COMBINED PENSIONERS & SUPERANNUANTS ASSOCIATION OF NSW INC

Submission to the Minister for Social Services on the Interim Report of the Reference Group on Welfare Reform: ‘A New System for Better Employment and Social Services’

8 August 2014

Combined Pensioners & Superannuants Association of NSW Inc (CPSA)
Address: Level 9, 28 Foveaux Street, Surry Hills NSW 2010 **ABN**: 11 244 559 772
Phone: (02) 9281 3588 **Country Callers**: 1800 451 488 **Facsimile**: (02) 9281 9716
Email: cpsa@cpsa.org.au **Website**: www.cpsa.org.au **Donations:** 1800 451 488

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 130 branches and affiliated organisations with a combined membership of over 30,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

Working age payment

Whilst CPSA acknowledges that Australia's welfare system is complex, CPSA does not want to see a shift towards simplicity and fewer primary payments if it is to the detriment of current and future Centrelink recipients. Additionally, CPSA does not want to see the current or future value of pension and allowance supplements reduced through a simplification of the welfare system. While supportive of a simplification of Australia's welfare system in principle - claiming and meeting reporting requirements for recipients can be a confusing task - CPSA cannot see how creating a single working age payment with different tiers and different payment rates and responsibilities based on a person's circumstances such as caring responsibilities, age and disability will achieve this objective. It appears like a situation of change for change's sake rather than providing the means for people to obtain an adequate income and transition into work if they are able to do so.

CPSA is opposed to welfare reform which reduces payments to people in need or attaches onerous conditions to payments and does little to improve the lives of income support recipients. CPSA upholds that people should work if they can, but welfare reform which aims to move people into work must consider external factors such as labour market conditions, access to affordable childcare, transport availability and workplace discrimination. Given previous reforms such as Welfare to Work and Work-for-the-Dole have not resulted in large numbers of income support recipients moving into work, CPSA submits that reforms should focus on external forces which impact employment, particularly for older unemployed people and people with disabilities.

CPSA is strongly against increasing the Age Pension qualification age. Doing so disadvantages the least well-off whilst older people with healthy superannuation balances or other assets will not be affected by this change. Lifting the Age Pension qualification age would not be so bad if Australia had a decent safety net for the unemployed to support them if they cannot find work. But Australia does not. Newstart is one of the lowest unemployment benefits in the OECD. The OECD has recommended that Australia addresses the inadequacy of Newstart as part of better tackling poverty.[1] Newstart has a 39 per cent net replacement rate for an income earner earning 67 per cent of average earnings (including Commonwealth Rent Assistance).[2] It is little wonder that long-term unemployed people have poorer health outcomes, experience severe housing stress or homelessness, social isolation, and find gaining employment difficult. However, by 2035, a 68-year-old unemployed person will be condemned to etching out a living on Newstart for another two years if they cannot find work if the Age Pension age

[1] OECD (2012) 'Activating jobseekers: How Australia does it', Available: http://www.oecd-ilibrary.org/employment/activating-jobseekers_9789264185920-en

[2] OECD (2012) 'Net replacement rates – long-term unemployment: 2001-2012', Available: www.oecd.org/els/social/workincentives

increase to 70 takes effect. Australians may be living longer but that does not mean that most can work for longer. Increasing the Age Pension qualification age to 70 will place older people who cannot find work in poverty.

Gaps between pensions and allowances

CPSA supports the report's consideration of reducing the current gap between pensions and allowances. Many people living on allowance payments face significant limitations to their work capacity both through ill health, disability and structural barriers to finding appropriate, long term work opportunities. With 74.3 per cent of Newstart recipients being on the payment for more than one year[3], it is increasingly clear that Newstart is no longer a transitional payment to assist people between jobs. Of these long-term Newstart recipients, one third are aged between 50 and 64.[4] CPSA is concerned that meaningful opportunities (or a lack thereof) for older people and people with disabilities are not given adequate consideration by Government.

CPSA is concerned that the gap between allowances and pensions continues to grow because of the difference between the indexation measures which are used and is supportive of a move to close this gap by increasing allowance amounts paid. In 1997 Newstart Allowance was 91 per cent of pensions; today it is worth 60.5 per cent of pensions.[5]

CPSA is strongly opposed to changing the indexation of pensions to the Consumer Price Index (CPI) alone (as is the case with Newstart and attributes to its drop in value against the pension) and the removal of benchmarking against Male Total Average Weekly Earnings (MATAWE) and the Pensioner and Beneficiary Living Cost Index (PBLCI) from 20 September 2017 as proposed in the 2014 Federal Budget. Using the CPI alone will reduce the value of all Centrelink pensions in real terms and will see pensioner incomes fall back below the poverty line. Over the last ten bi-annual pension increases, which currently look at all three measures and use whichever will result in a higher increase to the pension, six increases have been the result of increases in wages, three have been the result of the PBLCI and only one has been the result of changes to CPI.

This Budget measure is expected to achieve a relatively modest saving of $449 million over the forward estimates. This change however, will be far from modest for pensioners. The greatest impact will be felt by the 2,170,292 full-rate pensioners (65.4 per cent of all Age, Disability Support and Carer pensioners) whose incomes will fall behind community living standards. Indexing pensions by CPI alone is expected to reduce the relative value

---

[3] Australian Government Department of Social Services (2013) 'Income support customers: a statistical overview 2012, Statistical Paper No. 11, p. 39.

[4] Australian Department of Social Services (2013) 'Income support customers: a statistical overview 2012', *Statistical Paper No. 11* p.39

[5] Based on current single Pension and single Newstart rates which are $842.80 per fortnight and $510.50 respectively.

of both the single and couple pensions by 21 per cent over ten years.[6] Modelling done by CPSA shows that in dollar terms, this equates to a $100 per week drop in the single pension and a $150 per week drop in the couple pension. Parenting Payment (Single) is expected to reduce in value by $75 per week over ten years.[7]

Historically, CPI has increased at a rate below that of both MATAWE and the PBLCI and is not reflective of the increases in goods and services which pensioners spend their money on. The CPI measures price movements of a basket of goods for the Australian population as a whole: it does not recognise the different purchasing patterns of low-income households compared with high-income households, which is why the Pensioner and Beneficiary Living Cost Index was introduced in 2009. On its own, CPI indexation will only see pensions maintain their real value according to their purchasing power at one point in time. This is an inadequate way of indexing payments, as exemplified by the decline of the Newstart Allowance compared with the incomes of the rest of the community.

Recommendations:
That an independent body, similar to the Remuneration Tribunal which sets pay rates for federal politicians, be set up to determine both the payment rates for pensions and allowances and a mechanism to maintain their adequacy over time.

That pension indexation continue to be based on three measures – MATAWE, PBLCI and CPI and that allowances be increased by $50 per week and indexed in the same way as pensions.

Greater consistency

CPSA agrees that the income and asset free areas, taper rates and waiting periods are complicated and that a move towards more consistent rules could have the potential to make the system simpler and easier to navigate. What has been proposed by the Australian Government however does not move Australia towards meeting this aim and CPSA is concerned that blanket consistency will be to the disadvantage of particular Centrelink recipients.

Waiting periods

CPSA is against any move to create consistent waiting periods for income support access simply for waiting period's sake. People who are eligible for a Centrelink payment should be able to access it as soon as possible; it is already problematic that people can wait considerable periods for their applications to be processed. Whilst people can be back paid once deemed eligible, this period where no income is received pushes people

---

[6] CPSA modelling – available upon request
[7] ACOSS (2014) 'A Budget to divide the nation; ACOSS 2014/15 Budget Analysis' 22 May, p.11

into hardship. Additionally, it must be noted that many people resist applying for a Centrelink benefit until they have exhausted all other financial avenues available to them. Any restriction to them accessing a payment puts them in undue hardship.

Similarly, CPSA is against the liquid asset waiting period applied to allowance payments and while pleased that the limit was increased in 2013, would like to see it removed. It disadvantages retrenched workers and those with modest savings who are forced to dwindle down any money they may have accrued before being able to access a modest Centrelink allowance. People applying for an allowance, especially those who have been employed in low paid work over a number of years, are particularly disadvantaged by the Liquid Assets Waiting Period. The ability to hold onto some savings is important in acting as a buffer when unexpected or large expenses need to be met. In particular, the ability to be able to continue to maintain housing is crucial and being able to hold onto some savings would assist people in being able to continue to make mortgage repayments, pay council rates and pay rent.

CPSA is opposed to any radical change to the welfare system which will see stricter requirements placed upon applicants and is horrified at the proposal to quarantine people from welfare payments entirely, not based on their personal resources but based on age. Such a move will force people into poverty, something which the Australian Government has recognised by committing $230 million to funding to emergency relief for young people who have social security payments withheld with Senate Estimates anticipating that more than 500,000 people under the age of 30 may need to access this over the next four years. The basic principle behind Australia's welfare system is that it should act as a safety net and any measure to withhold support to those who meet the income and asset requirements undermines this overarching premise upon which our social security system is based.

Far from making the system 'fairer and more sustainable', this measure will have enormous knock-on effects. It is difficult to see how this measure will not increase homelessness and entrench poverty. It assumes that all young people have sufficiently wealthy families to turn to for help, right up until they are 30 years old. It will make job hunting near impossible because they will have no income to pay for transport, a telephone, internet access, newspapers, or clothing for job interviews. This is not to mention the difficulties of finding a job when you do not have an income which covers the costs of adequate food, clothing, shelter, and healthcare. As ACOSS has stated, this measure will singlehandedly undo 70 years of social security policy in Australia by removing the safety net for young, unemployed people.

This measure will force young people to undertake education and training which may have no relevance to their career prospects or interests. Such education and training may present a substantial cost to the young person or place them in further debt. It can also be difficult to access education and training and it is probable that this measure will make entry into courses more difficult because of an increase in demand. This measure will be unfairly detrimental to people aged under 25 who have not had time to accrue an employment history and therefore have little chance of reducing the exclusion period.

Recommendations:
That arbitrary wait times for Centrelink allowances be removed and not extended to pensions.

That the proposal for exclusion periods for social security for people under the age of 30 not be implemented.

Asset test

CPSA is strongly opposed to the inclusion of the family home in the pension asset test. Built into the pension system is the assumption that people own their own home, something that is increasingly not the case as outlined in further detail later in this submission. Owning a home is a critical barrier against poverty when living on a pension. It is by no means a fool-proof barrier but puts people in a more secure position, particularly in terms of security of tenure. In light of this, it is important that the asset test thresholds for non-homeowners remain higher as they face higher housing costs.

Recommendation:
That the home in which people are residing continue to be excluded from the pension asset test.

State based concessions and rebates

Whilst understanding that recommendations about state based concessions and rebates are outside the scope of the Reference Group, they are nevertheless important as they assist people living on Centrelink pensions to pay for essentials such as transport, utilities and council rates. The future of state concessions is in jeopardy after the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders was cancelled in the 2014 Federal Budget. Such concessions are vital for pensioners to be able to manage on low fixed incomes. With concessions facing an uncertain future it is essential that Centrelink recipients receive an income that is at a level that is adequate for them to access affordable transport and assist with the ever increasing utility costs. Additionally, CPSA continues to advocate for unemployed people to be able to access such rebates and concessions. Not only are unemployed people forced to live on a much lower benefit, they are not entitled to the same concessions which acts as a further barrier to remaining engaged in the community, to remaining in their homes and to successful job searching. CPSA does not want to see any changes to payment types which will see recipients lose access to pensioner concessions, for example through a move to a working age payment.

Mutual obligation

With respect to moving Centrelink recipients into work, CPSA supports programs which are genuinely effective in getting people into secure employment. However, reform of employment obligations must be evidence-based, otherwise it is unlikely to work, will be expensive and will further demonise disadvantaged jobseekers. In this vein, CPSA is opposed to blanket 'work-for-the-dole' schemes. The former Work-for-the-Dole scheme was poorly tailored to individual jobseekers needs, did little to prepare people for jobs and resulted in them having less time to look for work.[8]

Job seekers, particularly people who are unemployed long-term, should be able to receive tailored assistance to help them find work. More importantly, the Australian Government should turn its attention to the structural reasons for unemployment, such as poor labour market conditions and discrimination against older, unemployed people. There is little merit in targeting reforms at individuals by way of attaching more conditions to payments or tightening eligibility requirements, when external conditions are responsible for unemployment.

Programs targeting employers (such as Restart announced in the 2014 Federal Budget which provides financial incentives for hiring older workers who have been on a Centrelink payment for more than six months) are more appropriate. Having said this, whilst the Restart program is a welcome initiative to address the problem of long-term unemployment of people aged 50 and over, funding is insufficient to seriously tackle the problem. A rough calculation shows that approximately 30,000 older unemployed people would be helped by Restart (assuming all employers employ the older person for two years and receive the full $10,000 available). However, as at June 2012, there were 102,634 long-term unemployed people aged 50 or over receiving Newstart. Restart is a good move to address ageism in the workplace, but it is only a down-payment on addressing structural problems in the labour market which contribute to long-term unemployment among older people.

Income management

CPSA opposes any extension of income management, which is a costly initiative with no conclusive evidence that it achieves its stated objectives. Compulsory income management is counter-productive to the central aims of this welfare review about fostering independence and developing skills and decision making capacity. Welfare Rights notes that for some people income management applied on a voluntary basis can be a useful financial management tool, there is limited evidence of significant

[8] Borland, J. & Tseng, Yi-Peng (2004) 'Does 'Work for the Dole' Work?' Melbourne Institute Working Paper No. 14/04 http://dtl.unimelb.edu.au/R/S4IMG6K7H7D1Q6DQTMI2522BEUIYG4SFV4M439FSEM32H42J1Y-00115?func=dbin-jump-full&object_id=66032&local_base=GEN01&pds_handle=GUEST

improvements in the social and economic health of those targeted.[9] It is extremely expensive to run, costing more than $1 billion since its introduction in 2005/06[10].

Recommendation:
That income management not be extended and that compulsory income management be abandoned.

Affordable Housing and Rent Assistance

The lack of affordable housing is having severe repercussions for people on low incomes. CPSA defines 'affordable housing' as where the household pays no more than 30 per cent of their gross household income on housing costs. It is clear that priority must be given to alleviating housing stress for low-income people living in private rental accommodation, particularly in metropolitan areas. It is anticipated that this problem will get worse without substantial intervention, not least because the rate of home ownership is declining amongst retirees, meaning that more people will be renting in their retirement. In particular, current allowance rates (even when Rent Assistance is factored in where applied) do not provide people with the level of income required to pay for mortgages and rates or rent, putting people's housing in jeopardy.

CPSA was disappointed that the 2014 Federal Budget removed incentives to build affordable housing by ceasing funding to the states and territories through the National Rental Affordability Scheme (NRAS). Despite this cessation of funding there are several other options the Australian Government could adopt to improve access to affordable housing for low-income householders. Presently Commonwealth Rent Assistance (CRA) is poorly targeted and fails to prevent housing stress for most renters of privately owned accommodation, particularly those living in metropolitan areas. For example, CRA should be topped up by between $63 to $215 per week in the Sydney and equivalent metropolitan regions to prevent housing stress for singles and couples living in a small unit. On the other hand, CRA does prevent housing stress in places like Dubbo, Shoalhaven and Kempsey WHEN smaller stock is available.[11]

It is estimated that there are 35,000 low to moderate income, over-65, renter households in housing stress in NSW. This is projected to double by 2036. There are virtually no areas in Sydney where a small, one-bedroom unit is affordable for a single or couple pensioner household in receipt of the full-rate pension. In rural and regional areas, there is a lack of diverse housing stock, so there are fewer smaller dwellings which would

[9] National Welfare Rights Network (2014) *State of Play: Income Management in 2014*. P.4-5. https://www.welfarerights.org.au/sites/default/files/news/Income%20Management%20Analysis%20March%202014.pdf
[10] Buckmaster, L. Ey, C and Klapdor, M. (2012 Income management: an overview, Background Note, Parliamentary Library, June, p. 40.
[11] Judith Stubbs and Associates (2014)

otherwise be affordable.[12] The situation is worse for people receiving substantially lower incomes and trying to survive on allowance payments.

If CRA was increased to the maximum amount as mentioned above (approximately $275 per week), the cost to the Australian Government per tenancy would be $14,300 per annum. By contrast, the average cost of a social housing dwelling per tenancy is $26,000 per annum in NSW. Lifting the rate of CRA could help make housing affordable for a large number of low-income renters and would involve a much smaller outlay than funding sufficient social housing stock to meet demand.[13]

In addition, the Australian Government must commit extra funds to increase social housing stock. There is a clear need for extra social housing stock nation-wide, particularly to cater for the needs of vulnerable groups. Between 2001 and 2006, there was a 23 per cent increase in the number of homeless people aged 65 and over, and a 36 per cent increase in homeless people aged between 55 and 64. Although the number of homeless people aged over 55 remains smaller than younger groups, the rise for both groups represents the largest increase amongst all cohorts.[14]

Unlike rental of privately owned housing, social housing guarantees affordability for the tenant as well as security of tenure in most cases. These factors are critical to older people, people with disability and other disadvantaged groups on low incomes. The Australian Government should commit funding to increase social housing dwelling stock targeted in areas with the greatest shortfalls. New social housing stock should be smaller and accessible to reflect the changing demographic of people in need of social housing. CPSA is supportive of public housing tenants being able to access CRA.

Recommendations:
That Rent Assistance be increased, with different weightings according to area (metropolitan, inner regional, outer regional).

That CRA be available to public housing tenants, as it is to community housing tenants.

National Disability Insurance Scheme

CPSA is a strong supporter of the National Disability Insurance Scheme (NDIS) and does not wish to see the roll out of the Scheme weakened or delayed in any way. The NDIS will greatly assist many people with disabilities gain employment and stay employed. It is designed to provide assistance both at home and in the workplace to ensure that the

[12] Ibid.
[13] Ibid.
[14] Ibid.

person is not disadvantaged because of their disability. However, it won't be until 2019 that the NDIS is fully operational Australia-wide and so at this stage it is too soon to determine the extent to which it will have a positive impact in enabling people with disability and their carers to take up paid employment. Furthermore, the age cap of 65 years for accessing the NDIS means that a number of older Australians will not be able to access the scheme. This will have an impact on the supports they will be able to receive and may also limit the level of training and employment opportunities that a carer of an older person may be able to take on. As a result CPSA does not want to see a situation where carers or people with disabilities are faced with undue activity engagements before the impact of the NDIS is realised and can be adequately evaluated.

Recommendation:
That people in receipt of the Disability Support Pension and Carers Payment should not be subject to participation requirements.