



ACOSS Paper 165

Australia's Future Tax System | Social Security Reform |  
Evaluation | May 2010

Australian  
Council of  
Social Service

## Summary of ACOSS proposals, Henry Review recommendations and the Government's response: social security reform

This brief summary of the Henry Review's key social security reform proposals compares them with those advanced by ACOSS, and the Government's response. Where there is no Government response to a proposal, the last column is left blank.

On the whole, the Review Panel's proposals regarding working age payments are disappointing. Although the review identifies the key flaws in the present payment structure – that people in similar circumstances are paid at different rates, that these gaps are growing, that the system is too complex, and that people on pension payments are discouraged from seeking employment by the risk of a large drop in income support – the Panel's proposals fall well short of a reform agenda to resolve these problems. The report does, however, call for gaps between payments to be reduced and for all working age payments to be indexed in the same way (above inflation) to keep in touch with community living standards and ensure the gaps do not widen.

The report's recommendations are much closer to ACOSS's proposals for reform of family payments and child care assistance. It argues for increases in payments for older children and dependent young people to reflect the higher costs of raising them, that payments to assist parents to care for a child at home (beyond income support for those on the lowest incomes) should be targeted towards families with preschool age children, that the child care rebate should be absorbed into the better-targeted Child Care Benefit, and that overlaps between family income tests that lead to high effective tax rates should be removed. One area of concern is that low income sole parent families, who are already highly vulnerable to poverty, could lose their existing family payment supplement.<sup>1</sup>

In the tables below:

- √ means the proposal is consistent with ACOSS positions
- √√ means the proposal is close to or the same as ACOSS proposals
- X means the proposal is not consistent with ACOSS positions
- ? means impact of the proposal is difficult to assess at this stage

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<sup>1</sup> See ACOSS Paper 163, *Out of the maze: a better social security system for people of working age*; ACOSS Paper, Reform of retirement income; and ACOSS Paper, Reform of family payments, at [www.acoss.org.au](http://www.acoss.org.au).

Issue	ACOSS proposals	Henry	Govt
<b>Working age payments</b>			
Newstart Allowance, Youth Allowance, Disability Support Pension, Parenting Payment, Carer Payment	<p>1. Equalise income support payments for people of working age (remove distinction between pensions and allowances):</p> <ul style="list-style-type: none"> <li>- based on minimum 'decent' living costs</li> <li>- indexed to both prices and wages</li> <li>- no group should be worse off and those in deepest poverty should be better off</li> <li>- first step is a \$45pw rise in Allowances for singles to equal 2/3 of Allowance rate for couples</li> </ul>	<p><b>X</b> Maintain existing structure (pensions, 'participation payments' and student payments) but reduce the gaps between payments and index all payments the same way (above CPI);</p> <p>✓✓ First step is an increase in Allowances for singles to equal 2/3 of Allowance rate for couples (possibly lower for those sharing accommodation)</p>	<p>? Rules out changes to indexation of age pensions</p>
New supplements for extra costs	<p>2. New supplements for the extra costs faced by:</p> <ul style="list-style-type: none"> <li>- people with disabilities</li> <li>- sole parent families</li> <li>- job search and training expenses</li> </ul>	<p>? Supplements for parents of a child under 6 to keep sole parent payments at pension level;</p> <p><b>X</b> Lower supplements for parents of a school age child [This may preserve the status quo for low income couples if FTB Part B were abolished, but sole parents with a child 6-8 years would receive less than now];</p> <p><b>X</b> Parents with children over 4 years to be required to seek part time jobs;</p> <p>✓ A possible participation supplement for people with partial work capacity (disability)</p> <p><b>X</b> Possible income contingent loans to top up the lower student income support rates</p>	<p>✓ Rules out requirement for parents with children over 4 years to seek part time jobs</p>

Issue	ACOSS proposals	Henry	Govt
Reform of income tests	3. Reform social security income tests to encourage unemployed people to seek part time and casual jobs: - ease the Allowance income test; - allow recipients to 'average' their income test free area	<ul style="list-style-type: none"> <li>✓✓ Ease income test for Allowance recipients with partial work capacity;</li> <li>✗ But not for primary carers of children;</li> <li>✓✓ Introduce a new means test to replace separate income and assets tests for investment income (see below);</li> <li>✓✓ Abolish liquid assets test waiting period</li> </ul>	
<b>Family payments</b>			
Payments that help with the direct costs of children ( food clothing, etc)	4 (a) Family Tax Benefit (A) and Youth Allowance for low income families to increase as children grow older to meet direct costs of children; - a new sole parent supplement to be introduced.	<ul style="list-style-type: none"> <li>✓ Family payments should ensure children have a basic acceptable living standard;</li> <li>✓ Raise payments for dependent youth over 16;</li> <li>✗ But 'most young people [over 18] have lower needs than adults'</li> </ul>	
Payments that help with the costs of caring for children at home	4 (b) Payments for middle and high income parents caring for children at home to be targeted to preschool age children: - Family Tax Benefit (Part B) to phase out for school age children; - Parenting Payment to continue to be paid to low income families as an income support payment	<ul style="list-style-type: none"> <li>✓✓ Abolish FTB Part B and integrate with Part A;</li> <li>✗ But no replacement payment specifically for sole parents;</li> <li>✓ Low income couples with children to be compensated for loss of Part B via higher income support;</li> <li>✓ Supplements for parents to care at home to be higher where there's a child under 6</li> </ul>	
Income tests	4 c) Remove overlaps in income tests for different child and youth payments affecting the same family	<ul style="list-style-type: none"> <li>✓✓ Remove overlaps in income tests for different child and youth payments</li> </ul>	
Child care assistance	4 (d) Abolish child care rebate and replace with a minimum rate of Child Care Benefit: - Child care benefit to based on a % of child care costs - Remove FBT exemption for employer provided child care	<ul style="list-style-type: none"> <li>✓✓ Abolish child care rebate, replace with minimum rate of Child Care Benefit;</li> <li>? Max. rate of Child Care Benefit to based on 90% of child care costs ✓✓</li> <li>Remove FBT exemption for employer provided child care</li> </ul>	

Issue	ACOSS proposals	Henry	Govt
<b>Payments for retired people</b>			
Pensions and income tax for pensioners	5. Simplify income testing and taxation for pensioners: - allow pensioners to pay their income tax through the pension system - introduce a single means test for pensions - including extension of 'deeming' of income to a wider range of investments	<ul style="list-style-type: none"> <li>✓✓ Replace separate income and assets tests with a single means test;</li> <li>✓✓ Extend deeming of income from financial assets to other assets such as superannuation and rental housing</li> </ul>	
<b>Rent Assistance</b>			
Supplements to assist with the costs of rental housing	6. A substantial increase in maximum rates of private rent assistance to improve housing affordability	<ul style="list-style-type: none"> <li>✓✓ A substantial increase in private Rent Assistance and link maximum rates to movements in rent levels;</li> <li>✗ Introduce market rents for social housing tenants and extend private rent assistance to public tenants, with higher payments for those with special needs who are unable to obtain suitable private rental housing (e.g. some people with disabilities)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Rules out market rents for social housing tenants</li> </ul>