

Submission to the

Senate Community Affairs Legislation Committee

on the

***Social Services Legislation Amendment (Budget
Repair) Bill 2016***

15 January 2016

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1. Introduction

The NWRN is the peak body for community legal services which provide legal advice and representation to people about social security law including family assistance and employment assistance rules.

For over 30 years our members have assisted people experiencing social security problems and we have amassed a detailed knowledge of social security law and policy as well as its administration through the Department of Human Services. Our members also have direct, “on the ground” experience of the lives of people on low incomes who will be adversely affected by many of the measures in this bill.

2. Proportional payment of pensions outside Australia

This measure applies to indefinitely portable pensions. Generally indefinite portability applies only to Age Pension, but there are also a small number of saved Disability Support, Wife and Widow B pensioners with indefinite portability.

Currently, a person with an indefinitely portable pension may continue to receive the full pension rate for the first 6 months of an absence overseas. After 6 months (26 weeks), their rate is recalculated according to how many years of Australian Working Life Residence (AWLR) they have. People with less than 35 years of AWLR will receive a reduced pension, according to a formula based on the number of AWLR years they have. This is known as proportional portability.

This measure would operate so that, from 1 January 2017, the proportional portability rate would commence at 6 weeks, rather than 6 months. Thus while portability will continue to be indefinite, a person’s rate will be reduced after 6 weeks if they do not have 35 years of AWLR.

It should also be noted that in recent years the number of AWLR years required to be paid at the full rate has already increased from 25 years to 35 years.

As a nation with an ageing migrant population, Age Pension recipients from Culturally Diverse and Linguistic Backgrounds are most likely to be adversely impacted by these changes. They are more likely to have humanitarian and compassionate reasons for travel (e.g. to visit parents and family members overseas who may be elderly and require care or other assistance). Reducing the rate of Age Pension after just 6 weeks is too short a period in such circumstances.

NWRN recommends that schedule 1 be rejected in its entirety.

3. Pensioner Education Supplement and Education Entry Payment to cease

NWRN opposes the abolition of these payments. The financial assistance from Pensioner Education Supplement (PES) and Education Entry Payment (EdEP) can be used to purchase items necessary to study and participate in education, including textbooks, academic resources, course fees, transport and the internet connection needed to complete a course online.

The explanatory memorandum states that “more appropriate” channels of assistance are available via HECS-HELP, FEE HELP and VET FEE HELP tuition loan programs¹. However note these loans offer assistance *only for the costs of tuition and do not help cover costs of travel or other costs associated with study*. There have also been changes to the JET program, including the introduction of an eight dollar cap and reducing the number of hours that people can access the benefit from 50 to 36.² There is also a loan fee of 25% for FEE-HELP loans for undergraduate courses of study while a 20% loan fee applies for VET FEE HELP loans accessed by full fee paying/fee for service students.³

PES is therefore a critical payment which assists with the additional costs of study and encourages and enables Disability Support Pensioners and single parents to undertake study. Encouraging study during periods of unemployment is sound policy and the centrepiece of the government’s ‘earn or learn’ scheme directed at younger people. Maintaining PES assistance is important also for carers, particularly those who are likely to transition off carer payment and onto Newstart Allowance while still of workforce age (eg because of the life expectancy of the care receiver).

The importance of education and training on labour market participation are well known. It is difficult to reconcile the decision to cut assistance to pensioners seeking to undertake study which might increase their work readiness and employment participation in the future. Reducing assistance to the poorest students runs counter to efforts to build a smart country.

On current figures, abolition of the payment represents a loss of between \$811 and \$1,622 per year. According to the Department of Social Services, abolishing PES will affect 41,000 people each year. The closure of PES will mean the loss of \$62.40 per fortnight at the full-rate received by 92% of recipients or \$31.20 per fortnight at the part-rate, which just 8% of recipients receive⁴.

This measure will impact hardest on Disability Support pensioners and single parents, and particularly on women and younger people under 35. According to data provided to the Senate in April 2014, of those receiving PES 45% of recipients are on DSP, 42% are single parents and 8% are carers. This measure reverses the hard won reforms from 1 January 2014 which allowed single parents on Newstart Allowance to access PES. This change increased opportunities and incentives for study for single parents. Three quarters of those affected by the removal of the education supplement are women, with 31,396 receiving the payment. Six per cent are Indigenous, with 2,632 receiving the study supplement. Sixty-two per cent, or 25,672 are aged under 35.

The average time recipients receive PES is 183 weeks or roughly 3.5 years. NWRN is concerned that the Government has not considered transitional arrangements for PES recipients who are part-way through a course. Generally, PES is not available to people receiving Newstart Allowance, but when many single parents lost access to PES when they were forced onto Newstart Allowance in 2006 and again in 2013, transitional rules were enacted to enable parents already studying to complete their courses.

EdEP is a one off payment paid to recipients of certain social security payments to assist with up-front costs of commencing education and training. An EdEP payment may be paid each 12 months or each calendar year depending on the type of payment being received if the person is still studying. The current rate of EdEP is \$208.00.

¹ Explanatory Memorandum p 4

² Senate Education and Employment Legislation Committee, Hansard Transcripts, 4 June 2014, pp 20-21

³ These fees do not apply to state subsidised students: see

<http://studyassist.gov.au/sites/studyassist/help-paying-my-fees/vet-fee-help/pages/vet-fee-help#Cansubsidisedstudents>

⁴ Based on 2014 figures, see Senate Community Affairs Committee 2013/2014 Additional Estimates Hearing, Answers to Questions on Notice, Question No 655.

NWRN opposes the abolition of Education Entry Payment. Removal of the EdEP payment may deter people from commencing studies if they are unable to afford the initial up-front costs associated with commencing study. As noted above, it is difficult to reconcile the decision to cut assistance to people seeking to undertake study which might increase their work readiness in the future. Plans to cut this benefit are counter-productive.

NWRN recommends that Schedule 2 of the bill be rejected in its entirety.

4. Freeze on income free areas

The rate of workforce aged payments are widely recognised as inadequate and there is consensus about the need for meaningful reform to address marginal tax rates, income test stacking and improving incentives to work. The problems of effective marginal tax rates and stacking of income tests are well documented in the Henry Tax Review.

Unfortunately, governments continue to focus on finding savings by restricting eligibility and imposing indexation freezes rather than genuine reform to address adequacy and incentives in workforce aged payments.

On 20 March 2014 the income free area for working age payments was increased from \$62 per fortnight to \$100 per fortnight with regular ongoing indexation. It was a recommendation of the Senate Education, Employment and Workplace Relations Committee's inquiry into the adequacy of allowance payments in 2012. The committee noted concerns about the adequacy of Newstart Allowance and recommended increases to free areas and indexation⁵. As Michael Klapdor points out, *"The income free area for NSA has rarely changed since the unemployment benefit was introduced in 1945 and when it has been changed, it has been with the intention of encouraging jobseekers to take up part-time work and to help payment recipients overcome poverty traps."*⁶

Increasing income free areas is a poor substitute for real reform addressing the problem of the inadequacy of payments. To propose undermining existing free areas by freezing indexation, in the face of clear inadequacy of workforce age payments, is indefensible.

NWRN also opposes pauses to indexation of income free thresholds because it would increase effective marginal tax rates and undermines incentives to work.

It should be remembered that indexation freezes can have complex interactions for people when stacking of income tests occurs and must also be considered in the context of other recent or proposed changes which will undermine the adequacy for youth, student and working age payments. Some recent examples include:

- reductions in support for families with older children in the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015* which passed on 30 November 2015;
- abolition of the large family supplement;

⁵ Senate Standing Committee on Education, Employment and Workplace Relations, [*The adequacy of the allowance payment system for jobseekers and others, the appropriateness of the allowance payment system as a support into work and the impact of the changing nature of the labour market*](#), The Senate, Canberra, 2012, p. 76,

⁶ Klapdor, M. Work and study incentives for the unemployed and single parents accessed 5 January 2016 at http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201314/WorkStudyIncentives#_ftn3

- proposed abolition of Pensioner Education Supplement and Education Entry Payment (this bill); and
- proposed four week waiting period for young people in the Social Services Legislation Amendment (Youth Employment) Bill 2015.

It is clear that people who are subject to more than one income test will be disproportionately impacted by freezes to thresholds. An example is a low income working family with four children including older children. Part time and casual incomes of the parents and teenagers will be caught by both FTB A and FTB B income tests, as well as the YA income tests. Meanwhile, the overall family income has reduced by roughly \$3,500-\$4,000 per year⁷ under the family payment measures which passed the parliament on 30 November 2015. Moreover, family income will be further reduced if the large family supplement is abolished as proposed.

The government saved billions in changes to the assets test for pensioners last year, implementing recommendations for savings made by ACOSS and the NWRN. The Government must now look elsewhere for “budget repair” savings and not further target the rate and income thresholds and tapers of inadequate workforce age payments.

NWRN recommends that schedule 3 of the bill be rejected.

⁷ See analysis of Professor Peter Whiteford “Family Tax Benefit savings trimmed but families with teenagers hit hardest” The Conversation 22 October 2015: <https://theconversation.com/family-tax-benefit-savings-trimmed-but-families-with-teenagers-hit-hardest-49496>