



22 September 2016

Committee Secretary  
Senate Community Affairs Legislation Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
**By email:** community.affairs.sen@aph.gov.au

Dear Committee Secretary

**Inquiry into the *Social Services Legislation Amendment (Budget Repair) Bill 2016***

Thank you for the opportunity to make a submission to the Community Affairs Legislation Committee inquiry into the *Social Services Legislation Amendment (Budget Repair) Bill 2016 (Budget Repair Bill 2016)*.

The National Welfare Rights Network (**NWRN**) is the peak community organisation in the area of social security and family assistance law, policy and administration. Our members and associate members are community legal centres and organisations across the country which provide free and independent legal assistance to current and former social security and family assistance recipients. The NWRN draws on the experience and expertise of its members in developing its submissions and policy positions.

**Part 1 – Overview of the *Budget Repair Bill 2016***

The *Budget Repair Bill 2016* reintroduces four measures included in earlier bills going back to 2014. They are:

- Schedule 1: apply the proportional rate to pensions after an overseas absence of 6 weeks instead of 26 weeks<sup>1</sup>
- Schedule 2: abolish Pensioner Education Supplement<sup>2</sup>
- Schedule 3: abolish Education Entry Payment,<sup>3</sup> and

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<sup>1</sup> Originally included in the *Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015*, reintroduced in the *Social Services Legislation Amendment (Budget Repair) Bill 2015*.

<sup>2</sup> Originally included in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill 2014*, reintroduced in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014*, reintroduced in the *Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015*, reintroduced in the *Social Services Legislation Amendment (Budget Repair) Bill 2015*.

<sup>3</sup> Originally included in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill 2014*, reintroduced in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014*, reintroduced in the *Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015*, reintroduced in the *Social Services Legislation Amendment (Budget Repair) Bill 2015*.

- Schedule 4: freeze the income test free areas for working age payments and parenting payment single, and the means test thresholds and student income bank limits for student payments.<sup>4</sup>

These measures are to commence from 1 January 2017, assuming passage of the bill is not delayed, except the income free area freeze for working age payments and parenting payment single, due to commence from 1 July 2017.

The NWRN opposes these measures.

They seek to realise savings by unfairly reducing support to the poorest and most vulnerable members of our community. They form part of an overall approach to Budget repair which continues to seek savings by disproportionately reducing the incomes of the poorest and most vulnerable members of our community.

## **Part 2 – Detailed consideration of measures**

### **Schedule 1 – earlier application of the proportional rate**

In social security and family assistance legislation, a payment is said to be “portable” if it can continue to be paid while a recipient is overseas. There are different portability rules for each payment but in most cases payments are only portable for temporary absences from Australia and usually no more than 6 weeks.

A limited number of payments can continue to be paid indefinitely while a recipient is overseas. This is known as indefinite portability. In most cases, Age Pension is indefinitely portable.<sup>5</sup> The Disability Support Pension is indefinitely portable in limited circumstances: where the recipient is terminally ill and permanently departing Australia, or permanently and severely disabled with no future work capacity. A small number of remaining recipients of the Wife and Widow B pensions also have access to indefinite portability.<sup>6</sup>

Although these payments may be paid overseas indefinitely, if the recipient has not resided in Australia for at least 35 years between age 16 and age pension age their normal means tested rate of payment is reduced after they have been overseas for 26 weeks. Their rate of payment after 26 weeks is known as the “proportional rate”. This does not apply to Disability Support Pensioners with indefinite portability, if their inability to work or blindness occurred while an Australian resident.

The proportional rate is calculated by dividing their Australian Working Life Residence (that is, residence between age 16 and age pension age) by 35, and multiplying their normal means tested rate

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<sup>4</sup> Originally in two bills, the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 1) Bill 2014* and the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 2) Bill 2014*, reintroduced in the *Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014*, reintroduced in the *Social Services Legislation Amendment (Youth Employment and Other Measures) Bill 2015*, reintroduced in the *Social Services Legislation Amendment (Budget Repair) Bill 2015*.

<sup>5</sup> Refugees and former refugees in receipt of the Age Pension with less than 10 years residence in Australia do not have access to indefinite portability.

<sup>6</sup> These payments are closed to new recipients.

by that fraction. The effect is that the fewer years of Australian Working Life Residence they have, the lower their rate of payment after 26 weeks overseas absence.

Schedule 1 proposes to realise savings by reducing the period of overseas absence after which the proportional rate applies from 26 weeks to 6 weeks.

The NWRN opposes this measure.

Residence is a basic principle of Australian social security legislation. There are a range of legislative requirements in social security legislation which already give effect to this principle by limiting payments to recipients with a close connection to Australia, including:

- in most cases, a significant period of residence (10 years) is required for eligibility for the Age or Disability Support Pensions
- indefinite portability of the Disability Support Pension is available in very limited cases only
- the period of Australian Working Life Residence required to be exempt from the proportional rate reduction was raised from 25 years to 35 years in 2014, and
- payments to pensioners already reduce after 6 weeks, as the pension supplement falls to the basic amount (at current rates, a reduction of about \$42 per fortnight for singles).

Residence requirements need to be balanced against the importance of overseas travel, especially for the large proportion of Australians born overseas. This can be especially important for older Australians, who travel to see family and to access care and support. In our experience, many pensioners save up to take longer trips, in part due to the cost of air travel.

The NWRN opposes this measure. Existing legislative requirements already limit payments to recipients with a close and substantial connection to Australia and there is no warrant for further reducing income support to pensioners overseas. Savings from this measure disproportionately impact on some of the poorest in our community and may fall especially harshly on older Australians born overseas.

### **Schedules 2 and 3 – abolition of Pensioner Education Supplement and Education Entry Payment**

Schedules 2 and 3 abolish two supplementary payments for students in receipt of income support payments other than student payments.

Pensioner Education Supplement is an additional payment to certain income support payment recipients in full or part-time study to help with the costs of study. Its aim is to encourage study, which may in turn improve employment prospects.

Eligible income support recipients include recipients of Disability Support Pension, Parenting Payment Single, Carer Payment and parents or people with a disability receiving Newstart Allowance. The basic rate is currently \$62.40 or \$31.20, depending on the person's study load and circumstances.

Education Entry Payment is an annual lump sum payment of \$208 per year to help with the costs of study. For working age allowances, it is paid to long term income support recipients in receipt of payment for more than 12 months. It can also be paid to a range of other payment recipients, including Parenting Payment Single and Disability Support Pension, in addition to Pensioner Education Supplement.

The NWRN opposes these two measures.

The explanatory memorandum argues that these supplementary payments are no longer appropriate because of other forms of support such as the HECS scheme for course fees. But this argument ignores the ordinary, everyday costs for people who are studying such as additional travel and basic materials.

These two supplementary payments help provide additional support to income support recipients to begin, and continue in, study. Given the benefits of study for individual well-being and labour market prospects, these payments should be retained.

#### **Schedule 4 – freezing a range of income test thresholds**

Schedule 4 freezes current income test free area thresholds for working age payments, parenting payment single and student payments, as well as other student means test thresholds and the student income bank limit, for 3 years.

Income free area thresholds set the amount of income a person can earn before their rate of payment is reduced (by a taper rate). The current income free area for Newstart Allowance, for instance, is \$104 (before tax fortnightly income). Income in excess of this threshold reduces a person's rate of payment by 50 cents in the dollar up to income of \$254 per fortnight, and by 60 cents in the dollar after that.

These thresholds are normally indexed once per year to the Consumer Price Index in either January or July, depending on the payment.

The student income bank allows student payment recipients to accumulate credits in fortnights where they earn less than the income free area. These credits then offset income earned that exceeds the fortnightly income free area.

The NWRN opposes these measures.

These are ad hoc savings measures which reduce income support to people on low wages, who will lose more of their income support payments over time. This compounds the impact of the inadequate basic rate of payments such as Newstart Allowance and a range of cuts such as the abolition of the Income Support Bonus. It undermines incentives to work.

The student income bank helps low income students support themselves through work, especially irregular work around study commitments. This freeze reduces the ability of low income students to support themselves through study.