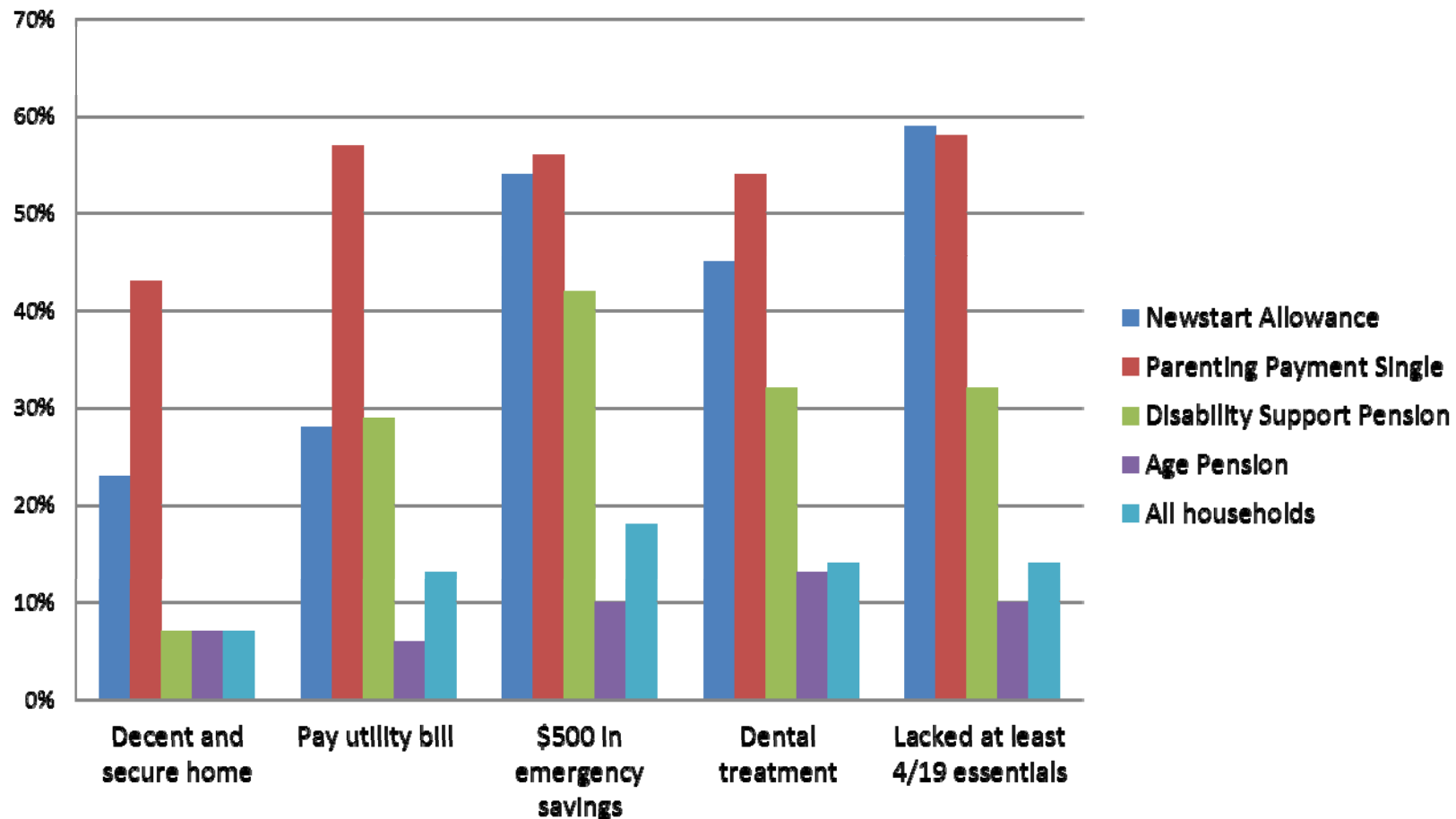


'World Wide Web'



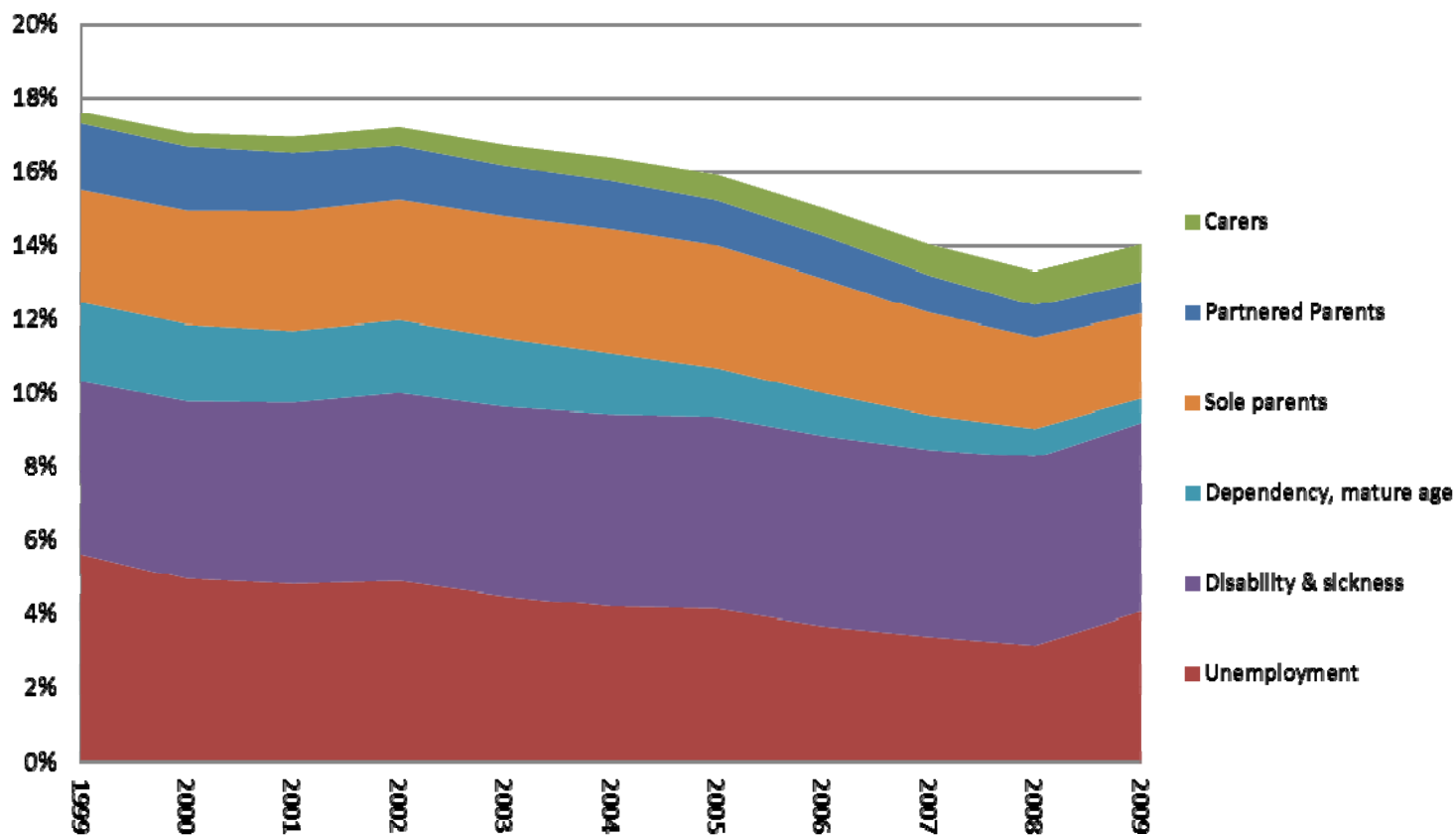
Who's doing it tough on income support?

Incidence of deprivation among social security recipients (2006)



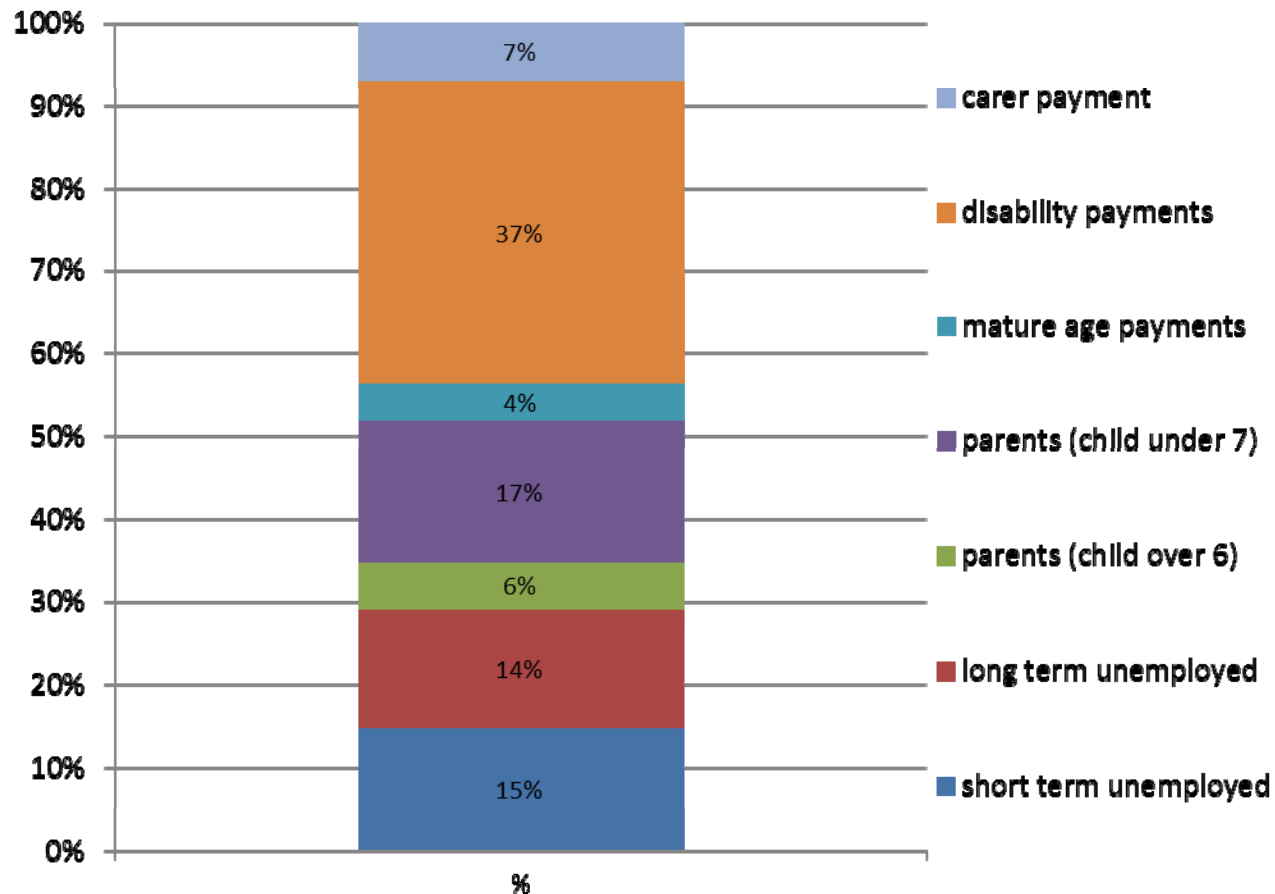
Reliance on income support has been falling

Reliance on working age income support payments (% of population)

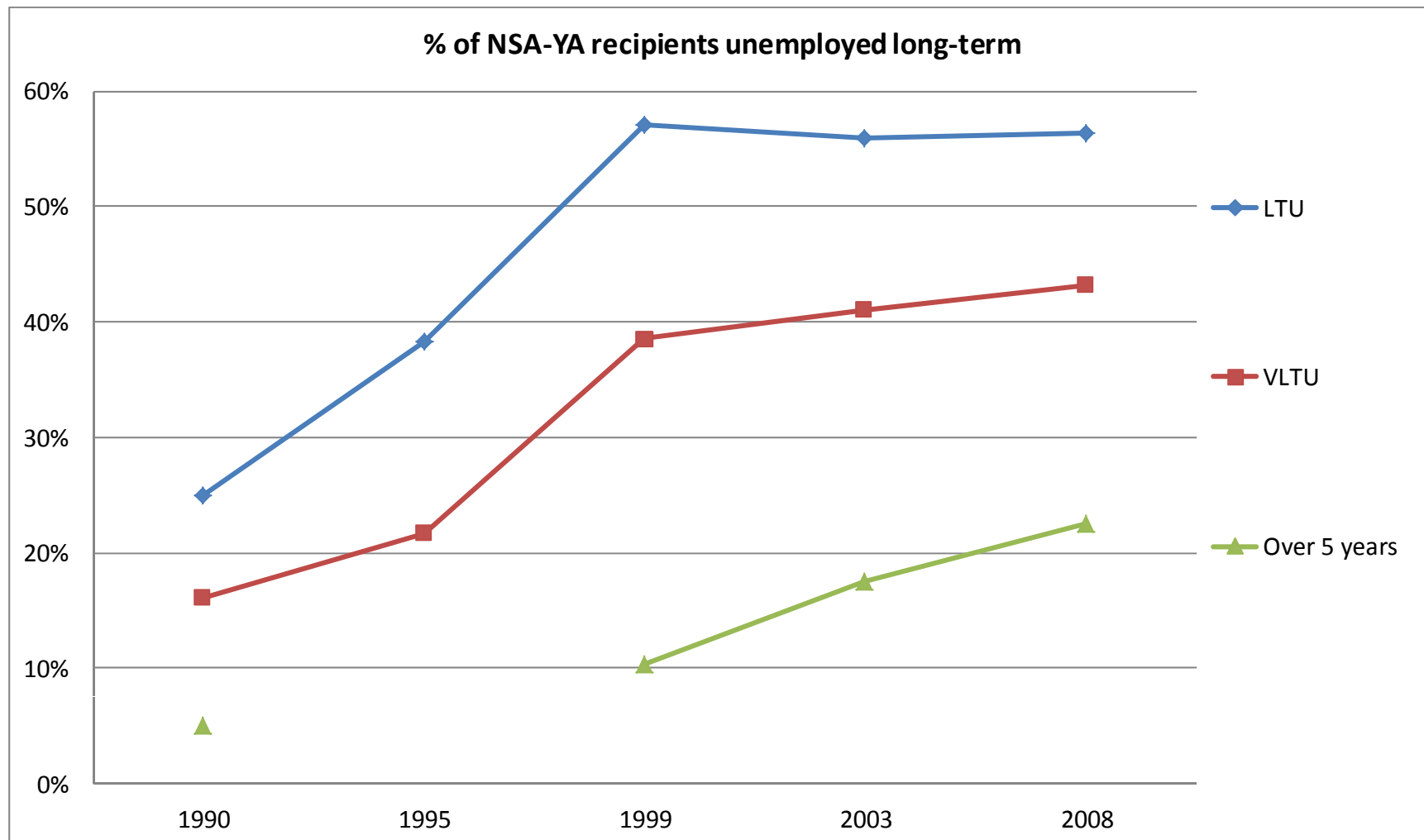


But those remaining are more disadvantaged in the labour market

Profile of working-age income support recipients (2009)



The profile of unemployment payments has changed



The profile of unemployment payments has changed

- Most Newstart Allowees are long-term recipients
- One in six can only work part time due to a disability
- One in three is 45 years old or over
- Two thirds of long term recipients have less than Year 12 qualifications
- One in 10 NSA recipients is of Indigenous background
- Almost in fifteen is a sole parent

- Due to lower unemployment and Welfare to Work policies, the profile of the NSA population looks more like pensioners once did

But the payment structure remains the same

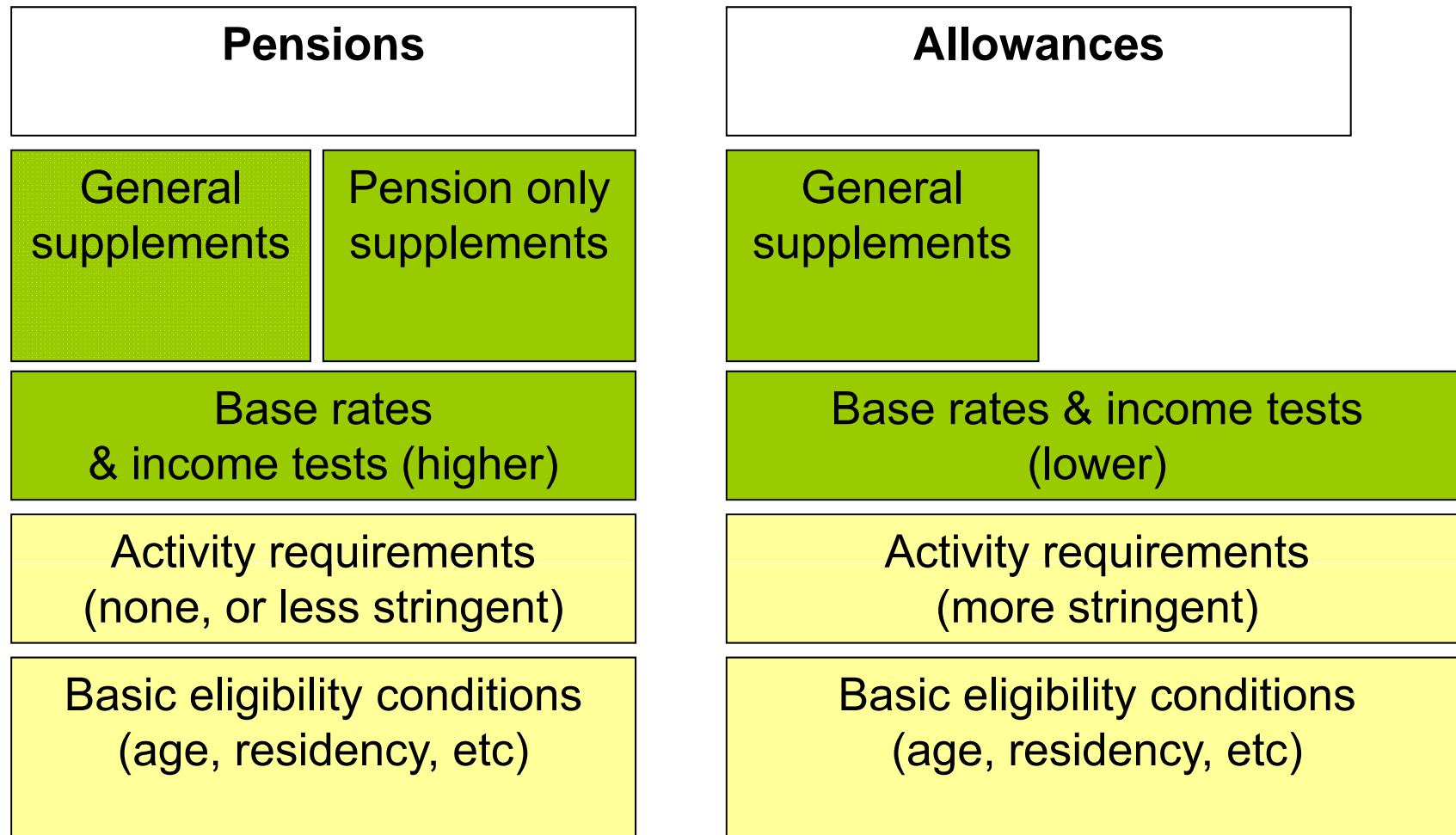
1. *Pensions* for those 'unable to work'
 - Higher rates
 - No activity requirements, less employment assistance
 - Assumes long term need for income support

2. *Allowances* for those 'able to work'
 - Lower payments
 - Activity requirements and more employment assistance
 - Assumes short term need for income support

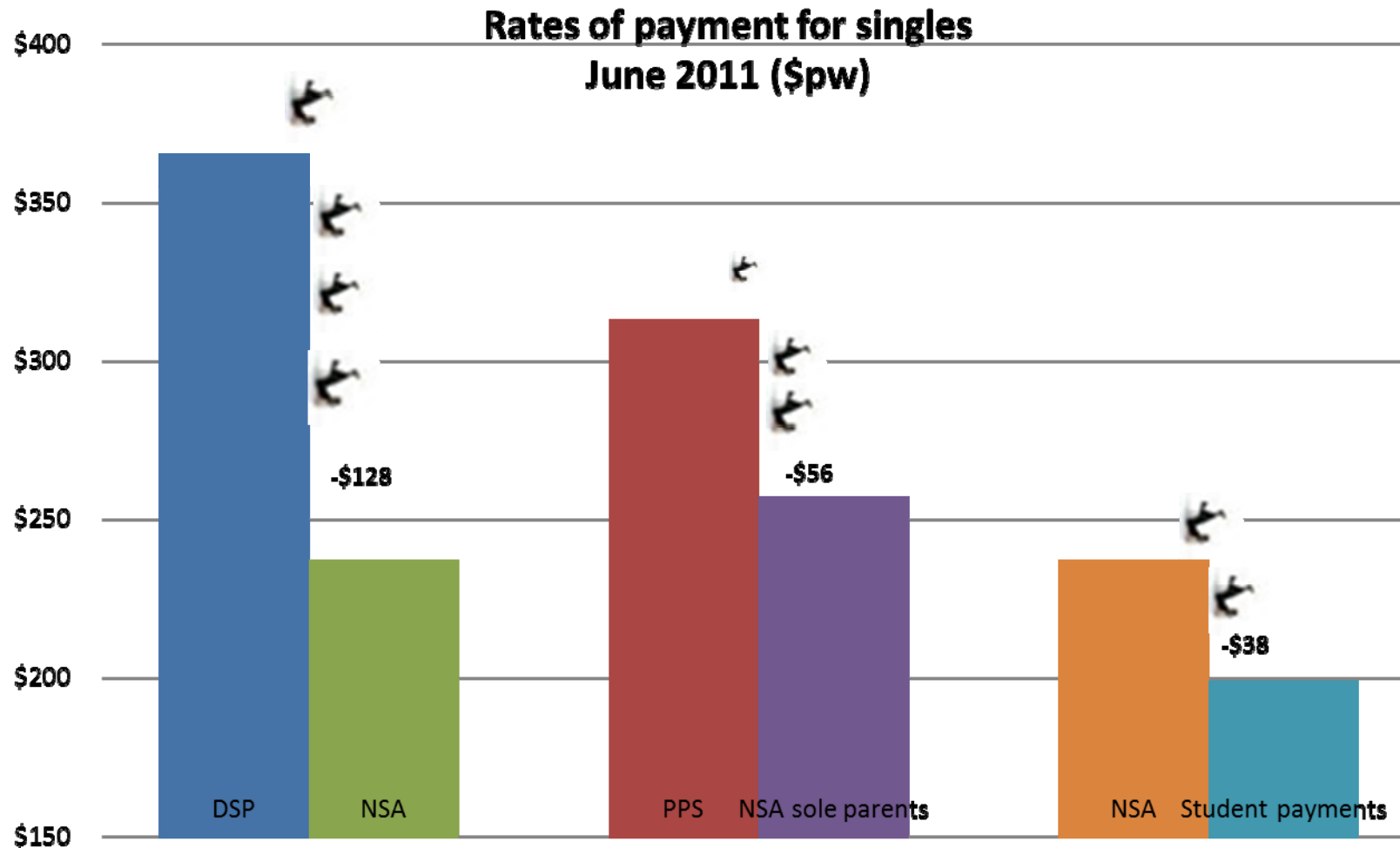
3. *Student payments (18-64 years)*
 - Lower again
 - Assumes parental support

Present payment structure

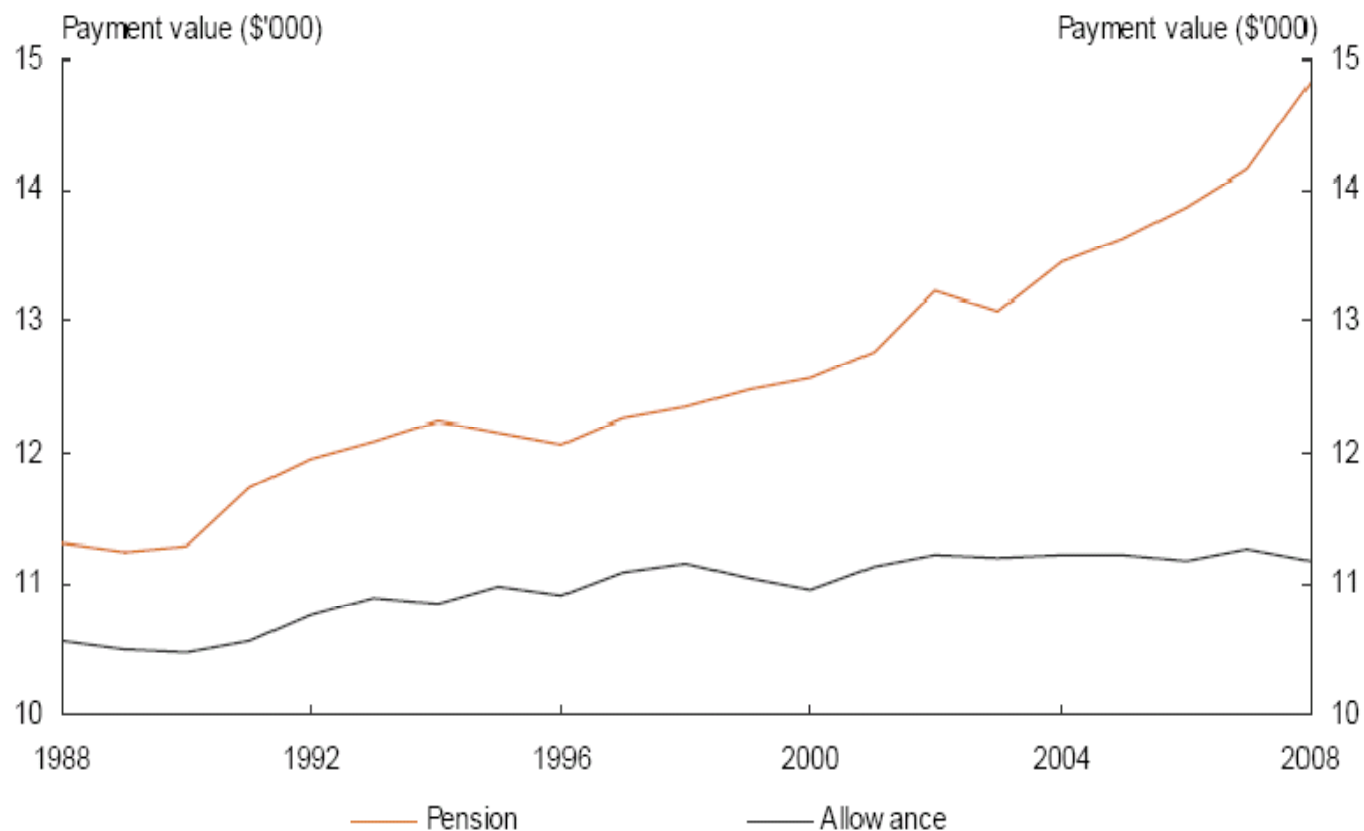
—————> employment/study



Falling over the edge: how the system makes transitions difficult



Real value of pension and allowance payments for a single adult (in 2008 dollars)



Problems with present system

Unfair

- People in similar circumstances are treated differently
- Those in greatest need are often on the lowest payments

Disincentives to work and study

- Fear of loss of a higher, more secure payment

Complex

- Focus on payment gatekeeping rather than help to find employment

The pension fortress



Australian reform proposals

1994

Minister Baldwin: 'A single payment'

2002

Ministers Vanstone & Abbott: 'A simpler system':

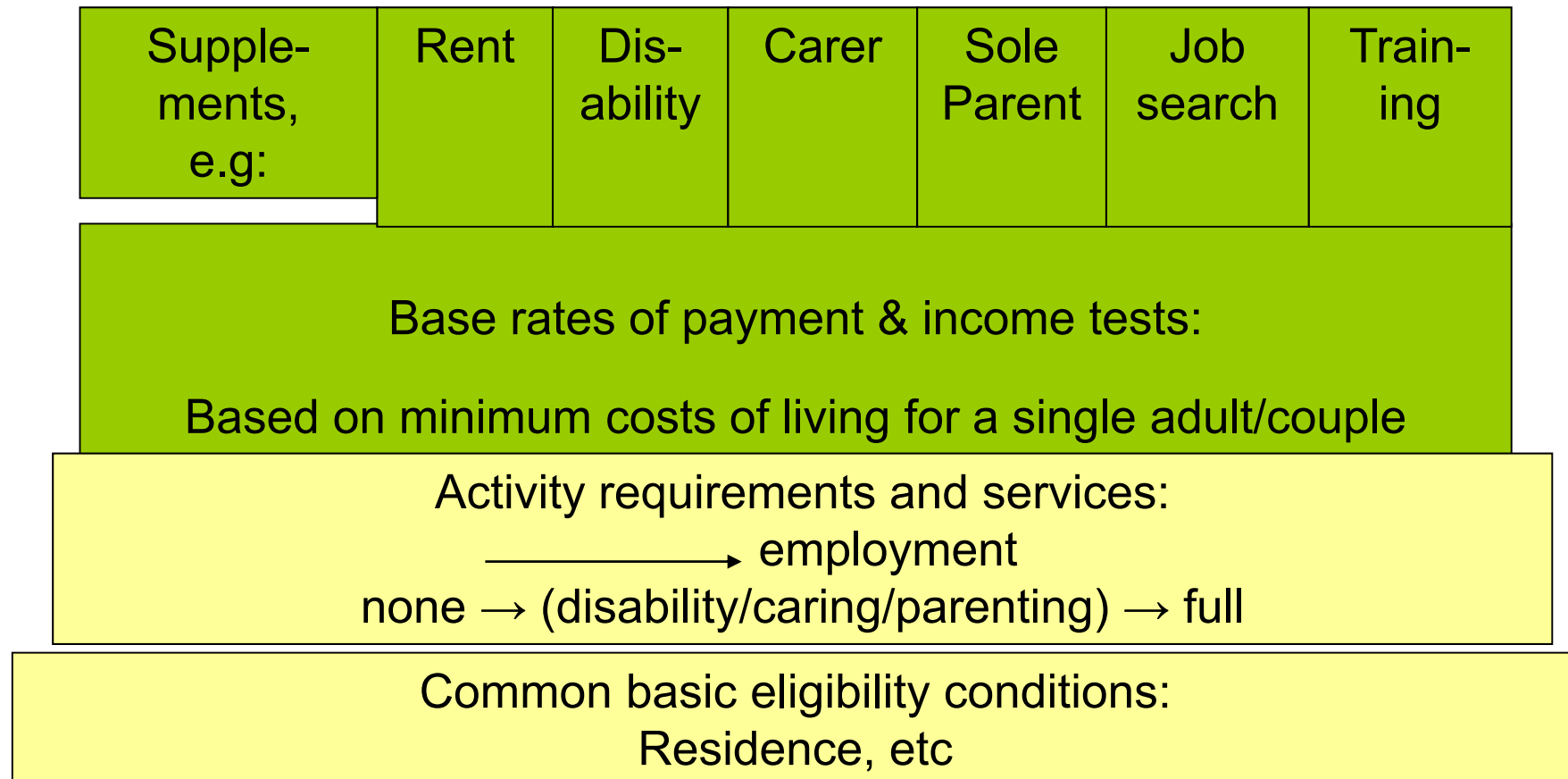
- A core payment for people of working age
- Supplements for costs of disability, sole parenthood, rent, participation, and children

2010

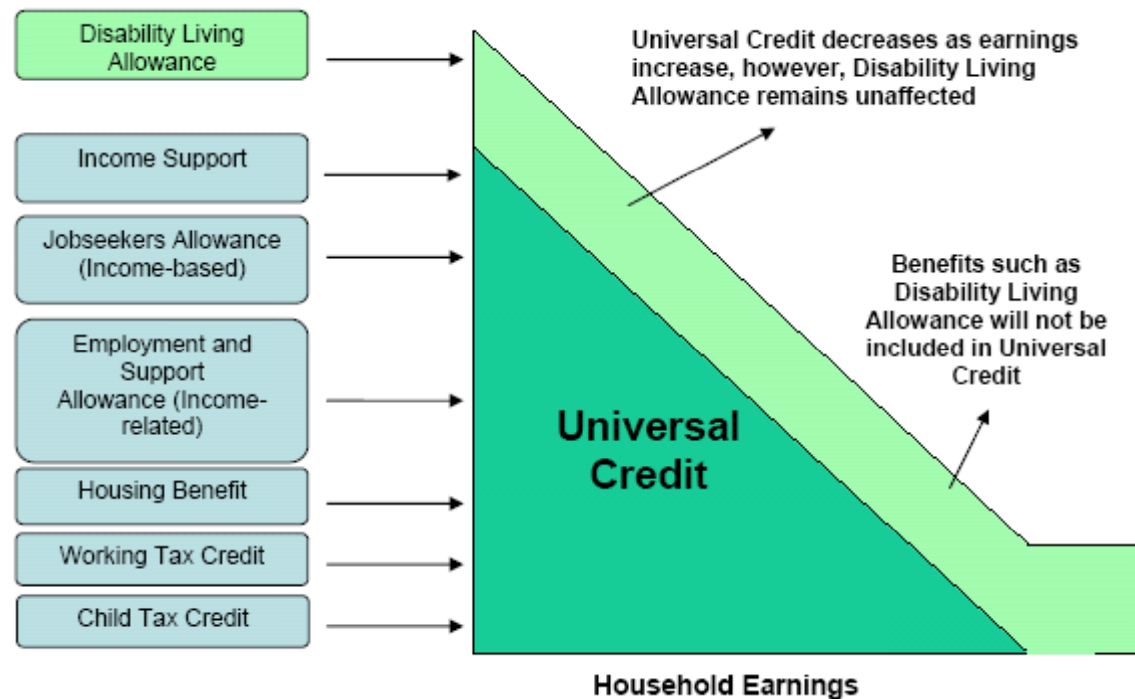
Henry Report: 'Australia's future tax system':

- Reduce gap between pension and allowance payments
- Common indexation formula based on wage movements
- Income tests to reflect different work expectations (e.g. part time Vs fulltime)

Alternative payment structure

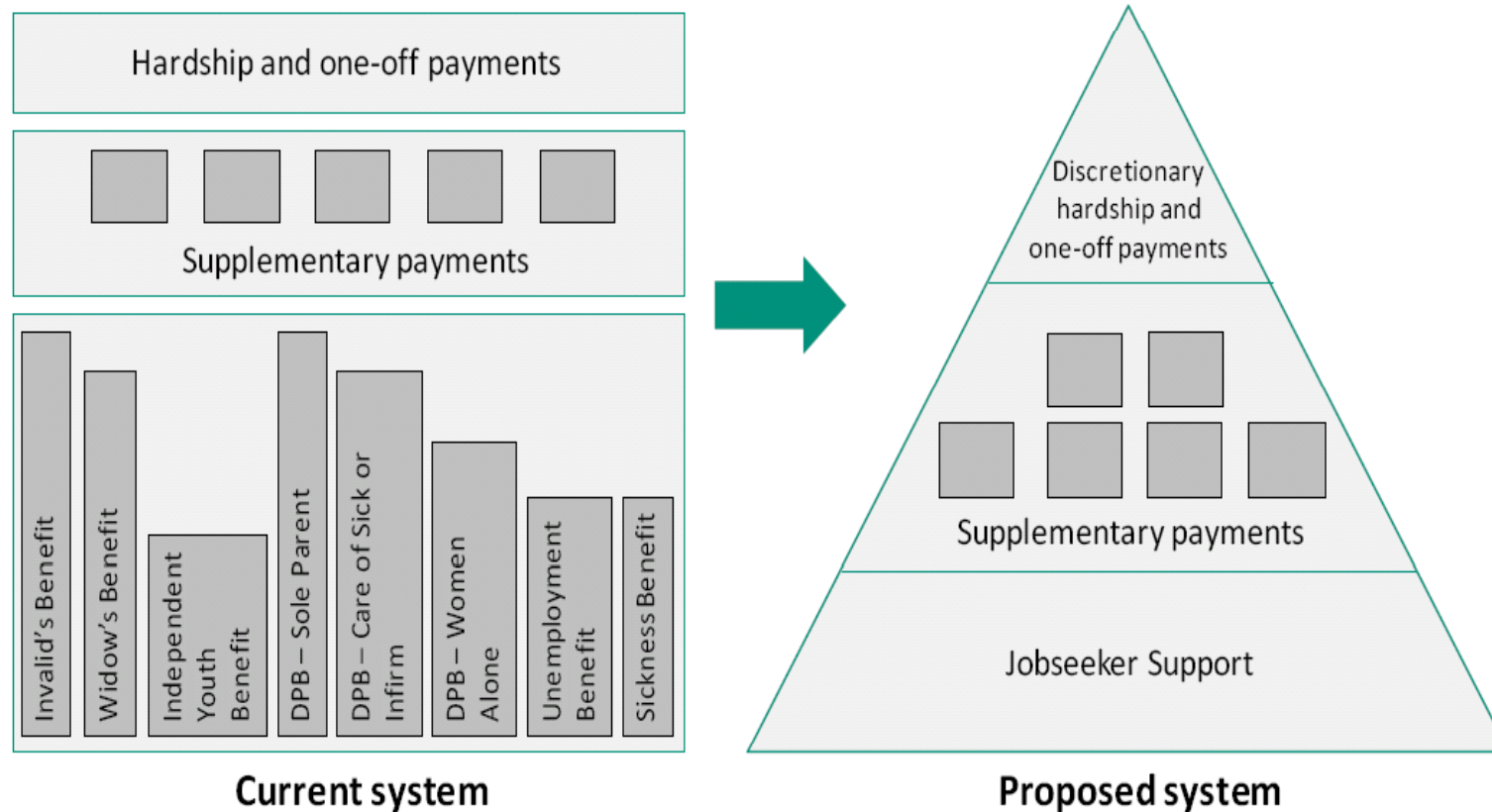


UK: Universal credit



Replace separate income support payments and tax credits with a single payment and a common income test.

NZ: 'Jobseeker support'



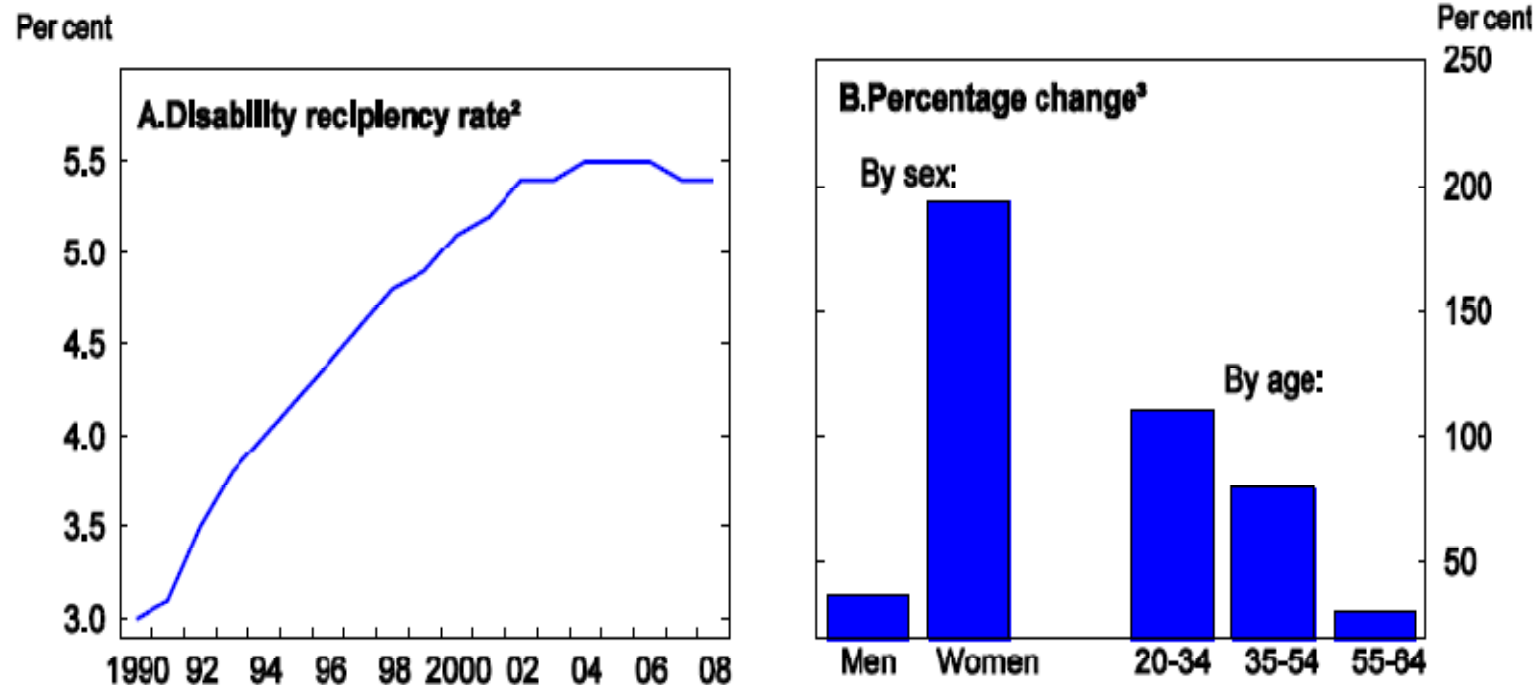
Replace existing payments with a common base rate payment, retaining supplements for special needs

Conclusions

- Reliance on income support is declining
- But those still reliant are more disadvantaged
- The present social security system is based on a sharp distinction between 'able to work' and 'not able to work'
- This is outdated, unfair and undermines the participation agenda
- There are good ideas around to reform the system
- Other countries are pursuing this
- It's time we took up the challenge

Extra slides

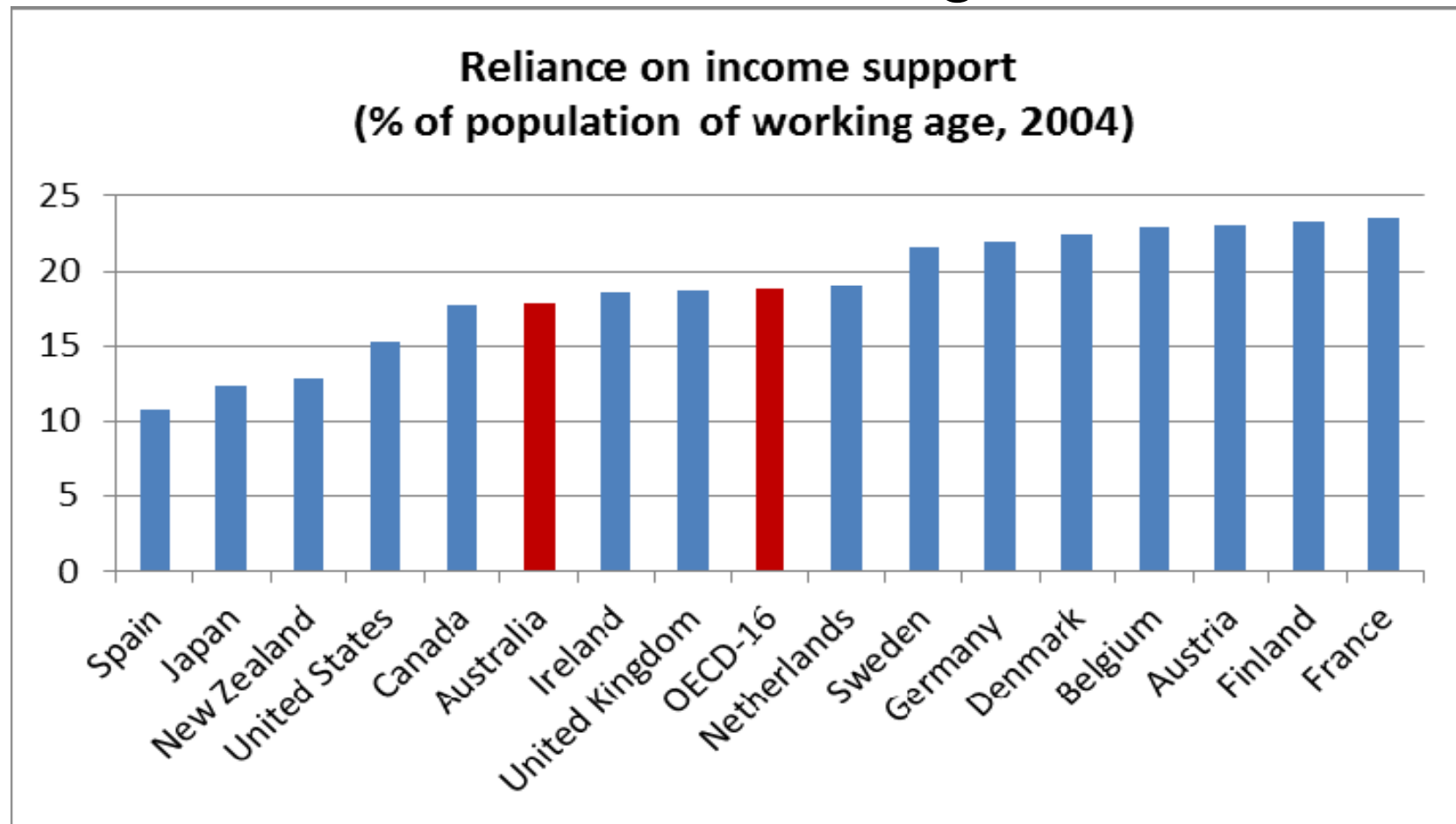
Reliance on DSP stabilised prior to the GFC



Note: as a % of working-age population

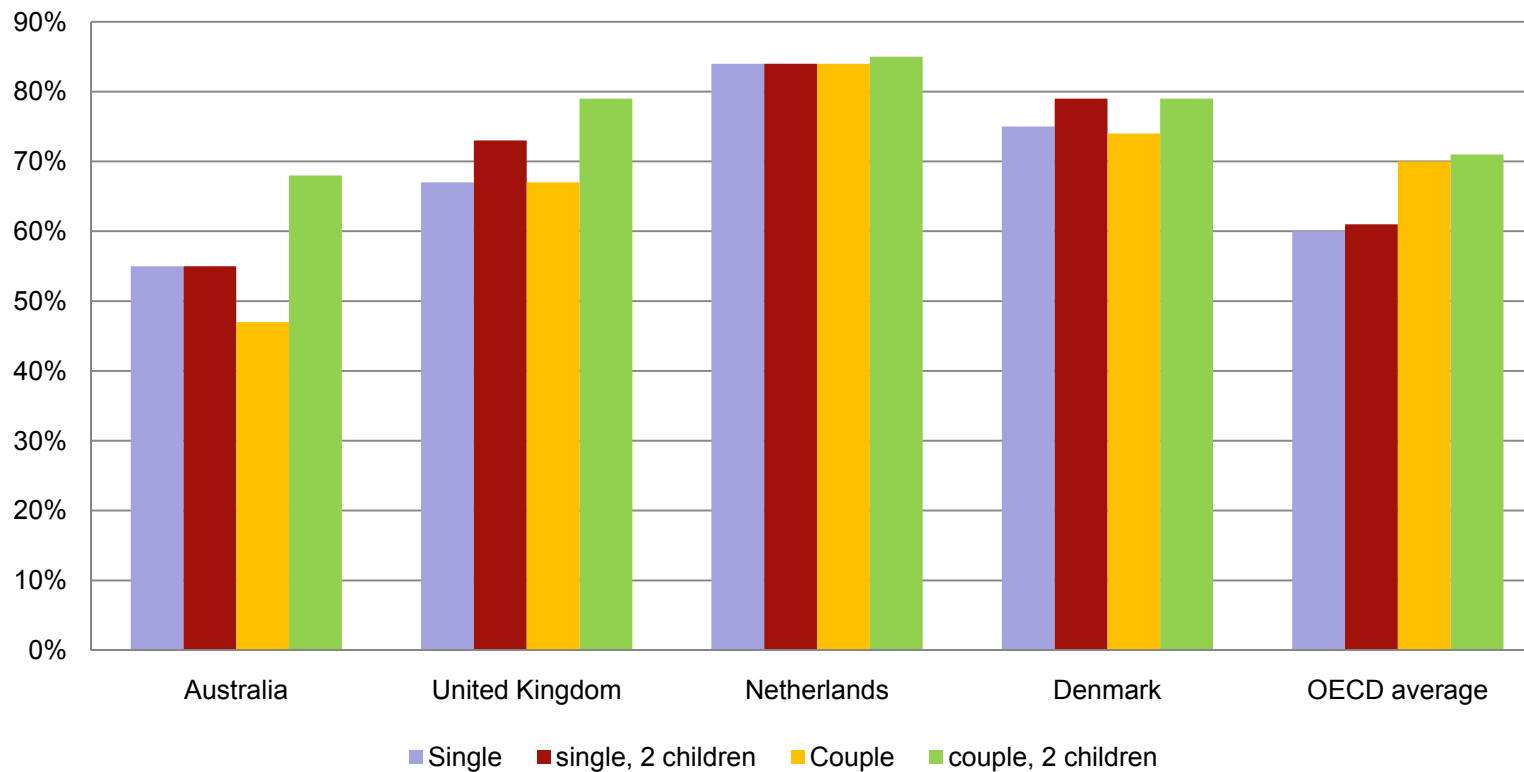
Source: OECD

Reliance on income support is slightly below OECD average

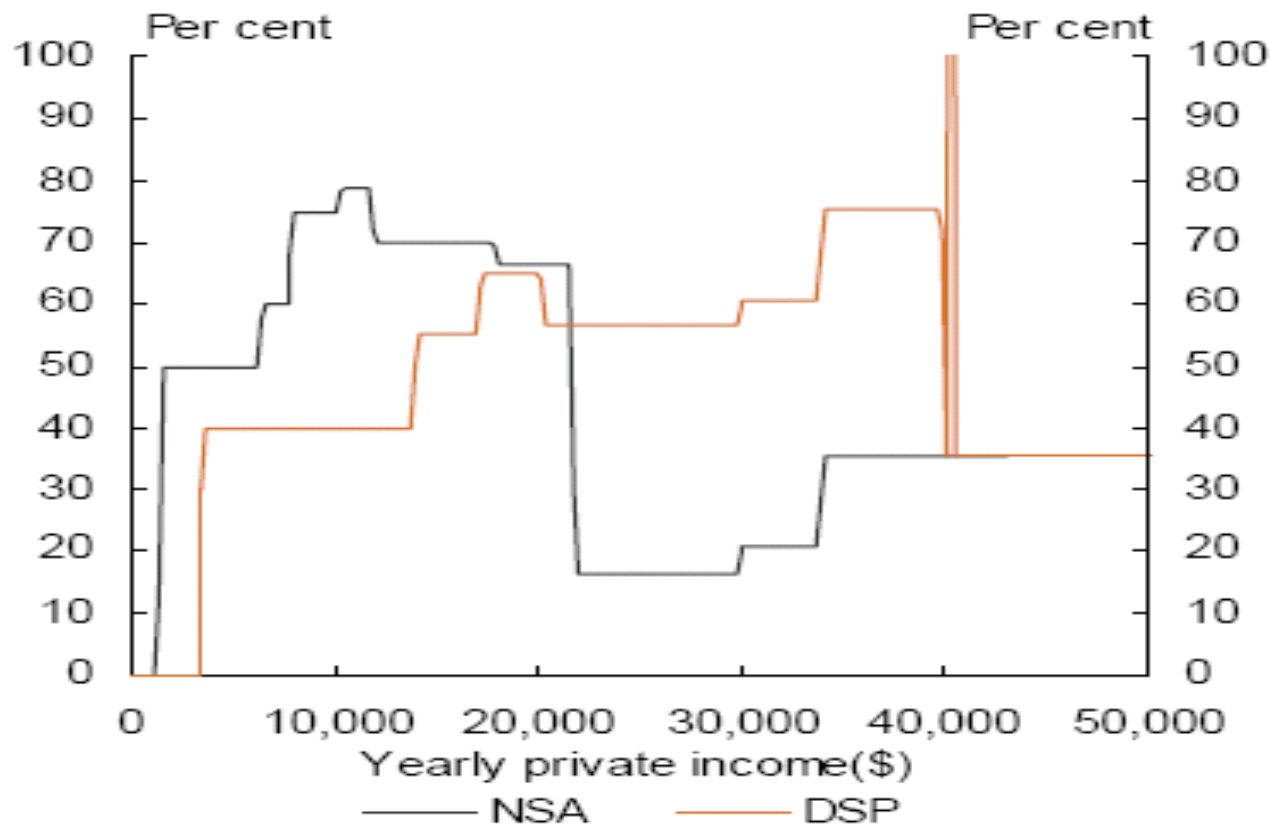


Average effective tax rates – from joblessness to low paid fulltime work (OECD, 2007)

Effective average tax rates
(\$0 to 2/3 average wage)



The trade off between encouraging part and fulltime work: Effective marginal tax rates for allowees and pensioners (2008)



References

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