18 June 2009

Chair
Senator Moore
Senate Community Affairs - Legislation
Committee
Parliament House
Canberra ACT 2600

Dear Senator Moore,

Re: Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill

The following is our brief submission to your Committee's inquiry into this legislation.

While we appreciate the urgency of this matter given the proposed timeline for implementation of pension increases and other changes, ACOSS is concerned that so little time has been allocated to this inquiry, which deals with fundamental changes in Australia's social security system.

The Government consulted with ACOSS and other interested parties in the development of these policies through the Harmer Pension Review and the Henry Review on retirement incomes. However, a fundamental weakness of this process was that there was no opportunity to consider the impact of the proposed changes on the social security system as a whole, which the Henry Review is now examining. This contributed in no small part to the problems with the legislation which we describe below. In particular, the adequacy of (most but not all) pensions was considered by the Harmer Review without regard to the adequacy of other payments, and a major change is now proposed to Family Tax Benefits that was not examined in either of the above inquiries. While the outcome of the legislation before the Senate will be greatly improved income support for most pensioners, it will also result in a less equitable and more complex social security system.

Attached is our submission to the short inquiry the Henry Review conducted into retirement incomes. We called for substantial improvements in maximum rates of all income support payments for single people to alleviate the worst financial hardship, to be financed in part by tighter income tests and a reduction in tax concessions for superannuation and for higher income mature age people. To encourage mature age people to remain in the paid workforce longer and render superannuation tax concessions more fiscally sustainable, we also advocated an increase in the preservation age for superannuation benefits. However, ACOSS opposed any increase in the pension age in the absence of a corresponding increase in the superannuation preservation age.

We strongly support the increase in the single pension rate contained in the Bill and also urge the Committee to recommend:

- That the Bill be amended to extend this increase to sole parents on Parenting Payment Single and that the Government be urged to bring new legislation before the Parliament to extend the increase to recipients of all other income support payments including Newstart Allowance.

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- That the proposed freeze in the real value of Family Tax Benefits for low income families be opposed.
- That the proposed tightening of the pension income test to restore the pre-2000 taper rate of 50 cents in the dollar be supported.
- That the proposed increase in the pension age be opposed in the absence of an increase in the superannuation preservation age, and instead that the Committee recommends a more rapid increase in the preservation age for superannuation to equal the current pension age, as recommended by the Henry Review.
- That legislation to implement the proposed lowering of the annual cap on concessionally taxed superannuation contributions be introduced as soon as possible so that it can be voted on in conjunction with the current Bill.

The scope of the pension increases

If legislated, the present Bill would usher in the largest increase in pensions for single people since the Whitlam Government in the 1970s. This is an historic and very welcome development. We strongly support the increases for single people because as the evidence presented in the Harmer Review makes clear, it is they who experience the greatest hardship, and single and partnered rates are out of kilter by international standards. We also note that the Harmer Review did not recommend an increase to the partnered rate.

The main weakness of the legislation is that the payment increase for single people does not extend to people on allowance payments such as Newstart Allowance and Austudy payment, nor to sole parents despite the fact that Parenting Payment Single is part of the pension system. It is very clear from research on financial hardship in Australia, and from our own members such as emergency relief providers, that these groups face at least the same risk of deprivation, if not a greater one, than age pensioners. Unfortunately, this evidence was not fully explored by the Harmer Review because its terms of reference were limited to a narrow range of pension payments.

For example, as outlined in the attached ACOSS Budget Analysis, 'The winners and losers from the pension increase', research by the Social Policy Research Centre that examined the number of essential items that different groups in the community lacked found that 19% of single mature age people could not afford three or more essential items (for example, a decent and secure home) compared to 8% of mature couples, 54% of unemployed people, 49% of sole parents, and 27% of people with disabilities. A major factor leading to financial hardship among the latter three groups is that a high proportion rent their housing.

The proposed increases in some pensions will substantially widen the existing gaps between different social security payments, and open up a new one between sole parents and other pensioners. For example, the gap between single rates of pension (including the proposed supplement) and Newstart Allowance will open up to over $100 per week. Apart from the inequity of this payment gap, it will also give rise to greater complexity in the system, and exacerbate work disincentives for people with disabilities. Since Allowances are only indexed to the CPI and pensions are indexed to average earnings, this gap will widen substantially in future years. Given that many people transition between different payments, an increasing gap of this magnitude is not sustainable. Even before the proposed changes were announced in the Budget, it was estimated that in 30 years, Newstart Allowance will be just half the pension rate.

If the increases are not extended to payments for unemployed people and jobless sole parents an opportunity will be lost to ease hardship among the people most severely affected by the present economic downturn.

No evidence has been presented to suggest that rates of payment should be lower for unemployed people, sole parents and students living independently of their parents. Indeed, the budget standards research cited in the Harmer Report indicates that the cost of living is higher for unemployed people due to the costs of job search. There is scope for a $30 increase in Newstart Allowance for single people without harming work incentives, since a single adult on this payment would currently almost double their disposable income if they obtain a job at the minimum wage.

ACOSS therefore recommends that the Bill be amended to at least extend the increase in single pension rates to sole parents on Parenting Payment Single, and we ask the Government to commit to introduce legislation as soon as practicable to extend this increase also to all ‘Allowance’ payments.

Indexation of Family Tax Benefits

The proposed removal of the link between the maximum rate of Family Tax Benefit Part A and the partnered rate of pension would bring to a close the previous Labor Government’s efforts to reduce child poverty by setting benchmarks for the adequacy of family payments. The maximum level of family payments for each child aged less than 13, and 13-15 years in a low income family was tied to 16.6% and 21.6% (respectively) of the married couple rate of pension. The aim was a payment structure that reflected the costs of children relative to that of adults. At the same time, since pensions were linked to average earnings, family payments were also increased in line with community incomes so that children in low income families did not fall behind.

The maximum rate of payment extends to low income families on around $43,000 or less. These are the families affected by the legislation. Most are jobless though a substantial minority is employed on low pay. Most are sole parent families.

This savings measure has been introduced without inquiry or consultation. No evidence has been presented that these benchmarks are wrong, or that low income families have a lesser need for payment increases than pensioners. As indicated above, the evidence suggests that low income families, especially sole parent families, already face a relatively high level of financial hardship. For example, a jobless sole parent family with two school age children receives just $550 a week in income support and family payments. Around half of sole parents rent their housing, and a typical private rent in a capital city would be more than half this amount.

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Any policy such the removal of these benchmarks that allows their incomes to fall behind those of the community generally will almost inevitably lead to an increase in child poverty. To rob low income families to pay pensioners is unnecessary and inequitable.

We recommend that this measure be opposed.

Pension income test

ACOSS supports the Government's proposal to restore the former 50% taper rate in the pension income test. The current income test extends pension entitlements to a couple on more than $60,000 a year. The cost of this relatively liberal income test will escalate as the population ages and more mature age people receive higher incomes from superannuation. We do not think it likely that a 50% taper rate will substantially reduce workforce participation among mature age people, especially in light of the proposed higher 'free area' for earned income.

Pension age and superannuation

ACOSS supports the intention behind the proposed increase in the pension age - to encourage mature age people to remain employed as the population ages - but we believe the Government is addressing the problem from the wrong end. It should focus first on encouraging people not to retire before 65. Our views on this issue are briefly outlined in the attached opinion piece.

Currently, only half of people aged 60-65 is employed and only one fifth is employed full time. One of the reasons for this is that people can access their superannuation at 55 years. Although the Henry and Harmer Reviews recommended that the preservation age be raised more rapidly to the pension age, this has not been decided so far.

Raising the pension age would mainly affect those mature age people who have limited options to remain in work. Presently, around half of people who reach pension age and claim the age pension are already on other income support payments such as Disability Support Pension or Newstart Allowance. Most are low skilled, and many have disabilities or caring responsibilities. In the absence of a dramatic change in the labour market fortunes of low skilled mature age people, the vast majority of these people will continue to receive income support beyond 65 years, though many will only qualify for the lower Newstart Allowance until reaching the age pension age. The savings to the Budget are likely to be small for many years, and come largely at the expense of people forced to stay on lower payments.

On the other hand, an increase in the preservation age is likely to yield substantial savings to Government and significant improvements in employment among mature age people. One reason for this is that those most affected (people with larger superannuation balances) are more likely to have good health and labour market prospects. Another reason is that this would end the practice of avoiding income tax by churning income through superannuation accounts, at least for those aged 55 to 65. An increase in the preservation age should be phased in, and exceptions should be made for people with disabilities and caring responsibilities that are sufficient to qualify them for Disability Support Pension or Carer Payment. Although this would also affect low income mature age workers, their superannuation balances are usually so low that the benefits of early access to superannuation are doubtful in the first place.

Once the preservation age and pension age are the same, consideration could then be given to raising both.

We therefore recommend that the proposed increase in the pension age be opposed in the absence of any increase in the superannuation preservation age.

As outlined in our submission to the Henry Review (attached), ACOSS considers that the current tax concessions for superannuation contributions provide excessive support for high income earners likely to save anyway, and too little to people on low and middle incomes. We therefore welcome the announcement in the Budget that the Government proposes to lower the annual cap on concessionally taxed contributions. However, as this is integral to the Government's retirement incomes package, the enabling legislation should be tabled at the same time as the current Bill so that they can be implemented together.

In conclusion, the Bill would substantially improve pensions for single people but at the expense of a more complex and inequitable social security system as a whole. The large gaps between different income support payments for people of working age will also make the Henry Review's task in reforming the transfer system much more difficult. Better and fairer outcomes could have been achieved if the Government had reviewed the system as a whole before making the historic changes embodied in the Bill.

ACOSS appreciates the Committee's invitation to appear before it to discuss these matters further.

Yours sincerely

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