Adequacy of social security benefits for working age households: a comparative assessment

Peter Whiteford, Crawford School of Public Policy, Australian National University
Peter.Whiteford@anu.edu.au Twitter: @whitefordpeter
Outline

• The model family approach - definitions and data sources
• Trends in benefit levels in Australia and the OECD, 2001 to 2013
• Indexation and the dangers of creeping residualisation
Defining adequacy

• The role of international comparisons
• Relative measures of adequacy
  – % of net wages at different levels
  – % of median income (poverty line)
  – % of GDP per capita/HDI per capita
• Adjustment by purchasing power parities
• Caveats
Model families data sources

- Kamerman and Kahn (various)
- Bradshaw et al. (various)
- Social Assistance and Minimum Income Protection Dataset (Nelson, 2006)
- CSB Minimum Income Protection Indicators Dataset (Van Mechelen et al., 2011)
- OECD tax benefit models (e.g. Immervoll, 2010)
Components of OECD tax benefit models

• What is included
  – Social insurance and income support benefits
  – Family benefits
  – Income tests
  – Interactions with taxes
  – Housing benefits
  – Child care (sometimes)

• What is not included
  – Assets tests
  – Child support
  – Eligibility, activation, conditionality, benefit duration
  – Policy administration
Trends in benefit levels in Australia and the OECD, 2001 to 2013
Net replacement rates (%) for single low paid workers in first six months of unemployment, OECD countries, 2013
Change in net replacement rates (%) for single low paid workers, OECD countries, 2001 to 2013
In some countries, benefits for jobless lone parent families would have to be increased significantly to reach the poverty line.

Benefit entitlements including housing benefits for lone parents as percentage of median income, 2010.
Benefit entitlements for lone parents with two children as % of median equivalised income, 2005-2013

- 2005: 52%
- 2007: 53%
- 2010: 45%
- 2011: 45%
- 2012: 44%
- 2013: 46%
Change in benefit entitlements for lone parents as % of median equivalised income, 2005-2013
Lone parent families working full-time at the minimum wage would be above a 60% poverty line in only a few countries

Disposable income as % of median income, 2010
Indexation and the dangers of creeping residualisation
The importance of indexation

• Since 1997 Age, Disability and Carers Pensions have been indexed to average earnings while payments for the unemployed remained indexed to the CPI. Before then single rate of Newstart was around 91% of the single pension rate.

• Changes implemented after the Harmer Review have meant that the gap between benefits for the unemployed and for people with disabilities has widened. It’s now more than $230 per fortnight, and a single unemployed person receives a payment that is only 65% of the payments for a disability pensioner.

• As the system is currently configured this gap cannot narrow over time, it can only grow. Last year’s Intergenerational Report assumes that current indexation policies apply into the future so that age and disability pensions will be linked to wages, while most other payments for people of working age and families will be indexed to prices. Pensions are projected to rise by 4% a year on average, while benefits and allowances would rise by 2.6% a year.

• The result – if actually continued for 40 years – would be that in 2050 a single unemployed person would be receiving a payment of about 11% of the average male wage, compared to 20% now. An unemployed person would be receiving a payment that was little more than one-third that of an age or disability pensioner.
The growing divergence between benefits and pensions

Payments for single person as % of median equivalent income

*Newstart*  *Pension*

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<th>Year</th>
<th>Newstart</th>
<th>Pension</th>
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<td>47%</td>
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<td>1996</td>
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<tr>
<td>2011</td>
<td>48%</td>
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Number (000s) of lone parents receiving Parenting Payment Single (or Newstart), 1965 to 2014
Trends in real equivalised median income unit incomes in Australia, 1981-82 to 2011-12
Trends in real incomes at different decile points, Australia, 1994-95 to 2011-12

Percentage change in real equivalent income unit income
Future challenges

• While reduced, a significant proportion of the working age population continue to rely mainly on benefits for their incomes – it is desirable for equity reasons and sustainability to reduce this, but we should also be concerned that further reforms really do improve equity in outcomes.

• Australia – so far – seems to have escaped a major economic downturn from the “Great Recession”. This is a very major advantage in facing future challenges.

• Population ageing will soon start to have a much more significant impact on the costs of the system.

• There are significant unmet needs – with reforms to introduce greater funding for disability services, for aged care and nursing homes, for dental care and to improve equity in the education system.

• Indexation provisions for unemployment payments are inadequate as are benefit levels. Similar risks to future family payments.

• The Grattan Institute (2013) estimates that on current trends there would be a deficit of 4% of GDP by 2023 (2.5% at the Federal level).

• Because the Australian system is the most targeted to the poor of any rich country, cutting social security benefits would increase inequality more than any other OECD country.

• Short term budget savings do not necessarily make coherent medium and longer term policy settings.
Additional Material
Trends in social security spending, Australia, 1980 to 2012

Spending on cash transfers as % of GDP
Trends in contribution of welfare payments to lone parents’ income (%), Australia 1994-95 to 2013-14

% of lone parents by group

- Nil or less than 1%
- 1% to less than 20%
- 20% to less than 50%
- 50% to less than 90%
- 90% and over

Graph showing the percentage contribution of welfare payments to lone parents’ income from 1994-95 to 2013-14.
Who are the most disadvantaged?
Per cent of group experiencing deep and persistent disadvantage, 2001 to 2010

[Graph showing the percentage of various groups experiencing deep and persistent disadvantage, with the highest percentage for public housing tenants.]
Poverty rates are strongly influenced by employment status

% of households with incomes less than 50% of median income, 2007-08

- Lone parent not employed: 67.8%
- Lone parent employed part-time: 14.9%
- Lone parent, employed full-time: 1.2%
- Couple, neither employed: 50.8%
- Couple, one employed: 7.9%
- Couple, two employed, one FT: 2.9%
- Couple, two employed, both FT: 0.6%
Social security benefits as % of household disposable income of poorest quintile, 2010 or nearest year

Source: Calculated from Table 5, OECD, 2014, http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en
Social security benefits as % of household disposable income of richest quintile, 2010 or nearest year - or why cutting social security in Australia doesn’t hurt the rich

Source: Calculated from Table 5, OECD, 2014,
http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en
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%