



# Income Trends for Selected Single Parent Families<sup>1</sup>

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## OVERVIEW

This paper considers the trends in social security payments and personal income tax paid by typical single parent families (cameos) in Australia. The modelling considers the period from 2005 to 2016 and includes a further projection of two years to 2018. Our analysis compares three separate policy worlds for the social security and personal income taxation system:

- 1) Current policy
- 2) Proposed policy
- 3) 'Pre-Welfare-to-Work' policy

The current policy is the legislation that applied for December for each year between 2005 and 2016 and our projection of that legislation out to 2018. The Proposed policy is largely identical to the current policy except it includes the proposed changes to family payments and clean energy supplement payments currently proposed by the Government. The 'Pre-Welfare-to-Work' policy ('Pre-WTW' policy) is the legislation that applied in 2005 and projected forward for each year out to 2018 based only on changes to parameters and ignoring all policy changes beyond 2005.

Our modelling focuses on comparing disposable incomes once we account for all private income, social security and personal income taxation for single parents with one or two children between three policy worlds. The youngest child is aged either four or eight years old. We consider a range of hours worked and income scenarios for the single parents including:

- 1) No private income;
- 2) Working 15 hours per week at the minimum wage;
- 3) Working 25 hours per week at the minimum wage;
- 4) Working 25 hours per week at the average weekly earnings;

We estimate the social security payments (Parenting Payment Single and Newstart Allowance), family payments, and a range of other supplements (Clean Energy Supplements, Pharmaceutical Allowance, Telephone Allowance, Income Support Bonus, Rent Assistance and Schoolkids Bonus). We also estimate any personal income tax paid by each family type under the three different policy regimes.

## BACKGROUND

### Social security payments

Single parents are entitled to a range of welfare payments subject to income testing. There are two major payments for single parents that provide a basic income level for the parents; the Single Parent Pension (PPS) and the Newstart Allowance. The PPS is more generous than the Newstart payment and only applies to single parents with children under the age of 8. Single parents are also entitled to family payments (part A and part B). These payments assist in covering the cost of children and are also income tested.

The payment rates for allowances including Newstart Allowance are indexed to changes in the ABS Consumer Price Index (CPI) twice per year (in March and September) whereas PPS is indexed according to the maximum of the movement in the CPI or PBLCI (Pensioner Beneficiary Living Cost Index) or 25 per cent of MTAW (Male Total Average Weekly Earnings) – whichever is higher. Historically, the Parenting Payment has increased at a higher rate than Newstart payment as wages generally grow at a faster rate than the CPI or PBLCI.

The current system of PPS provides a fortnightly benefit of \$750.50. This includes the Clean Energy Supplement of about \$12 and a \$22.10 Pension Supplement. The Clean Energy Supplement was introduced in 2012 to compensate for the carbon price. But the Coalition has proposed the removal of the re-badged Energy Supplement to new income support recipients from September 2016 as the carbon price has been removed.

The amount of Parenting Payment depends on the income and assets of an individual and their partner (if any). A single parent is only eligible for PPS if they have a child under 8 years old. Single parents move from PPS to Newstart Allowance (\$571.90) when the youngest child turns 8. Similar to Parenting Payment, the amount of Newstart Allowance is also means tested. Newstart recipients also may face more stringent 'mutual obligation requirements' which provides a 'job plan' outlining a list of requirements designed to assist the recipient shift to paid employment.

The pensioners and allowees are eligible for a range of supplements. These supplements assist with specific costs. The Pharmaceutical Allowance is a payment of \$6.20 per fortnight to assist with the cost of medicines. It is automatically paid either with PPS or Newstart Allowance where the recipient has dependents. In 2013, the Australian Government introduced the Income Support Bonus (\$224 per year for a single parents) to assist with unexpected costs. This payment is paid twice annually along with either PPS or Newstart

Allowance. In addition to these, single parents are also eligible for Telephone Allowance to assist the cost of maintaining the telephone service. This is a quarterly tax free payment.

The Family Tax Benefits (FTB) Part A is a means tested, per child payment to the parents of dependent children and young adult students who do not receive Youth Allowance. The FTB Part B provides extra assistance to single parent families or two parent families where one parent has low income or not employed. It is paid according to the age of the youngest child and is on a per family basis. Single parent families receive the maximum rate of FTB Part B if their income is less than \$100,000 per annum.

For single parents, the rent assistance is paid with their Family Tax Benefits Part A where the family receives more than the base rate of FTB A.

In 2013, the Australian government replaced Education Tax Refund (ETR) with the Schoolkids Bonus to assist families with the cost of primary and secondary education. Our analysis assumes that the ETR was approximately half the rate of the Schoolkids Bonus.<sup>3</sup>

## **Tax and Medicare**

The Australian personal income tax system is comprised of a series of tax thresholds with progressively higher tax rates for higher income thresholds. In addition, there is a Medicare levy of 2 per cent on all income and a complex array of tax offsets and shade-in rates that attempt to minimise effective tax rates particularly when considering the interaction with social security payments.

From July 2012, the Pensioners Tax Offset (PTO) was merged with the Senior Australians Tax offset (SATO) and referred to as Seniors and Pensioners Tax Offset (SAPTO). The SAPTO is a tax offset about \$2230 per year available for pensioners (includes families eligible for PPS). This rebate value reduces by 12.5 per cent once the income reaches beyond the SAPTO reduction threshold. The Beneficiaries Tax offset (BENTO) is similar to SAPTO, but this is an offset for allowees (including Newstart Allowance) based on the amount of benefits received by an individual or family.

For the 'Pre-WTW' policy scenario we attempt to overcome the issue of bracket creep by adjusting all thresholds and offsets in line with wages growth up to 2016.

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<sup>3</sup> This would vary by individual circumstances, but we estimate the ETR was approximately 50 per cent of the aggregate cost of the Schoolkids Bonus.

## **Welfare to Work reform**

The Welfare to Work reform in 2005 introduced a number of changes in the welfare payment system.

The main changes to the social security system affecting single parents include:

- 1) From July 2006, recipients of Newstart Allowance and Parenting Payment Single are subjected to an obligation based on their capacity to participate in the workforce for at least 15 hours per week. Prior to this change, sole parents received the Parenting Payment until their youngest child turned 16<sup>4</sup>.
- 2) The maximum taper rate of the Newstart Allowance for single parents is reduced from 70 cents to 60 cents in the dollar from July 2006.
- 3) For single parents on the Newstart Allowance, the 50 per cent taper is applied between the incomes of \$62 and \$250 per fortnight before the maximum taper of 60 per cent applies<sup>5</sup>.

## **Proposed policy**

There remains a number of policies that the Government is yet to pass parliament that are relevant to single parents. These policies have been included in the proposed policy scenario and include:

The proposed policies in the 2016/17 Budget include:

- 1) Phasing out FTB A and B supplements such that they are reduced to \$302.95 (Part A) and \$153.30 (Part B) in 2017-18 and removed by 2018-19;
- 2) Increasing the FTB A maximum rate payment by \$10.08 per fortnight from 2018-19;
- 3) Removal of Clean Energy Supplements for new Income Support recipients from September 2016;

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<sup>4</sup> This policy change was introduced by the Howard Government in 2006 for new recipients only and grandfathering arrangements were removed gradually over time. In 2013, the Gillard Government removed all grandfathering arrangements and ensured both new and existing customers faced the welfare to work Parenting Payment rules.

<sup>5</sup> Under current policy the taper rate was reduced to 40 per cent from 2013 and beyond.

## MODELLING METHODOLOGY

The modelling is based on a cameo analysis of hypothetical single parent families. We analyse sixteen different types of families with various characteristics. The cameos are chosen in such a way that the modelling can show the impact on single parent families under different policy measures. However these cameos should not be interpreted as fully representative of all single parents in Australia.

The minimum wages and average weekly earnings used in this analysis are projected forward using Federal Budget projections for the wage price index to 2018. Payment rates use historical data on rates up to 2016 and are projected out to 2018 based on Federal Budget projections of wages and consumer prices.

For the current and the proposed policy the historical payment rates and taxation parameters are exactly as applied for each year modelled. For the 'Pre-WTW' policy all parameters are based on the projection of the policy as per 2005 based on actual wage and price movements. Tax thresholds and offsets were adjusted by wages growth through to 2016.

We model the amount of social security payments and tax liability for each hypothetical family based on their family characteristics, number and age of their children and their income level. The entitlement is calculated for two scenarios (Pre-WTW policy and the proposed policy) and, then compared to the actual trajectory of the payments and taxation. The 'Pre-WTW' policy is the legislation prior to Welfare-to-Work reform and is projected out to 2018. The current policy is highly similar to the proposed policy except it includes the proposed changes to family payments and Clean Energy Supplements in the 2016/17 Budget. We also calculate the disposable income of each hypothetical single parent families.

We have a number of assumptions in our modelling which are required for the analysis. Our assumption is that hypothetical single parents are working on a permanent basis. Also, all families are assumed to be renting a house with rent of \$250 per week (in 2016 dollars) and therefore receive maximum rent assistance<sup>6</sup>. The rent for years prior to 2016 are deflated by inflation. We also assume that young children in our hypothetical families receive childcare through extended family, not through formal childcare.

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<sup>6</sup> This is roughly equivalent to the first quartile of the rent distribution for privately renting single parents across Australia as measured in the ABS Survey of Income and Housing 2013-14 updated to 2016 dollars.



## RESULTS

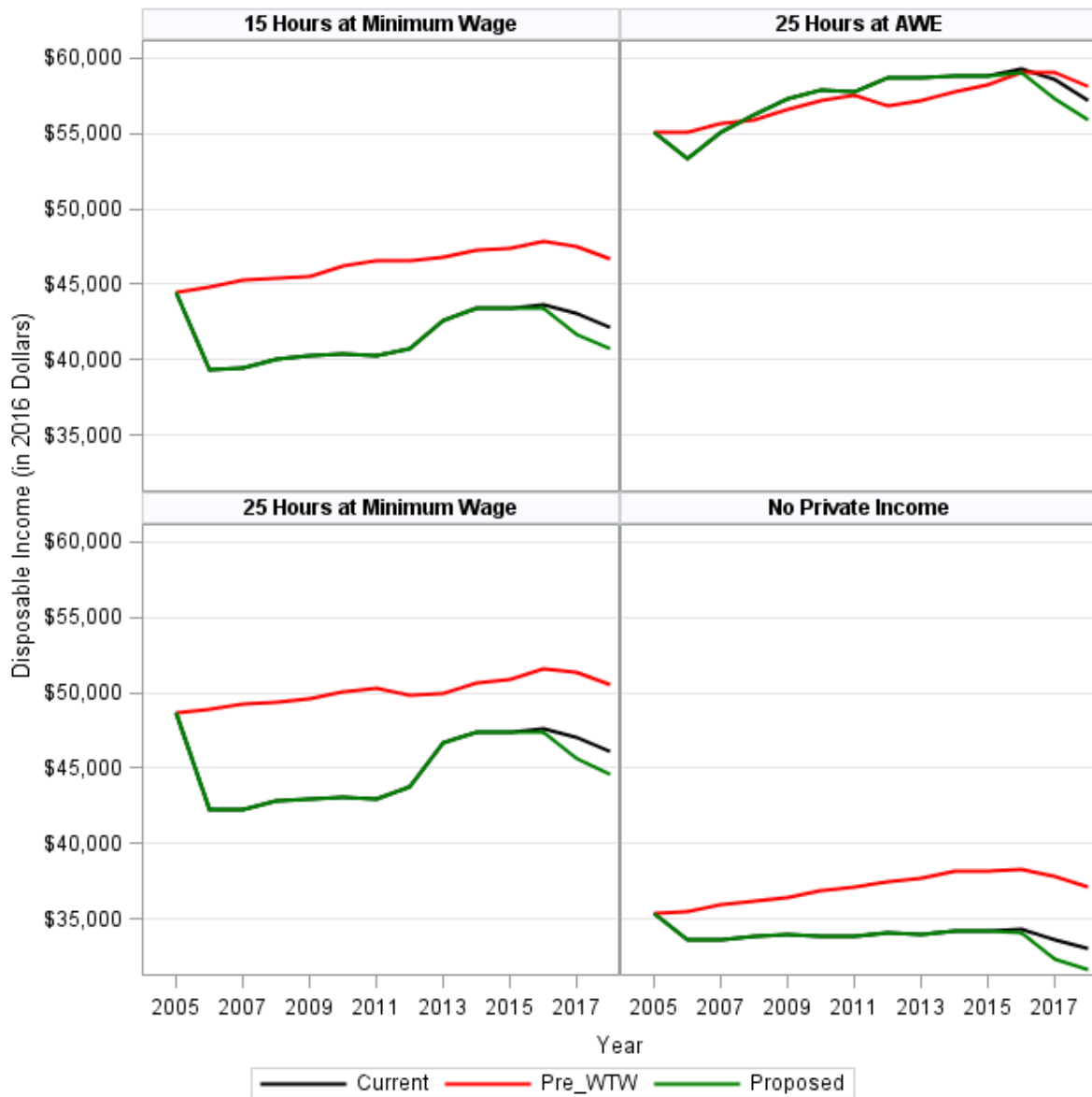
The results are provided for the cameos with different private income levels between 2005 and 2018. The disposable income of each hypothetical family is compared under different policies. We focus on single parents with two children where the youngest child is aged either 4 or 8. The private income of our hypothetical families varies according to their hours worked and wage rate including:

- 1) Single parent with no private income
- 2) Single parent working 15 hours part time at the minimum wage
- 3) Single parent working 25 hours part time at the minimum wage
- 4) Single parent working 25 hours part time at the Average Weekly Earnings

### **Single parents with children aged 8 and 10**

Figure 1 shows that most hypothetical families with older kids (aged 8 and 10) are better off under the 'Pre-WTW' policy. In the current policy, most cameos (especially families working at minimum wage) have a significant drop in their disposable income from 2005. This reflects the policy change in the age of the youngest child for PPS in the welfare to work reform, hence single parents move from PPS (\$750.50 pf) to Newstart Allowance (\$571.90 pf) once their youngest child turns 8.

**Figure 1: Disposable Income, Single parent, 2 children (8 and 10 years), Policy scenarios**



By 2018, single parents working at a minimum wage (either 15 or 25 hours) with children (aged 8 and 10) will be worse off by about \$6,350 per year under the proposed policy compared to the 'pre-WTW' policy. This represents a 14.8 per cent drop in disposable income for families working 15 hours and 13.4 per cent for single parents working 25 hours. The main driver being single parents moving to the less generous Newstart Allowance from the PPS once their

youngest child turns 8. In addition to this, the removal of Family Tax Benefits supplements and clean energy supplements further reduce their disposable income.

We project that the social security income of families without private income would be \$39,159 under the 'Pre-WTW' policy by 2018. Their disposable income is \$5,751 (17.2 per cent) lower in 2018 if proposed policy measures are implemented. Under current policy this family will be \$4,319 worse off by 2018 compared to the 2005 policy.

In 2018, single parents working 25 hours at average weekly earnings, would be worse off by \$2,426 where we compare their disposable income between the 'Pre-WTW' policy and 'proposed' policy. As this higher income hypothetical family receives lower social security payments and has benefited from a lower personal income tax regime, the policy change impact has been much less for this family.

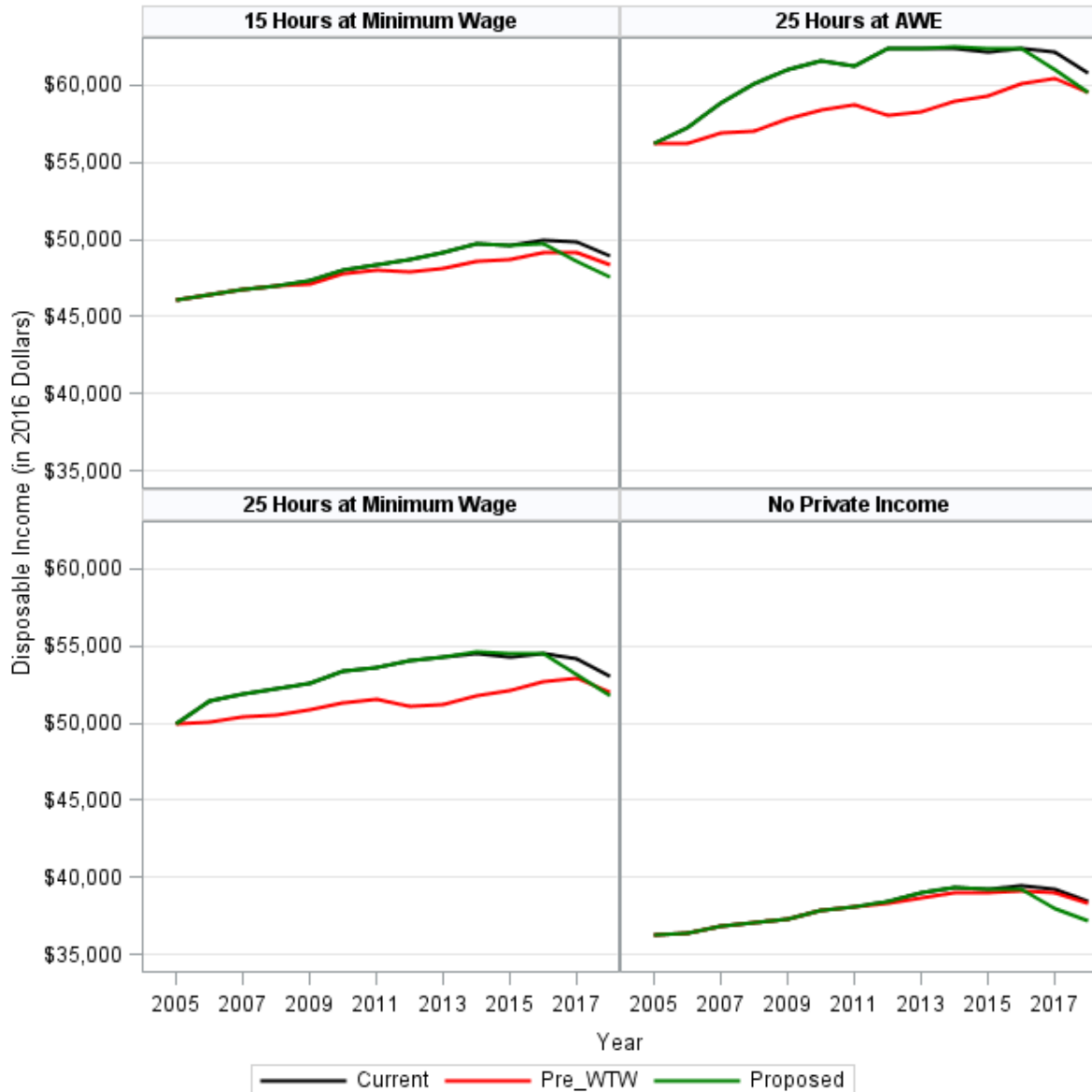
Single parents with no private income and working 5 days at average weekly earnings are worse off by \$1,432 under the proposed policy compared to the current policy. Similarly, families working at minimum wage (both 15 and 25 hours) are worse off by \$1,550 if the policy changes in the 2016-17 Budget are implemented.

### **Single parents with children aged 4 and 6**

Figure 2 shows the comparison of the disposable income of single parents with two children aged 4 and 6 under the three different policies.

The current policies are more generous for single parents working 25 hours (both minimum wages and AWE) compared to the 'Pre-WTW' policy until 2016. But the removal of FTB supplements and clean energy supplements to the new income support recipients in the 2016/17 Budget significantly reduces family payments and therefore disposable income.

**Figure 2: Disposable Income, Single parent, 2 children (4 and 6 years), Policy scenarios**



By 2018, the disposable income of the hypothetical single parents without any private income will be worse off by \$1,418 under the new proposed policy compared to the current policy and is about \$1,199 where we compare to the 'pre-WTW' policy.

The disposable income of single parents working 15 hours (at minimum wage) reduces from \$51,651 to \$50,234 under the new proposed policy - a 2.8 per cent drop in their disposable income. This family type has, however, benefited from the parenting payment taper rate reductions in 2013.

Appendix 1 provides the detailed amount of disposable income under the complete range of scenarios.

We find that higher income single parents with younger children are actually better off under current policies compared to the 'pre-WTW' policy world. The gap is projected to narrow with the loss of various supplements were the proposed policy to pass parliament. Several tax cuts last decade and in 2012 increase the gap for the higher income scenarios.

By 2018, single parents working 25 hours at minimum wage would be better off by \$1,235 under the current system compared to both the 'pre-WTW' policy and the new 'proposed' policy. Under the proposed policy, single parent families working at AWE for 25 hours per week will be \$1,418 worse off by 2018.

## **CONCLUSION**

Single parents have been heavily targeted with policy change since 2005 with the welfare-to-work changes leading to substantial reductions in government payments to low income single parents.

The main policy change was to move single parents from the Parenting Payment to the Newstart Allowance. This change meant a lower payment rate and a lower rate of indexation where the youngest child was 8 or older.

We find that for a family with no private income and two children over the age of 8 policy changes since 2005 have left them around \$5,750 a year worse off or about 17.2 per cent by 2018. Where the single parent works three days per week on the minimum wage they will be \$6,391 worse off or 14.8 per cent.

A higher income single parent with children aged older than 8 will be less affected as any small loss in welfare payments is offset by lower personal income taxation.

We don't find a significant difference in disposable incomes for single parents where they have younger children as they remain on the parenting payment. Some higher income families may be better off due to tax cuts compared to the 'pre-WTW' policy scenario.

The analysis compares the existing policy settings with those proposed in the Omnibus Act and we do find that single parents will lose significant amounts of government benefits. Most single parent families will lose between \$1,235 and \$1,550 each year from the proposed changes.

Overall, due to lower government benefits and lower payment indexation many single parent families are considerably worse off as a direct result of policy change enacted by various governments since 2005. Some of our higher income families with younger children are actually better off as a result of tax cuts and lower taper rates for the parenting payment.

## APPENDIX

## Comparison of disposable income of single parents between different policies

| Year   | Age of the first child | Age of the second child | Disposable income |         |          |                    |                   |                    |
|--|------------------------|-------------------------|-------------------|---------|----------|--------------------|-------------------|--------------------|
|  |                        |                         |                   |         |          | Difference         |                   |                    |
|  |                        |                         | Current           | Pre-WTW | Proposed | Pre-WTW & Proposed | Pre-WTW & Current | Current & Proposed |
| <b><i>No private income</i></b>                      |                        |                         |                   |         |          |                    |                   |                    |
| 2005   | 6                      | 4                       | 27,757            | 27,757  | 27,757   | -                  | -                 | -                  |
| 2015   | 6                      | 4                       | 38,904            | 38,596  | 38,904   | -308               | -308              | -                  |
| 2018   | 6                      | 4                       | 40,648            | 40,429  | 39,230   | 1,199              | -219              | 1,418              |
| 2005   | 10                     | 8                       | 27,069            | 27,069  | 27,069   | -                  | -                 | -                  |
| 2015   | 10                     | 8                       | 33,862            | 37,753  | 33,862   | 3,891              | 3,891             | -                  |
| 2018   | 10                     | 8                       | 34,840            | 39,159  | 33,408   | 5,751              | 4,319             | 1,432              |
| 2005   | 4                      | -                       | 23,317            | 23,317  | 23,317   | -                  | -                 | -                  |
| 2015   | 4                      | -                       | 32,960            | 32,824  | 32,960   | -136               | -136              | -                  |
| 2018   | 4                      | -                       | 34,852            | 34,724  | 34,019   | 705                | -128              | 833                |
| 2005   | 8                      | -                       | 22,629            | 22,629  | 22,629   | -                  | -                 | -                  |
| 2015   | 8                      | -                       | 27,918            | 31,982  | 27,918   | 4,064              | 4,064             | -                  |
| 2018   | 8                      | -                       | 29,044            | 33,454  | 28,196   | 5,258              | 4,410             | 848                |
| <b><i>Work 3 days, Part time at minimum wage</i></b> |                        |                         |                   |         |          |                    |                   |                    |
| 2005   | 6                      | 4                       | 35,286            | 35,286  | 35,286   | -                  | -                 | -                  |
| 2015   | 6                      | 4                       | 49,192            | 48,262  | 49,192   | -930               | -930              | -                  |
| 2018   | 6                      | 4                       | 51,651            | 51,065  | 50,234   | 831                | -586              | 1,418              |
| 2005   | 10                     | 8                       | 34,086            | 34,086  | 34,086   | -                  | -                 | -                  |
| 2015   | 10                     | 8                       | 43,015            | 47,005  | 42,994   | 4,011              | 3,991             | 21                 |
| 2018   | 10                     | 8                       | 44,539            | 49,380  | 42,989   | 6,391              | 4,842             | 1,550              |
| 2005   | 4                      | -                       | 30,590            | 30,590  | 30,590   | -                  | -                 | -                  |
| 2015   | 4                      | -                       | 42,992            | 42,284  | 42,992   | -708               | -708              | -                  |
| 2018   | 4                      | -                       | 45,599            | 45,153  | 44,766   | 386                | -447              | 833                |
| 2005   | 8                      | -                       | 29,902            | 29,902  | 29,902   | -                  | -                 | -                  |
| 2015   | 8                      | -                       | 37,071            | 41,441  | 37,050   | 4,391              | 4,370             | 21                 |
| 2018   | 8                      | -                       | 38,742            | 43,883  | 37,777   | 6,105              | 5,140             | 965                |
| <b><i>Work 5 days, Part time at minimum wage</i></b> |                        |                         |                   |         |          |                    |                   |                    |
| 2005   | 6                      | 4                       | 38,216            | 38,216  | 38,216   | -                  | -                 | -                  |
| 2015   | 6                      | 4                       | 53,823            | 51,582  | 54,006   | -2,423             | -2,241            | -182               |
| 2018   | 6                      | 4                       | 55,985            | 54,998  | 54,750   | 248                | -987              | 1,235              |
| 2005   | 10                     | 8                       | 37,254            | 37,254  | 37,254   | -                  | -                 | -                  |
| 2015   | 10                     | 8                       | 46,965            | 50,466  | 46,945   | 3,521              | 3,501             | 20                 |
| 2018   | 10                     | 8                       | 48,658            | 53,454  | 47,108   | 6,346              | 4,796             | 1,550              |
| 2005   | 4                      | -                       | 33,639            | 33,639  | 33,639   | -                  | -                 | -                  |
| 2015   | 4                      | -                       | 47,704            | 45,674  | 47,886   | -2,212             | -2,030            | -182               |

Income Trends for Selected Single Parent Families

|                                      |    |   |        |        |        |        |        |       |
|--------------------------------------|----|---|--------|--------|--------|--------|--------|-------|
| 2018                                 | 4  | — | 50,014 | 49,157 | 49,363 | -207   | -857   | 651   |
| 2005                                 | 8  | — | 32,951 | 32,951 | 32,951 | -      | -      | -     |
| 2015                                 | 8  | — | 41,021 | 44,832 | 41,001 | 3,831  | 3,811  | 20    |
| 2018                                 | 8  | — | 42,862 | 47,886 | 41,897 | 5,989  | 5,025  | 965   |
| <b>Work 5 days, Part time at AWE</b> |    |   |        |        |        |        |        |       |
| 2005                                 | 6  | 4 | 43,058 | 43,058 | 43,058 | -      | -      | -     |
| 2015                                 | 6  | 4 | 61,621 | 58,777 | 61,803 | -3,026 | -2,843 | -182  |
| 2018                                 | 6  | 4 | 64,259 | 62,935 | 62,842 | 93     | -1,324 | 1,418 |
| 2005                                 | 10 | 8 | 42,178 | 42,178 | 42,178 | -      | -      | -     |
| 2015                                 | 10 | 8 | 58,331 | 57,713 | 58,331 | -618   | -618   | -     |
| 2018                                 | 10 | 8 | 60,449 | 61,442 | 59,017 | 2,426  | 994    | 1,432 |
| 2005                                 | 4  | — | 38,083 | 38,083 | 38,083 | -      | -      | -     |
| 2015                                 | 4  | — | 55,540 | 52,539 | 55,722 | -3,183 | -3,001 | -182  |
| 2018                                 | 4  | — | 58,173 | 56,724 | 57,340 | -615   | -1,448 | 833   |
| 2005                                 | 8  | — | 37,394 | 37,394 | 37,394 | -      | -      | -     |
| 2015                                 | 8  | — | 52,054 | 51,697 | 52,054 | -357   | -357   | -     |
| 2018                                 | 8  | — | 54,301 | 55,454 | 53,453 | 2,001  | 1,153  | 848   |

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