

SOCIAL SECURITY

[This Note summarises a number of problems and options for action which have been identified by tax experts, leading community sector organisations and other analysts as needing attention in the Henry report. TaxWatch itself does not express policy views.]

UNEMPLOYMENT ASSISTANCE

The current level of the Newstart payment for unemployed people is much too low. A large shortfall has developed by comparison with payments for pensioners (even those who are in much better financial circumstances). The problem can be especially acute for unemployed people who have no children and thus no Family Tax Benefit, and for those who are in private rental accommodation.

The large and widening gap between pension and Newstart rates is a severe barrier for sole parents and people with disabilities who are eligible for pensions but decide to try a job which then does not work out. Their efforts may lead to them being considered ineligible for the pension rate or they may experience considerable delays in being restored to it.

The Newstart means-testing is counter-productive for many people whose only feasible work opportunity is part-time, casual or intermittent work. The income test ignores modern labour market realities by starting to clawback Newstart from a very low level of wage income and not adequately allowing "averaging" of income between fortnights in which work opportunities may fluctuate greatly.

These problems are aggravated by interaction with means-testing of other benefits, such as public housing and child care, which can leave many people worse off financially than if they had not been in work. Severe work disincentives also arise from the withdrawal of concession cards and rent rebates as soon as a person finds full-time work, even if it is at a low wage.

Problems of "effective marginal tax rates" may be less significant, however, if they apply over only part of the increase in income which an unemployed or under-employed person achieves through moving into full-time work on reasonable wages.

Options for Action

- Substantially increase the basic Newstart rates and index them in the same way as for pensions.
- Substantially increase the threshold wage income from which Newstart payments start to be clawed back.
- Substantially increase the basic rates of Commonwealth Rent Assistance and index them for inflation.
- Allow incomes to be averaged over at least 8 weeks under the Newstart income test (or increase the size of the current Working Credit).
- Allow concession cards and some other entitlements to continue for, say, six months after long-term unemployed people find full-time work.

GENERAL FAMILY ASSISTANCE

Some key problems

The system of general payments and tax benefits for families provides insufficient support for low- and middle-income families with teenage children, for whom parenting costs tend to be higher than for younger children. But it is excessively generous to some middle- and higher-income families.

Means-testing is an inevitable consequence of targeting family assistance payments mainly towards lower-income families but care is needed to avoid excessive barriers and disincentives for workforce participation. The design of Family Tax Benefit A helps to avoid high effective marginal tax rates for low-earners commencing work but is less good for low-wage workers seeking to improve their earnings and in some respects is too harsh on second earners in middle-income families.

The recent decision to index the payments to movements in prices rather than in wages is retrograde. There is also a very adverse impact on many low-income and sole parent families from the growing divide between the rates and conditions applying to pensions and the harsher levels of assistance provided by Newstart and other social security payments.

Options for Action

- Adopt a standard benchmark for adequacy of family payments, based on an independent and up-to-date measure of a decent standard of living.
- Restore indexation of family payments to movements in wage levels.
- Increase the rates of Family Tax Benefit A at the same time as mildly tightening the means test.
- Limit Family Tax Benefit B to families with young children while relaxing the income test for second earners. .
- Tighten the income test on the Baby Bonus.
- Integrate Family Tax Benefit A, Family Tax Benefit B and the Baby Bonus.
- Remove or reduce the gap between the entitlements and means tests of pensioners and those applying to other social security recipients.

CHILD CARE ASSISTANCE

Some key problems

The overall level of government support for child care is low by international standards and there is a particular shortage of government assistance for non-profit services to establish and operate in low-income areas. The rate of assistance should not vary according to whether care is provided by a parent, child care centre or other paid or unpaid source.

The basic payment for child care costs (Child Care Benefit) is inadequate for low-income families. On the other hand, the additional assistance provided by the Child Care Rebate and the FBT concessions for child care services is too generous to higher-earners, of no little or no benefit to low-earners, and drives up child care fees. The FBT concession is also unfair because, in practice, it is available only to

certain types of employees (usually in large organisations). his array of different forms of assistance is also unnecessarily complex.

Options for Action

- Abolish or tighten the Child Care Rebate.
- Abolish the FBT concessions for child care services.
- Increase the Child Care Benefit, especially for low-income families.
- Merge Child Care Benefit, Child Care Rebate and Family Tax Benefit B into a general contribution to costs of child care, whether paid, unpaid or by parents.
- Increase funding for non-profit and government providers in high-need areas.

AGE PENSIONS

Some key problems

Despite recent improvements, Age Pension rates are too low, particularly for people who are single, and pensioners who are in private rental accommodation are especially likely to be in financial hardship. This contrast with the very considerable government expenditure on better-off retirees which has been incurred in recent years by extending pensioner concession cards to non-pensioners and providing very large tax cuts through the Senior Australians Tax Offset (SATO).

Interaction between the Age Pension and superannuation systems is complex, inefficient and unfair. This is due partly to a lack of coherent and appropriate policy on the ages at which (a) superannuation benefits can be accessed, (b) those benefits can be accessed tax-free, and (c) Age Pensions can be claimed. It also reflects interactions between the means tests for pensions, concession cards and SATO and the rules relating to withdrawals of superannuation benefits.

One option is to greatly relax the Age Pension income test to reduce these problems of interaction, as part of a package which commensurately reduces the superannuation concessions for wealthier retirees. This approach could also diminish motivations for pensioners to limit their income from work or investments, whether artificially or otherwise, in order to retain pension eligibility. The assets test, however, should be tightened by capping the exemption of principal residences. The current full exemption is unfair and wasteful and also unduly encourages older people to stay in homes which have become too large for them.

Options for Action

- Increase the basic Age Pension rate, especially for single people, and Commonwealth Rent Assistance.
- Restrict the exemption for principal residences from the pension assets test.
- Abolish the pension income test and commensurately reduce superannuation concessions for high-earners.
- Substantially reduce the Senior Australians Tax Offset.