



## Analysis of proposed changes to FTB indexation

June 2009

Australian  
Council of  
Social Service

### **Changes to family payments will increase child poverty**

Proposed changes to the Family Tax Benefit (FTB) in the 2009 Budget will mean a loss of income over time for families who can least afford it. This will almost inevitably lead to an increase in child poverty.

The effects of this reduction in income will be clearly felt by 2012, when the Government estimates it will save \$500 million from the changes. The changes were announced as a Budget 'savings' measure without prior public consultation, even though the Henry Review is examining these payments as part of its review of the tax and social security systems. The Henry Review is due to report at the end of 2009.

ACOSS is concerned that low income families who can least bear the cost will in this way be made to pay the price of the pension increase.

The changes would freeze the level of FTB for over 600,000 low paid and jobless families in real terms by removing the link between FTB and pension rates. This link was first introduced by the Hawke Government as the centerpiece of its policies to reduce child poverty. Currently, the maximum level of FTB for low income families cannot be less than 16.6% of the pension rate for a married couple for each child under 13 or 21.6% for each child aged 13-15 years. This was based on research comparing the costs of children with those of adults.

Since pensions are linked to average earnings, they increase by more than the CPI. Removing the link between FTB and pensions means that FTB will no longer increase above the inflation rate and that the incomes of the poorest families will fall behind improvements in community living standards.

The proposed change to the indexation of FTB Part A is likely to have a number of effects:

- It will result in a loss of payment to over 600,000 low income families (those on less than \$43,000) over time as the gap between CPI and average male earnings increases;
- It will generate further inequities between payment types; and
- It will lead to an increase in child poverty.

ACOSS has urged the Parliament to oppose this change and keep the existing arrangements for indexation of family payments.



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### What low income families get from Family Tax Benefit (FTB)

Family Tax Benefit, as a form of family assistance, is designed to help families with the costs of raising children.

Higher rates of assistance are targeted to families with low incomes.

FTB Part A is paid to families earning up to \$160,000 while FTB Part B provides extra assistance to sole-parent and other single-income families with a child under 16 years.

It is the maximum rates of Part A that are currently linked to pension rates. This is families with a child under 16 who earn up to \$42,599 a year.

**Table 1 - FTB Part A rates**

| Age of child   | Payment per week           | % of couple pension rate |
|----------------|----------------------------|--------------------------|
| Under 13 years | \$76 per week              | 16.6%                    |
| 13-15 years    | \$98 per week <sup>1</sup> | 21.6%                    |

Family income above \$42,559 a year reduces the rate of FTB Part A by 20 cents for each dollar earned.

### The incomes of typical low income families

Most recipients of the maximum rate of FTB are jobless families, with families receiving income support automatically entitled to FTB Part A. Around one third of those on the maximum rates are not on income support – these are mainly low wage earning families.

Sixty per cent of jobless families in Australia are headed by sole parents.<sup>2</sup>

Table 2 profiles the incomes of typical jobless and low income working families. A more detailed case study of the budget of a Parenting Payment (Single) recipient is attached as an appendix.

<sup>1</sup> See Centrelink, *A guide to Australian Government Payments*, 20 March – 30 June 2009. This excludes the annual FTB Part A supplement of \$686 per child, but this is included in the income profiles in Table 2.

<sup>2</sup> Gregory, R., (1999) 'Children and the Changing Labour Market: Joblessness in Families with Dependant Children', Canberra, ANU Centre for Economic Policy Research, Discussion Paper No. 406, August.



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**Table 2 – Income profiles of typical jobless and low income working families**

| Family profile  | Weekly Payments  | Weekly Total |
|---|--|--------------|
| Sole parent family with 2 children over 8 years <sup>3</sup>          | \$245 – Newstart Allowance<br>\$151 – FTB Part A<br>\$26 – FTB Part A supplement<br>\$45 – FTB Part B<br>\$6.50 – FTB Part B supplement<br>\$65 – Rent Assistance. | \$539        |
| Couple earning one fulltime minimum wage with two school age children | \$503 – Net wages<br>\$151- FTB Part A<br>\$26 – FTB Part A supplement<br>\$45 FTB Part B (one partner is unemployed)<br>\$6.50 FTB Part B supplement              | \$732        |

## How does FTB reduce child poverty?

The link between family payments and pensions was the centerpiece of the Hawke Government's efforts to reduce child poverty in 1987.

The reforms introduced a 'family allowance supplement', which was targeted towards low income jobless and working families.

This payment was benchmarked to the couple rate of pension as described in Table 1, in order to ensure that payment rates were adequate to meet the costs of children, with research suggesting that couples with children require at least 20 to 30 per cent more income than couples without children to achieve a similar living standard. At the same time, the link to wage increases was intended to make the payment more effective in reducing child poverty. This is because poverty is generally measured in Australia relative to movements in community living standards. The main poverty lines do not 'stand still' as community incomes rise, but increase to reflect changes in 'minimum adequate living standards' over time.

Researchers estimated that over the period 1982 to 1995/96 there was a one-third drop in child poverty, attributed largely to the substantial increases in government cash payments to lower income families with children.<sup>4</sup>

The Family Allowance Supplement eventually became the maximum rate of FTB Part A, with the link to the pension rate intact.

<sup>3</sup> Sole parents are no longer eligible for Parenting Payment Single once their child turns 8. Those who received it prior to July 2006 can continue to receive it, and in that case their income would be approximately \$550 per week.

<sup>4</sup> "Trends in Child Poverty 1982 to 1995/96", Ann Harding and Aggie Szukalska, presented at the Australian Association for Social Research Annual Conference, 12 February 1999.



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The current child poverty rate in Australia (based on a poverty line set at 50% of median income) is 11%, about half the child poverty rate of the late 1980s.<sup>5</sup> Children in sole parent families are three times more likely to live in poverty, with around 25-30% of children in such families below the poverty line.<sup>6</sup>

Any payment that is frozen in real terms, like the Newstart Allowance, will fall behind community living standards and is therefore likely to fall below commonly-used poverty lines over time. If the proposed changes to FTB are legislated, and the maximum rates are frozen, it is inevitable that child poverty will rise in the absence of discretionary increases in the payment.

### **Low income families will be most affected by the proposed change**

Recipients of the maximum rate of FTB Part A will be most affected by the proposed changes.

More than 1.7 million families, with 3.4 million children, received FTB Part A in 2007-8. Of these, 609,000 families receive the maximum rate. This includes 414,000 families and 790,000 children who receive the maximum rate of payment with income support, and 195,000 families and 349,000 children who receive the maximum rate without income support.<sup>7</sup>

Those who will be most affected by the proposed change are jobless families on income support, low paid working families, sole parent families and large families with low incomes. Sole parent families are doubly disadvantaged by this together with the decision to exclude their pension payments (Parenting Payment Single) from the proposed \$32.50 per week increase in pensions for single people.

This is despite the fact that sole parents and the unemployed already experience much higher levels of poverty and deprivation than other groups. Most sole parent families live on low incomes – over 70% are in the bottom 40% of Australian households ranked by income. Around two thirds of sole parent families rent their homes and it is now common for rents for 3 bedroom properties in capital cities to exceed half of household income for a typical sole parent with two children on income support (i.e. over \$250 pw).

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<sup>5</sup> See Australia Fair, *Update on those missing out*, ACOSS, 2007 at 3 and Melbourne Institute, *A Statistical Report on Waves 1 to 6 of the HILDA Survey*, 'Families, Incomes and Jobs', Volume 4, 2009 at 36.

<sup>6</sup> Melbourne Institute, *A Statistical Report on Waves 1 to 6 of the HILDA Survey*, 'Families, Incomes and Jobs', Volume 4, 2009 at 36.

<sup>7</sup> Table 2.14, FaHCSIA Annual Report 2007-2008, accessed at [http://www.facsia.gov.au/about/publicationsarticles/corp/Documents/2008%20Annual%20Report/financial\\_notes/1\\_17.htm](http://www.facsia.gov.au/about/publicationsarticles/corp/Documents/2008%20Annual%20Report/financial_notes/1_17.htm).



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Sole parents and their children living on social security payments often have to go without the essentials of life. Research by the Social Policy Research Centre published recently by ACOSS surveyed what Australians regarded as the essentials of life, and who was missing out on them. Only those items considered essential by over half the population were included. The research found that 43% of Parenting Payment recipients lacked a decent and secure home, 57% could not pay a utility bill in the last 12 months, 56% lacked \$500 in emergency savings, 54% could not afford necessary dental treatment, 24% could not afford up to date school books and clothes, and 40% could not afford a hobby or leisure activity for their children.<sup>8</sup>

### Measuring the impact

The 2009-10 Budget predicts a \$1.0 billion saving over 4 years due to changes in FTB Part A indexation. While the savings are fairly small in the first year (\$43.1 million), they increase to nearly \$500 million in 2012-13.<sup>9</sup>

No data has been made available on the expected impact of the changes to indexation on payment rates over time. Our preliminary estimates suggest that by 2012, the reduction in FTB Part A payments due to changes in indexation will be about \$6-\$9 per week per child, or about \$12 per family on the maximum rate (those earning less than \$43,000).<sup>10</sup>

No evidence has been presented which suggests that the current indexation benchmarks are wrong, or that low income families have a lesser need for payment increases than pensioners. Indeed, the evidence suggests that low income families, especially sole parent families, already face high levels of financial hardship. They will also be severely affected by the recession, as more low-income parents lose their jobs or end up working shorter hours.

The changes will inevitably lead to an increase in child poverty unless the Government keeps making on-off increases in FTB, which is less likely given the budgetary situation in the next four years or so.

Single pensioners, including sole parents, need an increase in their payments, but struggling low income families like Helen's (see below) should not be made to pay for it.

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<sup>8</sup> ACOSS 2009, *Missing out*, ACOSS Info Paper, citing research by the Social Policy Research Centre, University of NSW. See [www.acoss.org.au](http://www.acoss.org.au).

<sup>9</sup> The exact Budget savings for each year are: \$43.1 million in 2009-10; \$189.5 million in 2010-10; \$292.0 million in 2011-12 and \$498.7 million in 2012-13. See Commonwealth of Australia, *Budget Measures: Budget Paper No. 2 2009-10* at 238.

<sup>10</sup> This is based on Male Total Average Weekly Earnings (MTAWE) being 2% higher than CPI each year.



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### APPENDIX: Case Study

#### **Surviving on Parenting Payment - Helen's budget (Note: all figures are for 2008)**

Helen is a single parent, of one seven year old child. She is studying a post secondary course full time and receives Parenting Payment and monthly child support payments.

Helen's weekly income is \$488 including social security, Pensioner Education Supplement and child support. The child support is not being paid in full, so she receives only about half of the proper amount. Without the Pensioner Education Supplement (only available during terms to help with study costs) her income falls to \$457 a week.

Her main expenses include \$190 in rent and \$85 in groceries and \$66 in phone and utility bills. Because she cannot afford health insurance, she puts aside around \$13 per week towards a new set of glasses each year and for dental appointments for her son and herself.

She is studying to improve her future job prospects but this means extra costs for books, internet and transport and she is paying off a student loan. She receives assistance from the Government with after school care fees (under the JET scheme), reducing those fees to \$5 per week. However this expires next year when she reaches her third year of study, due to a Government policy that restricts this support for full time students to two years only. As a result her child care costs will rise by about \$45 per week.

Helen has just \$7 a week left after paying her regular expenses. She is constantly behind in paying utilities bills, her account is often over drawn when insurance is due and she can never get ahead. She is always worried about providing uniforms and other clothing for her son.

Her car (a 1985 laser) needs replacement but she cannot afford to do so and therefore spends extra on repairs and maintenance. She does not want to get any further into debt by taking out a loan. She also has a Higher Education (HECS) debt and repayments to make on a separate student loan.

She worries about the possibility of anything needing replacement or if there is an emergency. Her family live interstate and if she needed to visit them in a hurry, she would be unable to do so. Birthdays, Christmas and other family events are a constant concern as she is unable to save for them.

She is studying hard in order to be able to get off social security, but in the meantime living on income support is extremely difficult.

Helen (not her real name) lives in Adelaide. Her assistance is much appreciated



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| Helen's budget (2008) |   |                          |
|-----------------------|---|--------------------------|
|                       | Item  | \$ per week              |
| <b>Income</b>         | Parenting Payment                                     | \$281                    |
|                       | Family Tax Benefit                                    | \$167                    |
|                       | Pensioner Education Supplement                        | \$31                     |
|                       | Child Support   | \$19 to \$41             |
|                       | Tax   | -\$10                    |
|                       | <b>Total income</b>                                   | <b>\$488</b>             |
| <b>Expenditure</b>    | Private rental  | \$190                    |
|                       | Utilities (incl. phones & internet)                   | \$66                     |
|                       | Insurance   | \$15                     |
|                       | Groceries   | \$85                     |
|                       | Child care and child's activities                     | \$25                     |
|                       | Transport (car rego, repairs, fuel, public transport) | \$48                     |
|                       | Medical   | \$17                     |
|                       | Study expenses  | \$15                     |
|                       | Loan repayments                                       | \$20                     |
|                       |   | <b>Total expenditure</b> |
| <b>Balance</b>        |   | <b>\$7</b>               |

Source: ACOSS 2008, *Who is missing out?* At [www.acoss.org.au](http://www.acoss.org.au) (go to publications).