

# ACOSS Snapshot

## Social Security in Australia: Current Trends

3 May 2017



The key to good policy is evidence, based on facts.

In the lead up to this year's Federal Budget, we are seeing continued attacks on people who are unemployed. The perception created is that large numbers of people receiving social security payments are 'welfare cheats', 'layabouts' and 'addicted to welfare', and that our security spend is blowing out. This is simply incorrect.

This Snapshot gives you key facts on social security spending and policy in Australia.

You will see that, as a proportion of the whole budget, our social security payments are extremely low. Australia's spending on income support is trending downwards and is low by international standards. Projected spending on unemployment payments is projected to decline as a proportion of GDP.

The Snapshot is about social security as opposed to human services such as aged care, the National Disability Insurance Scheme and childcare.

We hope these facts inform our community and their desire for a budget that genuinely helps lift people out of poverty rather than disadvantage them further.

### The facts

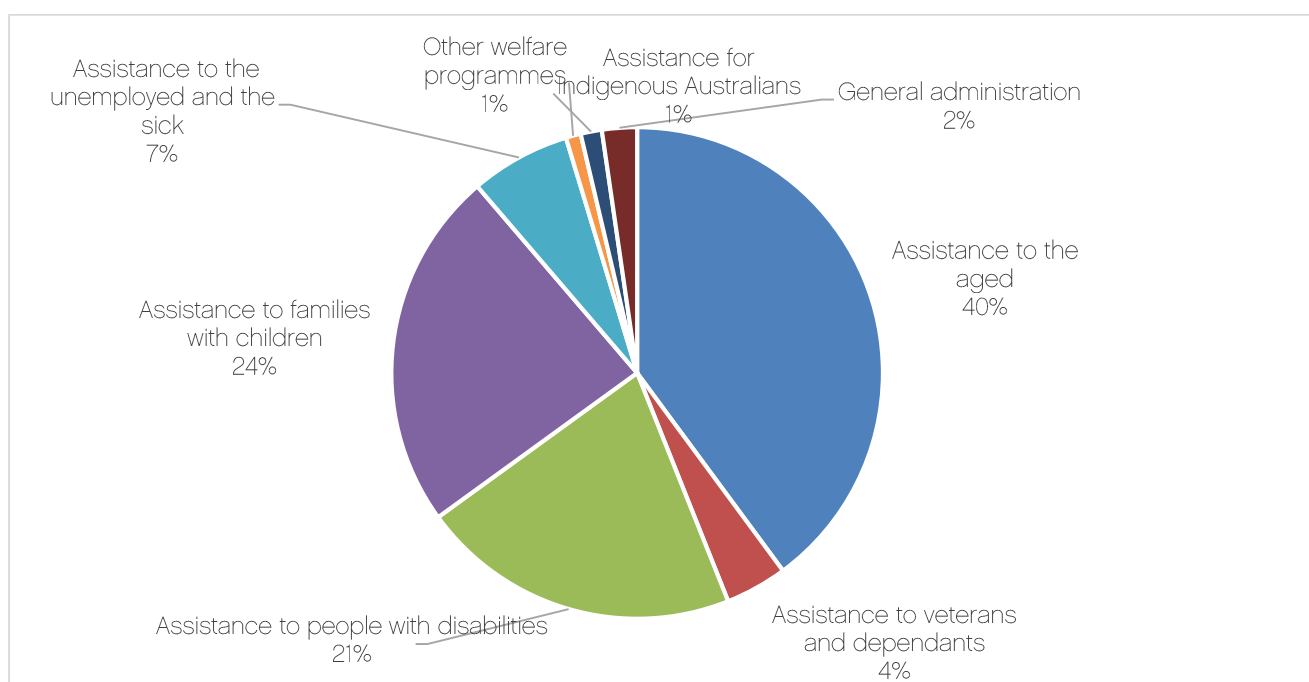
In Australia:

- 3 million people live in poverty, comprising 13.3% of the population.
- 731,000 children live below the poverty line.<sup>1</sup>
- Inequality in Australia is the highest it has been since the 1950s.<sup>2</sup> The World Economic Forum states that rising inequality risks undermining the global economy.<sup>3</sup>
- Long-term unemployment has almost tripled since the Global Financial Crisis.<sup>4</sup> Seventy percent of people on Newstart are long term unemployed.
- There is only one job available for every ten people locked out of paid work or who want more paid work.<sup>5</sup>
- Spending on the Age Pension remains the largest area of social security expenditure, quadrupling that spent on unemployment payments (\$44b versus \$11b in 15/16)
- Spending on Newstart is flat-lined and is growing slower than GDP.
- Our rates of social security payment are well below the poverty line and some \$176 per week below the pension.
- Australia has the most targeted system of income support in the OECD, with people in the bottom 20% receiving 12 times that of people in the top 20% (2014).

- While Age Pension and Newstart numbers have been rising, the number of people receiving Disability Support Pension, Youth Allowance and parenting payments have been trending downwards since 2014.
- People who are unemployed are subjected to one of the more onerous job search regimes in the OECD to get a payment.
- The International Monetary Fund states that lifting up living standards of people on low and middle incomes is the most important way to increase growth.<sup>6</sup>

## Our social security spend primarily goes to Age Pensions

Spending on the Age Pension remains the largest area of social security expenditure, quadrupling that spent on unemployment payments (\$44b versus \$11b in 15/16).<sup>7</sup> This is because most older people qualify for the Age Pension in their retirement. This removes the ubiquitous notion that most social security spending goes towards the unemployment payments Newstart and Youth Allowance (Other).



## Breakdown of social security spending in 2015/16 <sup>8</sup>

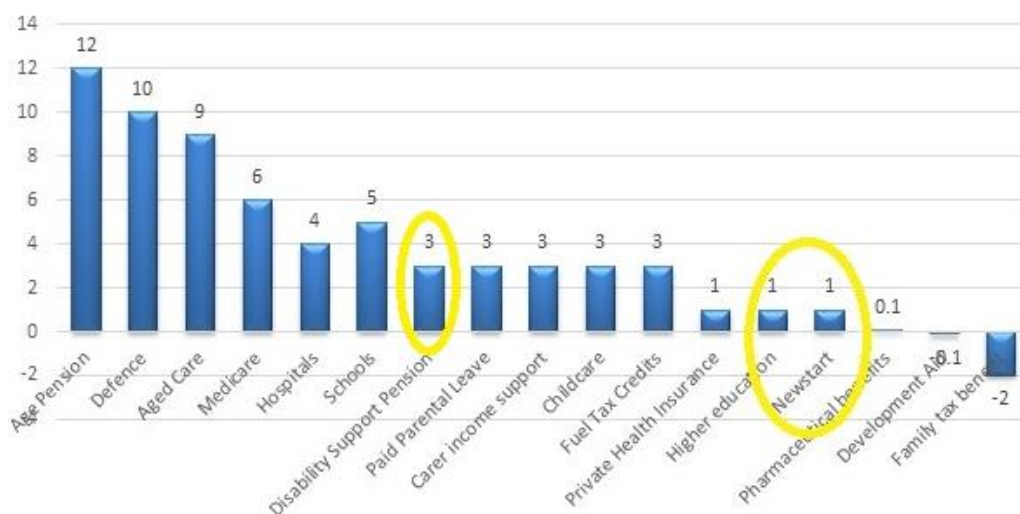
Social security payment	Number of recipients (June 2016)	15/16 \$ spend	% of social security spend
Age Pension	2,538,161	\$44.2b	40.2%
Family Tax Benefit (FTB) & parenting payments	Approx. 1.5 million recipients of FTB. 363,596 recipients of parenting payments (who would likely also receive FTB)	\$25.9b	23.5%
Disability Support Pension	782,891	\$17.1b	15.5%

Social security payment	Number of recipients (June 2016)	15/16 \$ spend	% of social security spend
Unemployment payment and sickness allowance	732,100 Newstart recipients 13,000 Special Benefit & Sickness Allowance recipients.	\$11.5b	10.4%
Carer payments	605,773 recipients of Carers Allowance, 260,592 recipients of Carer Payment (Carer Payment recipients would also receive Carer Allowance).	\$8.1b	7.3%
Student payments	220,366	Approx. \$3.1b	2.8%
Total social security spend		\$109.9b	100%

## Our social security budget spend is shrinking

Growth in spending on Newstart over the medium term will be just 1%. For the Disability Support Pension, it is projected to be just 3%. This compares with spending on the Age Pension, which will grow by 12% over the medium term, 10% on Defence and 9% Aged Care.<sup>9</sup>

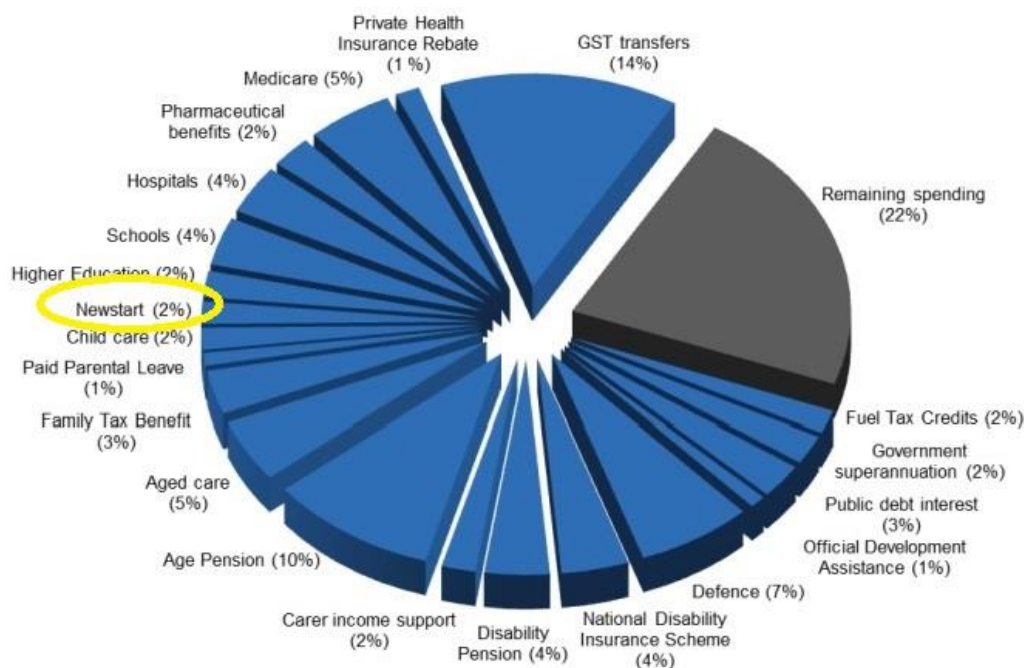
### Contribution of major programs to all growth spending (including 2014 budget changes) (%) 2013-2023



Source: PBO 2014, Projections of government spending over the medium term. Note: Includes 2014 Budget measures, estimates were not subsequently updated.

Spending on Newstart Allowance will continue to comprise just 2% of total government spending through to the medium term.<sup>10</sup>

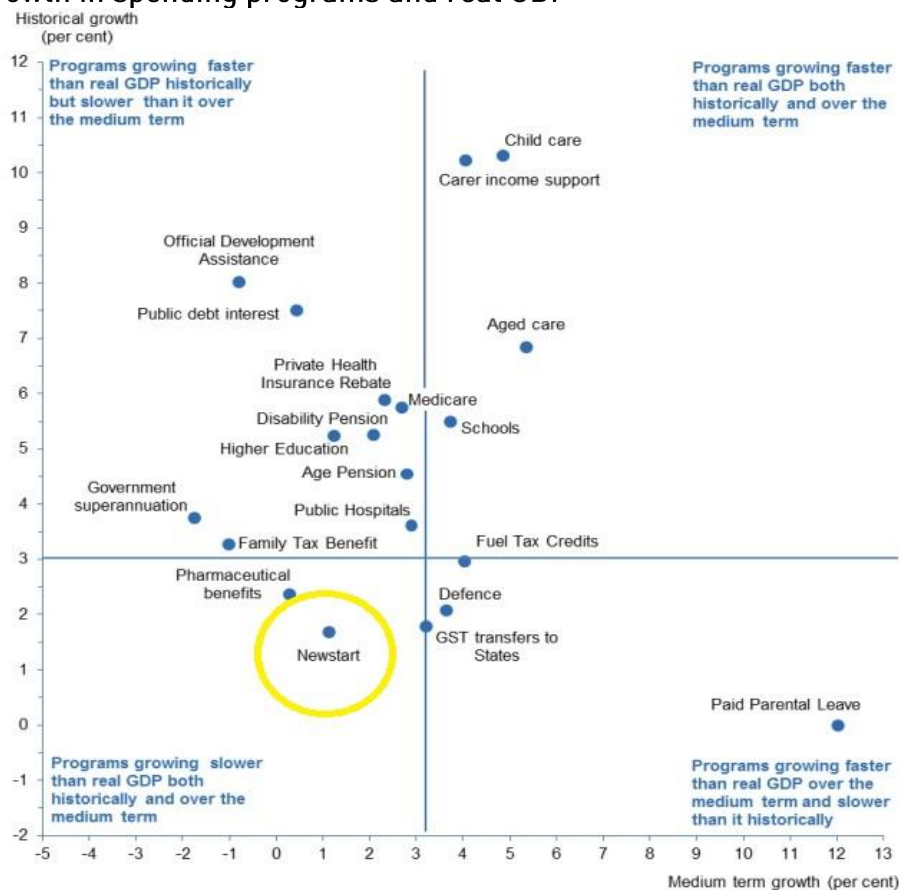
## Share of projected government spending in 2024-25



Source: Australian Government Budgets and PBO Analysis

Furthermore, Newstart is one of only two programs that is growing slower than real GDP both historically and over the medium term (the other being the Pharmaceutical Benefit Scheme).<sup>11</sup>

## Annual real growth in spending programs and real GDP



## We have very low payment rates (as at March 2017)<sup>12</sup>

Our rates of payment are now well below the poverty line and some \$176 per week below the pension.

Low spending on unemployment payments is related to the low rates of payment. The low growth in unemployment payments is attributed to their being indexed to the consumer price index alone, as opposed to pension payments which rise in line with wage growth if it exceeds CPI.

Payment <sup>13</sup>	Single rate per week	Couple rate (combined) per week
Youth Allowance (independent rate)	\$218	\$437.50
Newstart Allowance	\$267.80	\$483.60
Parenting Payment Single	\$374	\$483
Pension (Age, Disability Support and Carer Payment)	\$444	\$669.60

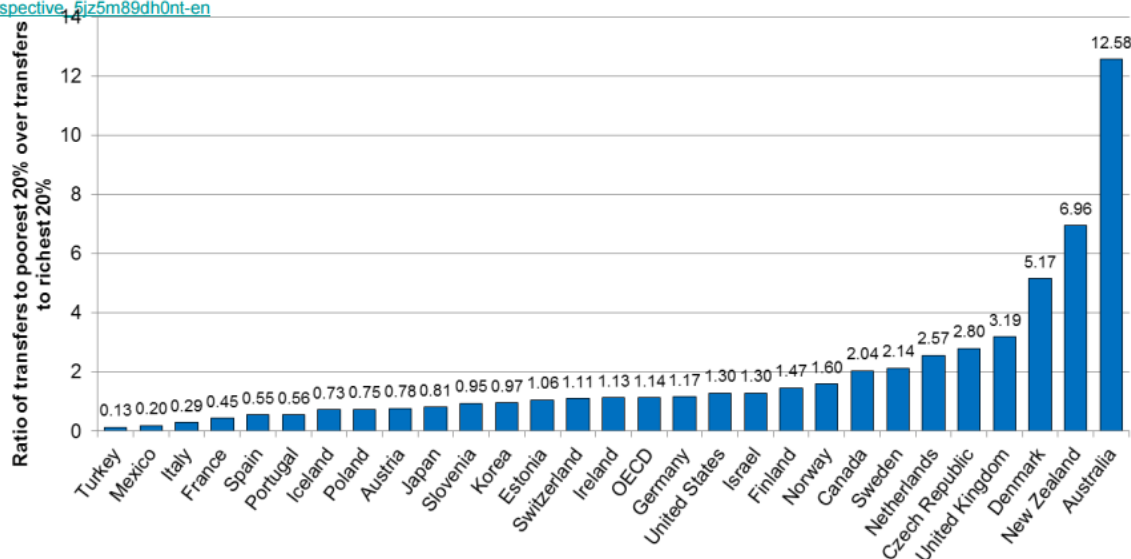
## We have very high targeting

Low spending is also attributed to the highly targeted nature of our social security system. Australia has the most targeted system of income support in the OECD, with people in the bottom 20% receiving 12 times that of people in the top 20% (2014). Professor Peter Whiteford's analysis<sup>14</sup> of the targeting of social security illustrates this below. Recent tightening of access to Family Tax Benefit would likely increase this ratio.

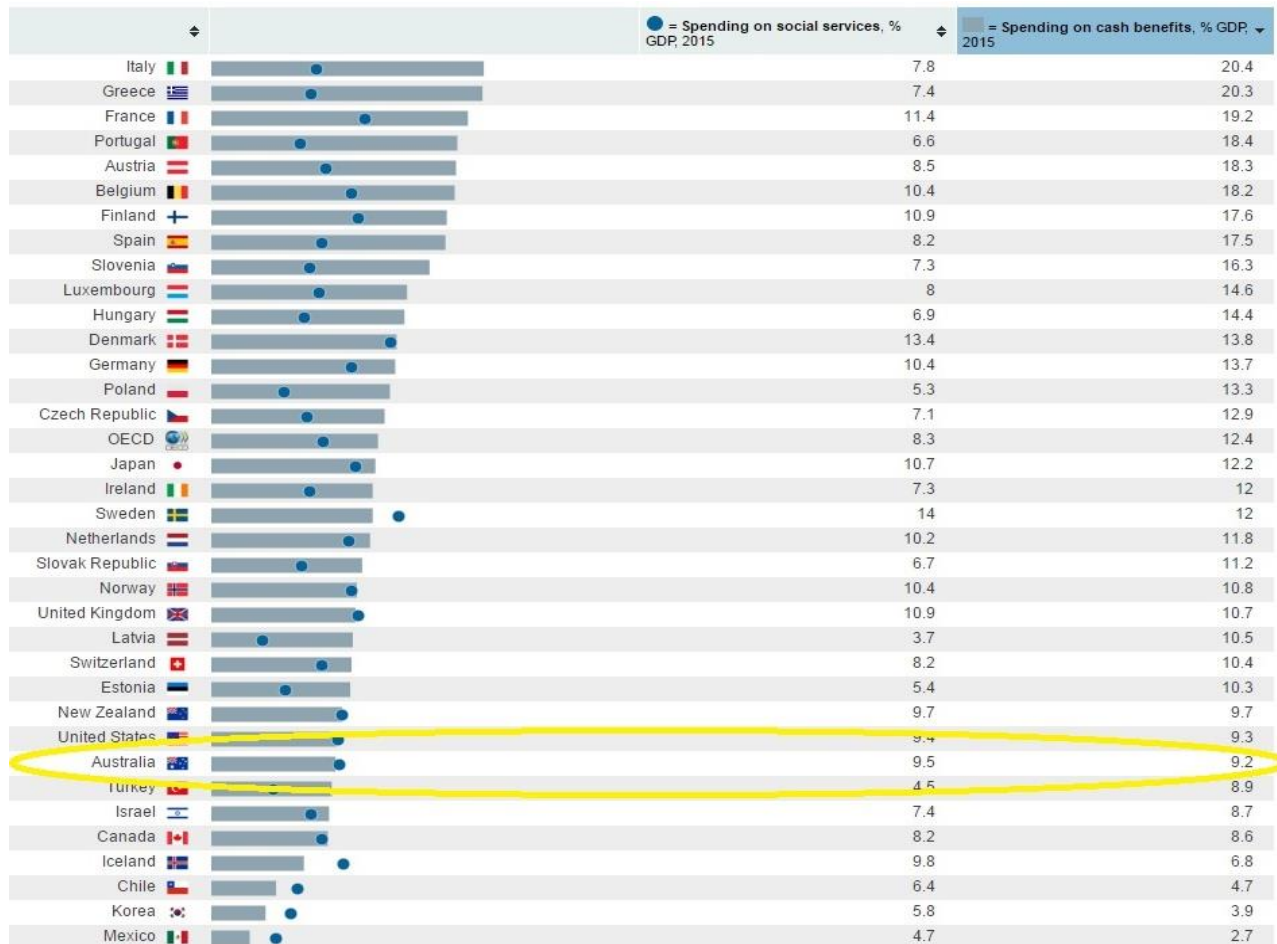
## Australia's social security system is more targeted to the poor than any other OECD country

### Ratio of transfers received by poorest 20% to those received by richest 20%

Source: Calculated from Table s 3 and 5, OECD, 2014, [http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective\\_6iz5m89dh0nt-en](http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_6iz5m89dh0nt-en)



The targeting of our system goes towards explaining why Australian spending on income support continues to be low by international standards. In 2015, we spent 9.2% of GDP on cash benefits, compared with an average of 12.4% in the OECD.<sup>15</sup>

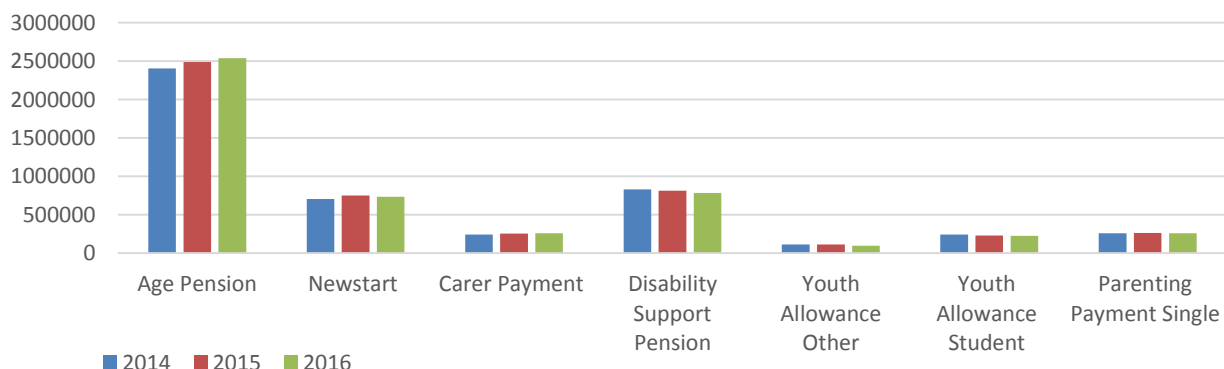


Graph from the OECD: <http://www.oecd.org/social/expenditure.htm>

## Number of people receiving a payment is declining

While Age Pension and Newstart numbers have been rising, the number of people receiving Disability Support Pension, Youth Allowance and parenting payments have been trending downwards since 2014.<sup>16</sup>

Key payment trends: 2014-2016 (ending June 2016)





Receipt of the Age Pension has been growing gradually because of population ageing. In 2015/16, Age Pension receipt grew by 2.1%, which was lower than in 14/15 where the number of Age Pensioners grew by 3.4%.<sup>17</sup> The increase in the 12 months to June 2016 is lower than the increase in the number of people aged 65 and over for the corresponding period, which rose by 3.3%.<sup>18</sup> However, the number of Carer Payment recipients aged 65 plus grew over this time, too, which would add to the number of people aged 65+ receiving a pension payment (as Carer Payment is paid at the same rate as the pension). Carer Payment receipt overall has been rising, going up by 3.4% between 2014 and 2016.<sup>19</sup>

Receipt of the Newstart Allowance has also been growing since 2008 when the Global Financial Crisis hit, rising from approximately 400,000 people to 730,000 (as at June 2016). Between June 2014 and June 2016, receipt of Newstart grew by 3.7%, with the number of people who had received the payment for 12 months or more growing by 10.3% and the number of people with a partial capacity to work growing by 17.2%.<sup>20</sup> The increase in people receiving Newstart is driven by economic conditions but also changes in government social security policy, notably the tightening of access to the Disability Support Pension and Parenting Payment, which has resulted in large numbers of people moved onto the lower rate Newstart Allowance.<sup>21</sup>

The number of recipients of other major payments have been trending downwards. The number of people receiving the Disability Support Pension has fallen from 830,000 in 2014 to 780,000 in 2016 (a drop of 6%).<sup>22</sup> Reasons for the fall include tightening of access to the Disability Support Pension, which has resulted in some people being moved off the payment and far fewer successful applications for the payment. In 2015/16, just 25% of DSP claims were successful, down from 64% in 2009/10.<sup>23</sup>

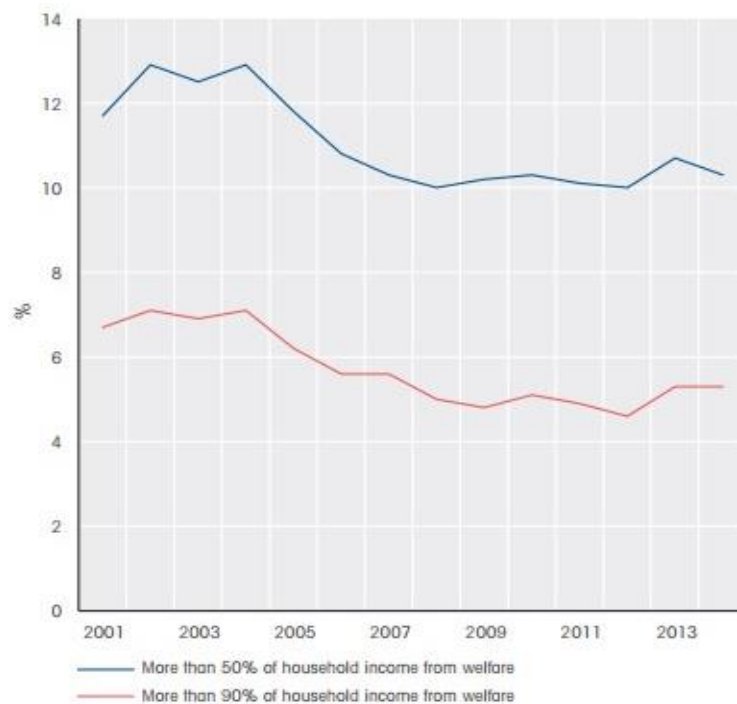
Receipt of Parenting Payment Single has dropped by about 40% since 2006, largely because of the restriction of the payment to people whose youngest child is aged under 8.<sup>24</sup>

The number of Youth Allowance recipients has declined for both students and apprentices (down 6.3% between 2014 and 2016) and young unemployed people (down 13.9% for the same timeframe).<sup>25</sup>

The proportion of people who rely on income support has been trending downwards since the recession in the mid-1990s. The proportion of working-age people who personally received income support at some point over the 12-month period dropped from around 25% in 2002 to about 19% in 2014.<sup>26</sup>

Reliance on income support has declined, with the proportion of working-age people receiving more than 50% of household income as income support payments dropping from 13% in 2002 to 10.5% in 2014. Those receiving more than 90% of income from income support declined by nearly 30% from 7% in 2002 to about 5% in 2014.<sup>27</sup>

## Reliance on income support among persons aged 18-64



Data show that between 2001 and 2011, **only three** in every 1,000 young people who received income support did so for the entire period (0.3%).<sup>28</sup>

## Harsh mutual obligation requirements

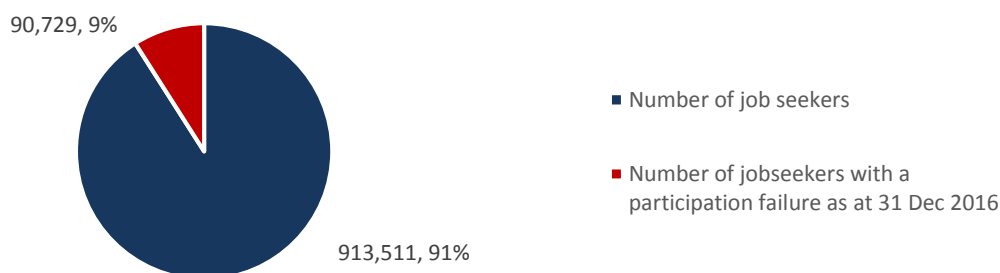
People who are unemployed are subjected to one of the more onerous job search regimes in the OECD to get a payment, including applying for up to 20 jobs per month, doing Work for the Dole and penalties or sanctions for compliance failure.<sup>29</sup> They must also:

- Enter a Job Plan (and full compliance with this plan)
- Demonstrate that they are actively looking for work (normally applying for 20 jobs per month).
- Accept suitable offers of paid work
- Attend appointments with their employment service provider
- Attend all job interviews
- Attend approved training or education to address barriers they may have with entering the workforce
- Never leaving a job or training without a valid reason <sup>30</sup>

The latest mutual obligation compliance data show that just 9.9% of people looking for work received a participation failure in 2016.<sup>31</sup>



## Number of job seekers with a mutual obligation failure (2016)



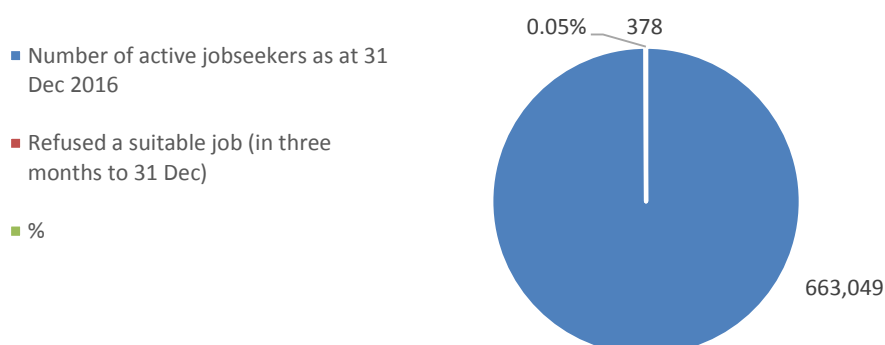
Mutual obligation requirements are reduced for people with caring responsibilities and people who have a partial capacity to work. There are also exemptions from mutual obligation requirements where the person is in education or training, is working part time or casually, or has an illness or disability that prevents them from undertaking job search activities.

If someone fails to meet their mutual obligation requirements, they can have their payment suspended for up to eight weeks (for the most serious non-compliance). However, most people may have such a financial penalty waived when they re-engage with the system (which is a key part of its design to keep people engaged with their employment service provider and increase their chances of getting work).<sup>32</sup>

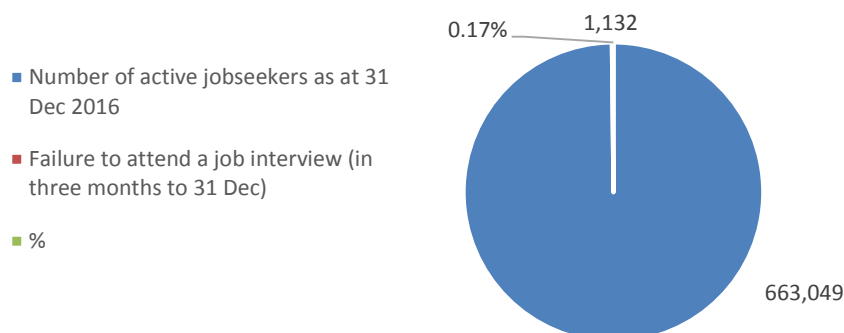
No Show No Pay penalties, however, are not paid back. The Community Development Program has generated a large number of these, despite its participants comprising just 5% of all active jobseekers. In the quarter to 31 December, 35,108 No Show No Pay penalties were imposed on CDP participants, compared with 28,378 on jobactive participants.<sup>33</sup>

Government has suggested that there are a sizable proportion of people not attending job interviews or refusing suitable work.<sup>34</sup> However, the number of penalties imposed for either of these is quite small, at least in the latest quarter of information available.<sup>35</sup> For example, in the three months to 31 December 2016, 378 serious penalties related to refusing suitable work and 1,132 related to non-attendance at a job interview.<sup>36</sup>

## Refusal to take a suitable job as a proportion of active job seekers as at 31 Dec 2016



## Non-attendance at a job interview as a proportion of active job seekers as at 31 Dec



## Work for the Dole has little impact

Work for the Dole applies to people who have been unemployed for 12 months or more and who are aged between 18 and 49 and who do not have a disability. People in this position must undertake Work for the Dole at least 26 weeks of the year, undertaking between 15 and 25 hours per week of an approved activity. This can include part-time work, voluntary work, work experience programs or short courses.

Work for the Dole has little impact on the person's chances of finding work, improving their chances of job placement and moving off income support by just 2% according to a review by The Social Research Centre and the Australian National University.<sup>37</sup>

The main problem with Work for the Dole is that the work experience that people receive is often far removed from job opportunities available. Professor Jeff Borland, a labour market economist states that Work for the Dole fails to 'increase the long-term availability of jobs' and offer 'sufficient opportunity for skill development to make a big difference to employment prospects for the unemployed'.<sup>38</sup> The resources directed to Work for the Dole (which is approximately \$200 million annually) would be better spent providing tailored support for people who are disadvantaged in the labour market.

<sup>1</sup> ACOSS & Social Policy Research Centre (2016) 'Poverty in Australia' <http://www.acoss.org.au/poverty/>

<sup>2</sup> World Wealth and Income Database <http://wid.world/country/australia/>

<sup>3</sup> World Economic Forum (2017) 'The Global Risks Report 2017' [http://www3.weforum.org/docs/GRR17\\_Report\\_web.pdf](http://www3.weforum.org/docs/GRR17_Report_web.pdf)

<sup>4</sup> Australian Bureau of Statistics (2017) '6291.0.55.001 - Labour Force, Australia, Detailed - 52 weeks and over (Long-term unemployed) ; Unemployed total ; Persons' Mar 2017, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.001Mar%202017?OpenDocument>

<sup>5</sup> Australian Bureau of Statistics (2017) 'Job Vacancies, Australia, Feb 2017'

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6354.0Main+Features1Feb%202017?OpenDocument> & 'Labour Force, Australia, Mar 2017' [http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/244415ACA21A9990CA25810100099430/\\$File/62020\\_Mar%202017.pdf](http://www.ausstats.abs.gov.au/ausstats/meisubs.nsf/0/244415ACA21A9990CA25810100099430/$File/62020_Mar%202017.pdf) p.21

<sup>6</sup> Era Dabla-Norris, Evridiki Tsounta, Frantisek Ricka, Kalpana Kochhar, Nujin Suphaphiphat (2015) 'Causes and Consequences of Income Inequality : A Global Perspective' <http://www.imf.org/external/pubs/cat/longres.aspx?sk=42986.0> & Christine Lagarde, (2017) 'Maintaining the Positive Momentum of the Global Economy' <https://blogs.imf.org/2017/03/14/maintaining-the-positive-momentum-of-the-global-economy/#more-17748> 7

<sup>7</sup> Commonwealth of Australia (2016) 'Budget Strategy and Outlook Budget Paper No. 1 2016-17' <http://www.budget.gov.au/2016-17/content/bp1/download/bp1.pdf>

<sup>8</sup> Ibid.

NB. This table excludes spending on non-social security spending including child care fee assistance, the NDIS, aged care subsidies, paid parental leave and support for veterans.

<sup>9</sup> Parliamentary Budget Office (2014) 'Projections of Government spending over the medium term'.

[http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/Reports/Research\\_reports/Projections\\_of\\_Government\\_spending\\_over\\_the\\_medium\\_term.p.13](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Reports/Research_reports/Projections_of_Government_spending_over_the_medium_term.p.13).

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Department of Human Services (2017) 'A guide to Australian Government payments'.

<https://www.humanservices.gov.au/sites/default/files/2017/03/co029-1703.pdf>

<sup>13</sup> You may be entitled to rent assistance if you rent privately. Rent Assistance ranges from \$44 per week (single, share house), to \$87 per week for a family with three or more children.

<sup>14</sup> Peter Whiteford (2016) 'Assessing Developments and Prospects in the Australian Welfare State' Presentation to OECD, 16 November, Crawford School of Public Policy, ANU.

<sup>15</sup> <http://www.oecd.org/social/expenditure.htm>

<sup>16</sup> See references below in 'Trends in reliance on income support'.

<sup>17</sup> DSS (2016) data trends <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/2b4f711b-c9a6-48d2-a47d-3cfeb268d693/download/age-pension-payment-trends-and-profile-report-june-2016.pdf>

<sup>18</sup> ABS (2016) 'Feature article: Population by age and sex, Australian States and Territories.

<http://www.abs.gov.au/ausstats/abs@.nsf/0/1CD2B1952AFC5E7ACA257298000F2E76?OpenDocument>

<sup>19</sup> DSS (2016) 'Carer Payment' <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/f1702c7e-00db-47c4-bb18-d3fc33ce548c/download/carers-payment-payment-trends-and-profile-report-june-2016.pdf>

<sup>20</sup> DSS (2016) 'Newstart Allowance' <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/d88d3863-b845-4905-84a2-6ed60603bd7e/download/newstart-allowance-payment-trends-and-profile-report-june-2016.pdf>

<sup>21</sup> Whiteford, P. (2015) 'Can we afford our welfare system?' <https://crawford.anu.edu.au/news-events/news/6760/can-we-afford-welfare-system>

<sup>22</sup> DSS (2016) 'Disability Support Pension' <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/b6c50479-ffce-4d12-9fe2-afef7b2282c7/download/disability-support-pension-payment-trends-and-profile-report-june-2016.pdf>

<sup>23</sup> DSS (2016) Commonwealth Risk Management—Inquiry based on Auditor-General's report 18 (2015-16) Submission 28, p. 6.

<sup>24</sup> DSS (2016) Parenting Payment Single' <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/1fafafa0-85bb-487a-9f0d-03d028e465d7/download/parenting-payment-single-payment-trends-and-profile-report-june-2016.pdf>

<sup>25</sup> DSS (2016) 'Youth Allowance (Other)' <http://data.gov.au/dataset/4ccff587-4a46-4ab9-8833-76dadaa10ebe/resource/8153e9e5-348f-4584-a09e-b1532dc38e01/download/youth-allowance-other-payment-trends-and-profile-report-june-2016.pdf>

<sup>26</sup> Wilkins, R (2016) 'The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14' The University of Melbourne, [http://melbourneinstitute.unimelb.edu.au/\\_data/assets/pdf\\_file/0007/2155507/hilda-statreport-2016.pdf](http://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0007/2155507/hilda-statreport-2016.pdf) p. 36.

<sup>27</sup> Wilkins, R (2016) 'The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14' The University of Melbourne, [http://melbourneinstitute.unimelb.edu.au/\\_data/assets/pdf\\_file/0007/2155507/hilda-statreport-2016.pdf](http://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0007/2155507/hilda-statreport-2016.pdf) p. 36.

<sup>28</sup> Whiteford, P. (2015) 'Tales of Robin Hood (part 4): Social security and risk over short and medium terms' <http://www.australianreview.net/digest/2015/10/whiteford4.html>

<sup>29</sup> Whiteford, P. (2016) 'Ideas for Australia: Welfare reform needs to be about improving well-being, not punishing the poor' *The Conversation* <https://theconversation.com/ideas-for-australia-welfare-reform-needs-to-be-about-improving-well-being-not-punishing-the-poor-56355>

<sup>30</sup> The Australian Government (2016) '3.2.9.10 Mutual Obligation Requirements for NSA/YA Job Seekers - Suitable Activities - Overview' <http://guides.dss.gov.au/guide-social-security-law/3/2/9/10>

<sup>31</sup> Department of Employment (2017) 'Job Seeker Compliance Data - December Quarter 2016' [https://docs.employment.gov.au/system/files/doc/other/job\\_seeker\\_compliance\\_data\\_-\\_dec\\_qtr\\_2016.pdf](https://docs.employment.gov.au/system/files/doc/other/job_seeker_compliance_data_-_dec_qtr_2016.pdf) p.10.

<sup>32</sup> Disney, et al (2010). [https://docs.employment.gov.au/system/files/doc/other/impacts\\_of\\_the\\_new\\_job\\_seeker\\_compliance\\_framework\\_report\\_of\\_the\\_independent\\_review.pdf](https://docs.employment.gov.au/system/files/doc/other/impacts_of_the_new_job_seeker_compliance_framework_report_of_the_independent_review.pdf)

<sup>33</sup> Department of Employment (2017) 'Job Seeker Compliance Data - December Quarter 2016.

<sup>34</sup> Alan Tudge, Minister for Human Services (2017) 'Transcript: Sky News PM Agenda, Interview with David Speers' <https://www.mhs.gov.au/transcripts/2017-04-28-sky-news-pm-agenda-interview-david-speers>

<sup>35</sup> Department of Employment, Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> [https://docs.employment.gov.au/system/files/doc/other/evaluation\\_of\\_work\\_for\\_the\\_dole\\_2014-15\\_accessible\\_final.pdf](https://docs.employment.gov.au/system/files/doc/other/evaluation_of_work_for_the_dole_2014-15_accessible_final.pdf), p.73.

<sup>38</sup> Matthew Thomas (2017) 'Work for the Dole program to stay'

[http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/FlagPost/2017/April/Work\\_for\\_the\\_Dole\\_program\\_to\\_stay](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2017/April/Work_for_the_Dole_program_to_stay)