

Appendices: Income Support Gaps

Appendix A: Description of data sources

The research note, *Income Support Gaps: When jobseekers don't seek jobs*, uses three main data sources – the Survey of Income and Housing, the Household Income and Labour Dynamics in Australia Survey, and DSS Data Over Multiple Individual Occurrences.

These data sources, their benefits, and their limitations, are discussed below.

- The Survey of Income and Housing (SIH):
 - This is a biennial survey of households in Australia that collects information about the household and people within it. Importantly it collects income, employment, and wealth information which allows us to observe if individuals are receiving the benefit, and whether they are eligible for such payments.
 - Different households are surveyed during each iteration of the SIH, and so we cannot use these data to follow individuals or households through time.
 - Wealth information became available in 2003/04, with a gap in 2007/08.
 - The sampling frame was changed in 2009/10 and the sample size was increased. However, falling response rates have seen collected responses fall to around 15,000 households in the last two surveys.
- The Household Income and Labour Dynamics in Australia (HILDA) survey:
 - This is an annual survey of households in Australia that collects a wide range of information about households and individuals – including income, wealth, employment status, and a series of perception and expectation measures.
 - The same households are surveyed annually, with an inheritance rule that tracks individuals and descendants who were initially in the household. This allows us to track the same individuals through time.
 - Due to attrition in responses and falling representativeness of the initial sample there was a “top-up” in 2011.
 - Each year around 23,000 people from 9,500 households respond to the survey.
- DSS Data Over Multiple Individual Occurrences (DOMINO):
 - DOMINO is a cleaned and anonymised version of the Department of Social Services administrative data on benefit recipients.
 - It represents the entire population of individuals who interact with the DSS. Some individuals will be excluded from analysis if their administrative records appear incomplete.
 - Publicly available aggregates for this information are available at <https://data.gov.au/data/dataset/jobseeker-payment-and-youth-allowance-recipients-monthly-profile>, with some time series data available at [DSS Income Support Recipients – Monthly Time Series \(researchdata.edu.au\)](https://researchdata.edu.au/).

Many of the international comparison graphs in the appendix also rely on harmonised information from the OECD at <https://data.oecd.org/>.

Appendix B: SIH and non-receipt of NewStart/JobSeeker

For the research note, *Income Support Gaps: When jobseekers don't seek jobs*, the reasons for non-receipt of the NewStart/JobSeeker benefit among unemployed people was measured using Household Income and Labour Dynamics in Australia (HILDA) Survey. As a comparison, we have produced the same statistics using the Survey of Income and Housing (SIH).

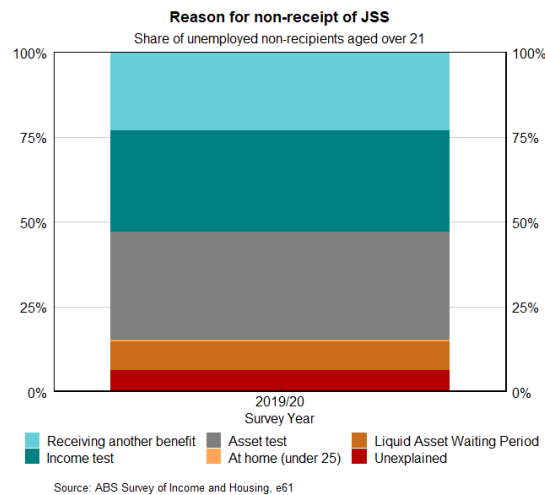


Figure B.1

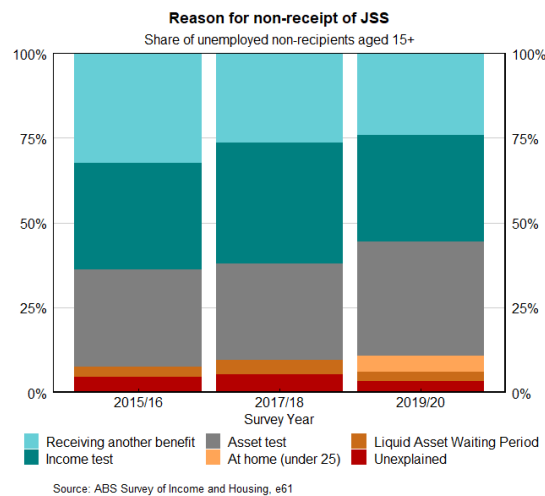


Figure B.2

For some individuals, there may be multiple reasons why they do not take up the benefit. In the graphs produced an individual is allocated to a reason for non-receipt based on an ordering priority – in this case if they are ineligible for multiple reasons, they will only be counted for the reason that is highest on the ordering priority. The ordering priority from highest to lowest is: i) receiving another benefit, ii) income over the income threshold, iii) assets above the asset threshold, iv) at home (under 25), v) ineligible due to the liquid asset waiting period, vi) unexplained. For example, if an individual is not eligible due to failing both the income and asset test, they would be recorded as failing the income test in the above graphs.

In Figure B.1 the relevant test is applied for the 2020 financial year (SIH20) for those aged over 22. COVID appeared during this period, and so there were three months where these tests would not have been applied. This is not accounted for in the results.

Figure B.2 shows multiple years of SIH data, for those aged over 15. SIH20 was the only year where liquid assets was explicitly measured and the full set of asset and liability categories were also available. This graph instead shows measures based on a consistent but less comprehensive definition of assets and liabilities, which is standardised across the survey years. Prior to SIH16 full asset categories are missing, and so the time series has not been extended further back.

Both graphs indicate that non-receipt can be largely explained across survey years. It also indicates that the liquid asset waiting period was less significant than in the HILDA results, but that relative income tests (based on current income) made up this gap. The “unexplained” gap is relatively similar to what is found in HILDA.

The HILDA survey was used to describe this population for a number of reasons:

1. Explicit measurement of “liquid” assets as a category were only undertaken in SIH20, and not in earlier SIH surveys. These were different to an implied measure based on financial accounts plus debenture and bond holdings. As the two series gave different results for the liquid asset waiting period, the series with the more robust definition of liquid assets over the time period was selected.
2. Part of the “unexplained” category is likely to be non-residents in the SIH data. The insights above are based on the SIH confidentialised unit record data, which does not include migration or visa data.
3. The HILDA series follows individuals through time, which allows us to combine this eligibility information into further analysis of the behaviour of these individuals over time. These eligibility criteria are used in later research notes.
4. Wealth definitions in the SIH have changed regularly through time, while HILDA provides a consistent long time series for analysing these tests.

Appendix C: Treatment of those with multiple reasons for ineligibility

Individuals may be ineligible for the receipt of a benefit for multiple reasons. As a result, when constructing measures of the contribution of non-receipt we had to determine how we would treat individuals who were ineligible in multiple ways.

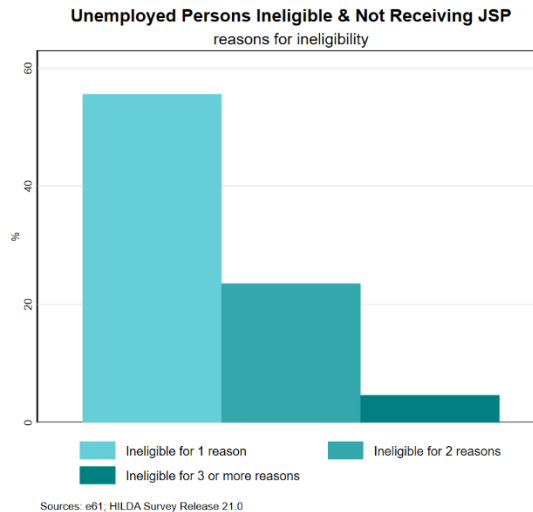


Figure C.1

We have decided to report shares where an individual is only counted once. As a result, we have to determine what the “primary reason” for their ineligibility is. We do this using an ordering rule – where the rules at the top are counted first.

The current ordering of rules for determining ineligibility is:

1. Receipt of other Income Support Payment,
2. Over the Personal Income threshold,
3. Over the Asset threshold,
4. Over the Partner Income threshold,
5. On a Liquid Assets Waiting Period (LAWP),
6. Aged 15-21.

How do we read this ordering? If someone had assets above the threshold, and their partner earned more income than the partner income threshold, then we would count this individual in the “over the asset threshold” category – as that reason is highest on the list.

To check the sensitivity of our conclusion to this ordering, we have also considered other orderings. The below graphs show the HILDA results under a number of number orderings for ineligibility.

Unemployed Persons Ineligible & Not Receiving JSP

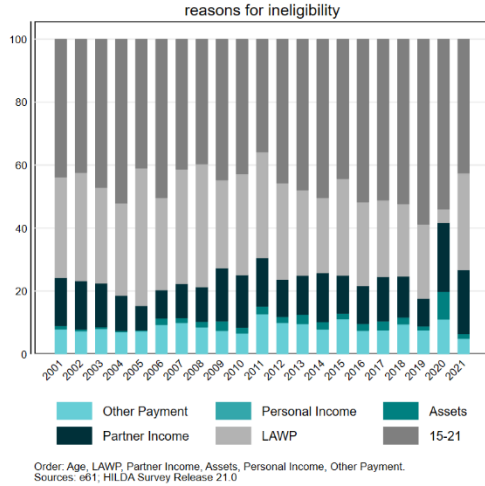


Figure C.2

Unemployed Persons Ineligible & Not Receiving JSP

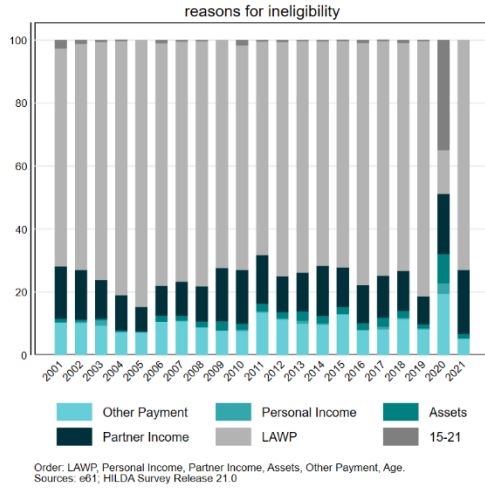


Figure C.3

Unemployed Persons Ineligible & Not Receiving JSP

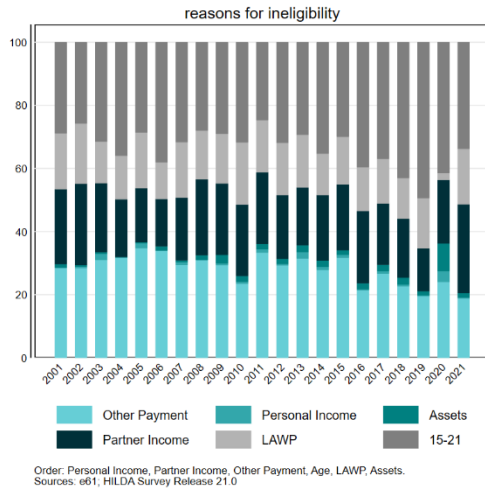


Figure C.4

Considering these alternative orderings we can conclude that:

- Ineligibility due to **receipt of another payment** is still a big driver even when it isn't first in the order list – with other payments excluding more individuals than assets and personal income across all specifications.
- Within the population of ineligible non-recipients, 33.1% receive another income support payment.¹ This comprises of:
 - 6.2% in receipt of DSP
 - 1.4% in receipt of Carers Payment
 - 16.9% in receipt of Youth Allowance
 - 9.1% in receipt of Parenting Payment
- **Personal income** is not a huge driver behind ineligibility.
- **Partner income** explains between 10-20% of ineligibility under all orderings, indicating that it is consequential.
- The **asset threshold** is not a huge driver (5% or less across all 4 specifications)
 - When looking at all ineligible and unemployed, 16.3% of individuals have asset levels above the asset test.
 - Assets are observed in HILDA at the household level only once every four years. For the years that assets are not observed asset eligibility is imputed, which will cause some measurement error in the incidence of ineligibility due to asset levels in imputed years.
- The **Liquid Asset Waiting Period** is always an important driver of ineligibility – even when it is ordered last it explains around 15-20% of ineligibility amongst unemployed individuals.
- **Aged between 15 and 21** is a big driver except for when it is ordered after liquid asset waiting periods (LAWP) – suggesting that 15–21-year-olds who are not on the youth allowance do tend to have liquid assets.

¹ It is possible to receive more than one of these payments during a year, namely Parenting Payment and Carers Payment.

Appendix D: Importance of other first tier payments

The general income support system is not dominated by individuals on income related support, but also captures a more general set of support payments based on age, disability, and parenting and caring responsibilities.

In this context, the number of individuals who receive the unemployment benefit tends to only be a fraction of total social security recipients – even during a recession.

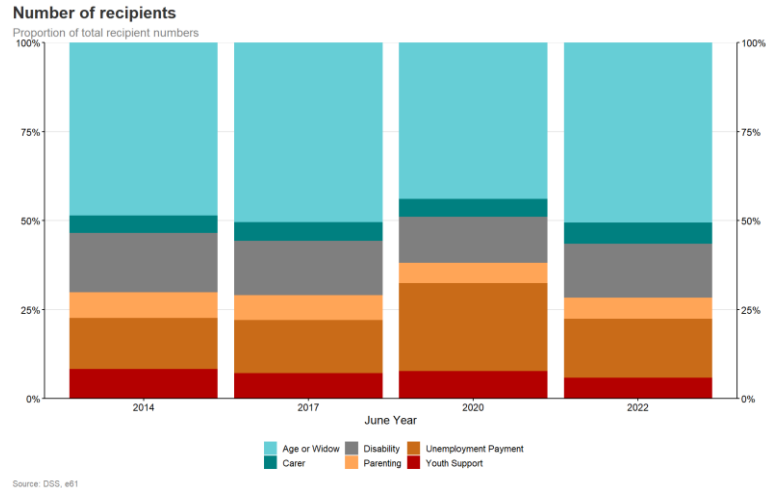


Figure D.1

Of those who do not receive the JSP but are unemployed we know that:

- 6.2% receive DSP,
- 1.4% receive Carers Payment,
- 16.9% receive Youth Allowance,
- 9.1% receive Parenting Payment.

However, through time the number of unemployed individuals that are on a different payment has been declining.

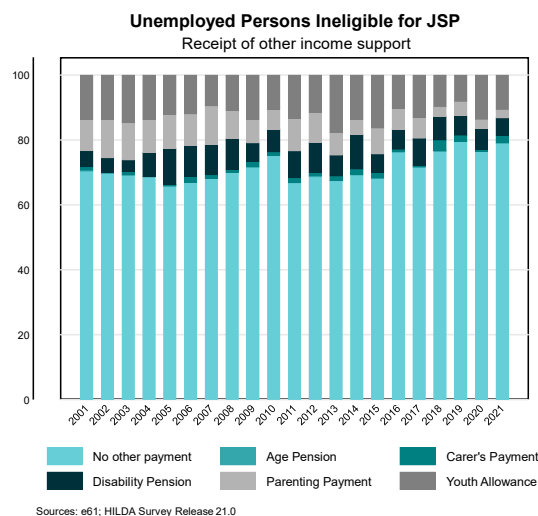


Figure D.2

Appendix E: Other facts about the Australian income support system

In the note, *Income Support Gaps: When jobseekers don't seek jobs*, we had to be selective about the facts we pulled out regarding the targeting system in Australia due to space restrictions. However, there are a much larger set of international comparisons and statistics about the system that are consequential for understanding targeting – implying that there are a number of stylised facts that influenced the narrative in the note.

Below we provide these other stylised facts about the unemployment benefit system in Australia. These facts focus on replacement rates and fiscal costs.

Replacement rates

Net replacement rates (the ratio of after-tax income when unemployed to after tax income earned at the average wage) in Australia are below most similar countries. This gap is especially large for those unemployed for a short period of time (less than six months) as most other countries reduce the payment the longer a person is unemployed.

The graphs below show the core OECD net replacement rates based on an individual earning 67% of national average wages.

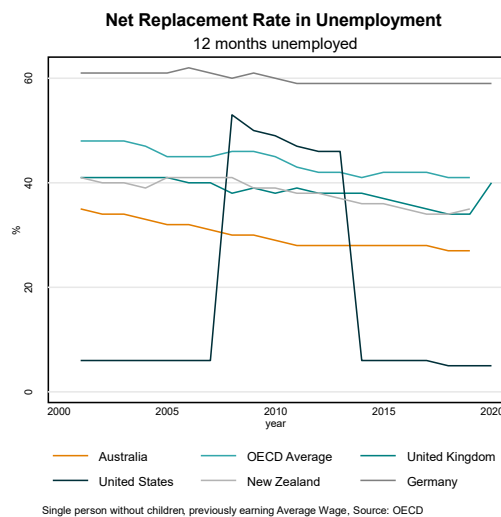


Figure E.1

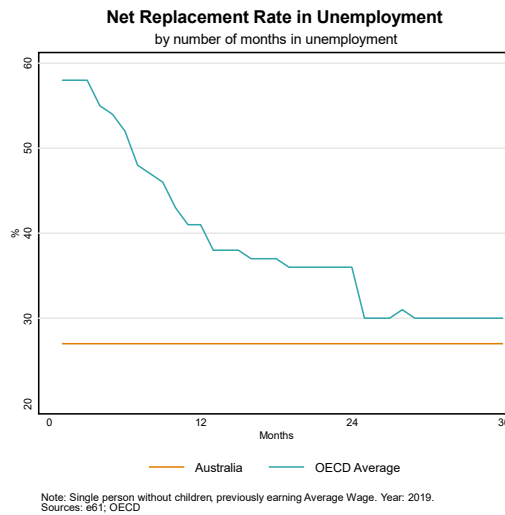


Figure E.2

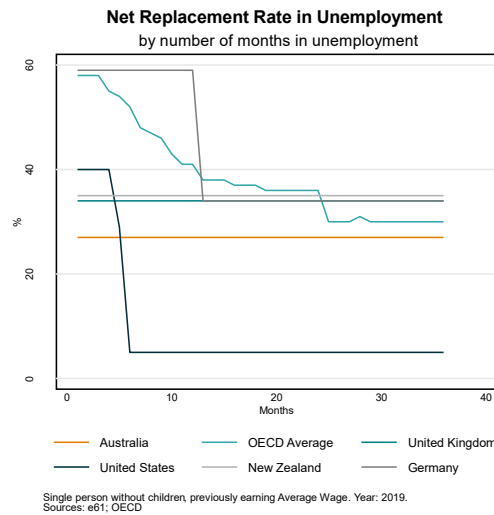


Figure E.3

However, these replacement rates can be misleading – as some income support systems provide a payment that is based on prior income while others don't. In countries with a pure "insurance" scheme (e.g. Austria, Germany, Denmark) the payment received varies significantly between people who are unemployed as they are set relative to a person's prior income. This means that the replacement rates are relatively constant among those who receive support.

However, the JobSeeker payment is flat in Australia – with someone who previously earned \$10,000 eligible for the same payment as someone who previously earned \$100,000. This implies that replacement rates vary significantly for different groups. In the graphs below we show replacement rate by average industry wages and, by average earnings by age group.

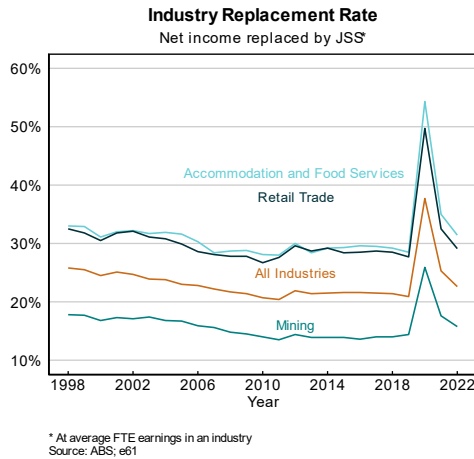


Figure E.4

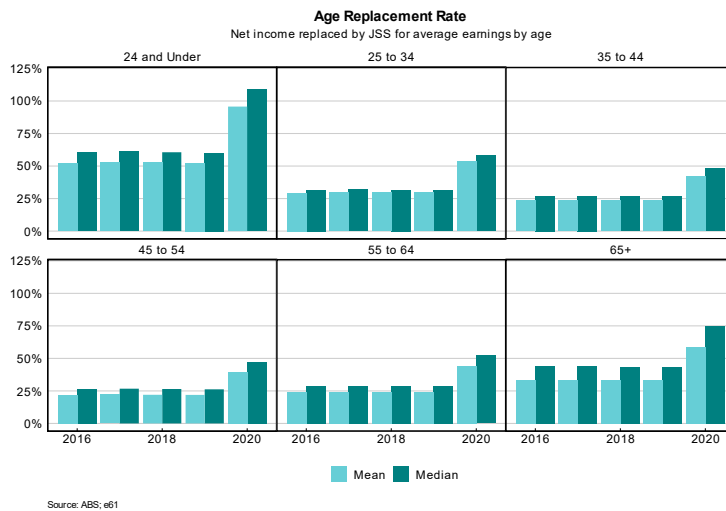


Figure E.5

Net income replacement, based on receipt of the base single person benefit, for the average individual working in Accommodation and Food Services or Retail Trade is 10 percentage points higher than the average rate. This is because of the lower average full-time equivalent pay in this industry than other industries.

Similarly, the income replacement associated with the JobSeeker Payment is highest for those aged 15-24. These higher net replacement rates for young people are a function of the lower income earned by this group, and is part of the rationale for the lower payment rate (through the Youth Allowance) for those aged 21 and below.

Fiscal costs

In the below graphs we show that the fiscal cost of the unemployment benefit system in Australia appears to be low, accounting for only 8.2% of spending on Social Security in Australia over the past decade. This compares to the 38% of Social Security expenditure that is on assistance to the aged.

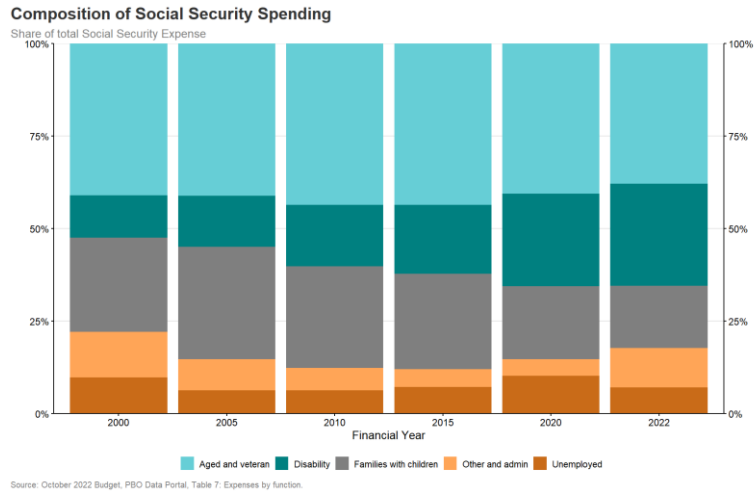


Figure E.6

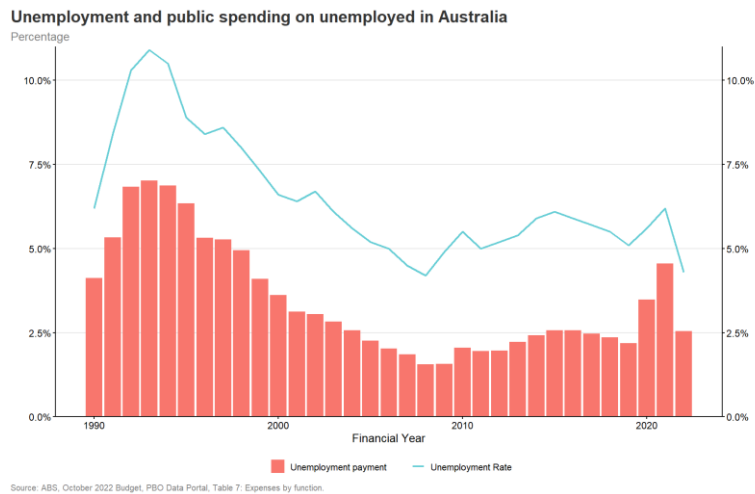


Figure E.7

Furthermore, harmonised OECD figures indicates that, by international standards government expenditure on unemployment payments is relatively low in Australia.

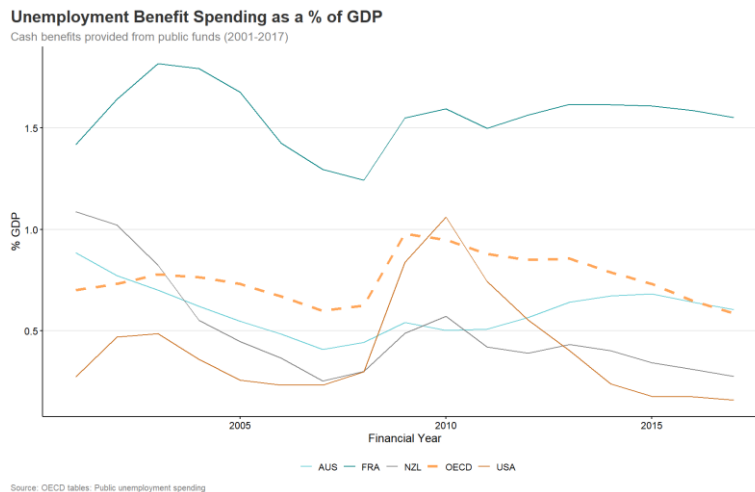


Figure E.8

Appendix F: Benefit abatement

The role of targeting through benefit abatement can be shown in the effective marginal tax rate (EMTR) and effective average tax rate (EATR) structure for a benefit recipient.

The two graphs can be read as follows: i) EMTR: if a minimum wage worker picked up an extra hour of work, how much of the additional income would they return to government through tax and benefit abatement ii) EATR: if an individual entered a minimum wage job at that level of hours, how much of the income from that job would they return to government through tax and benefit abatement.

For example, when deciding to take up a 20-hour minimum wage job, a single individual without children would sacrifice 52% of the gross pay from the job due to benefit abatement. And if they wanted to work an additional hour, they would give up 59% of the pay from that extra hour.

These high tax rates help to manage the fiscal cost of the scheme, but risk creating a powerful disincentive effect for work.

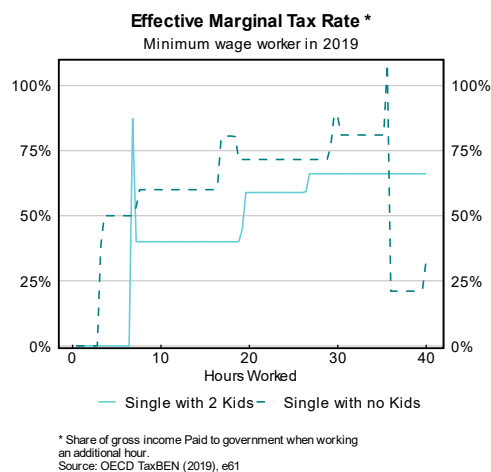


Figure F.1

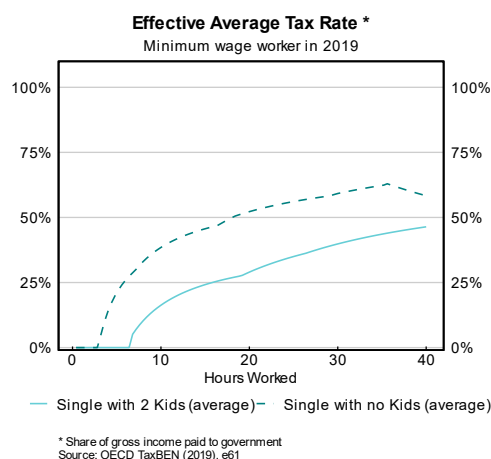


Figure F.2

Appendix G: Duration of receipt and capacity to work

The duration of receipt for those on the unemployment benefit has risen significantly over the last decade. However, part of the reason for this has been that there was a change in the composition of recipients – with benefit reforms since 2014, and into 2020, shifting individuals from sickness and parenting related benefits onto NewStart and then the JSP.

The key takeaway from this is that the unemployment payment is increasingly being used as a generic poverty alleviation tool – replacing other payments for vulnerable individuals and pushing them into a regime with increased work testing.

This leads to a further question which is outside of the scope of this note, whether a number of these changes should be reversed – with a clearer separation between those with full and partial work capacity. If individuals have their opportunity to live at a minimum standard taken away due to excessive work testing relative to their personal capacity this would risk violating Australian obligations under article 9 of the International Covenant on Economic, Social and Cultural Rights.²

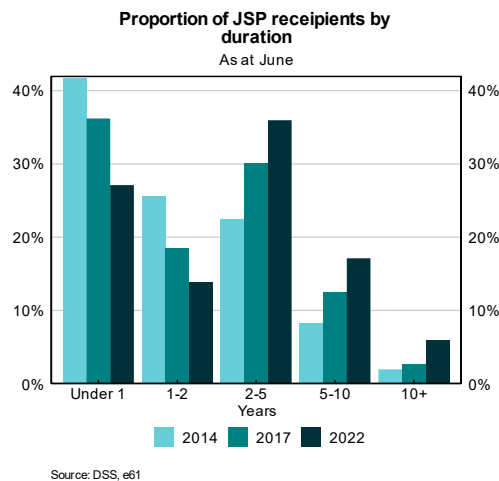
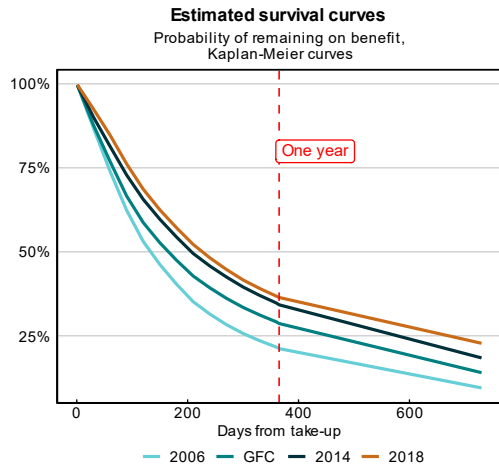


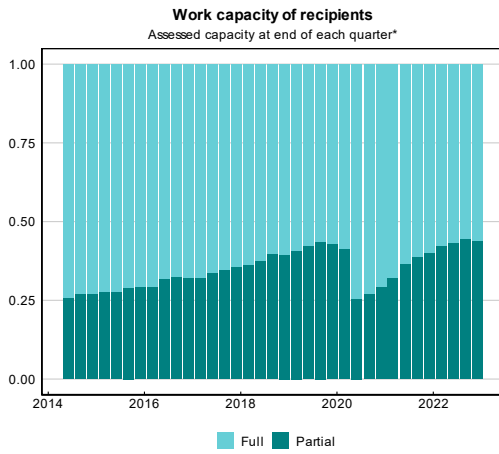
Figure G.1

² <https://www.ohchr.org/en/instruments-mechanisms/instruments/international-covenant-economic-social-and-cultural-rights>



Sources: ABS Datalab; DOMINO; e61

Figure G.2



* Partial capacity refers to being unable to work 30 hours per week
Source: DSS; e61

Figure G.3

Appendix H: Family status of those with no government transfers

Individuals who received government pensions (i.e. the disability support pension) or the youth allowance may be looking for work, and thereby report unemployment. In the research note these individuals will have been recorded as individuals who were unemployed and did not receive the JSP.

However, the provision of other payments does mean that there are other parts of the overall income support system that are picking up these individuals – either inadvertently or by design. For sensitivity it is worth looking at how the family type breakdown of unemployed individuals changes when we only look at individuals that receive no government allowances or pensions – rather than just looking at individuals who do not receive the JSP.

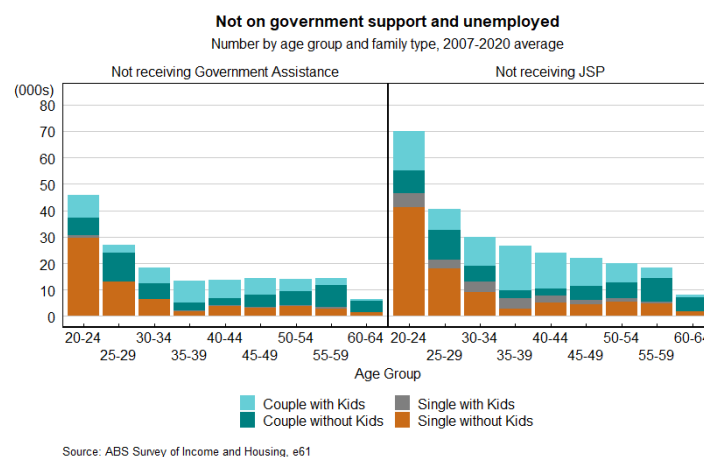


Figure H.1

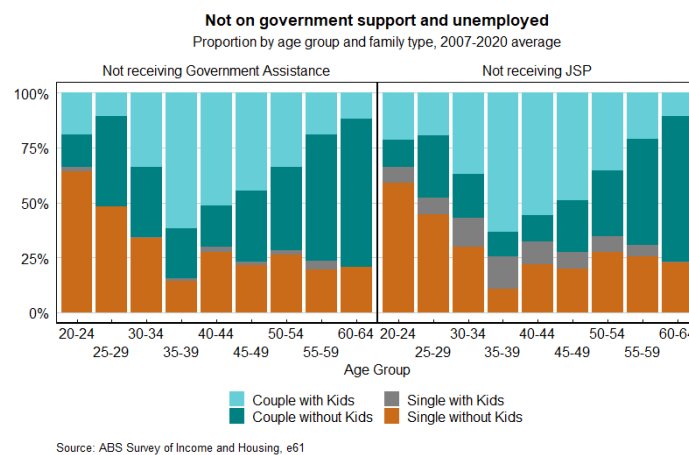


Figure H.2

As shown in H.2, among unemployed people it is single individuals without children, especially at young ages, that are a large contributor to overall non-receipt numbers.

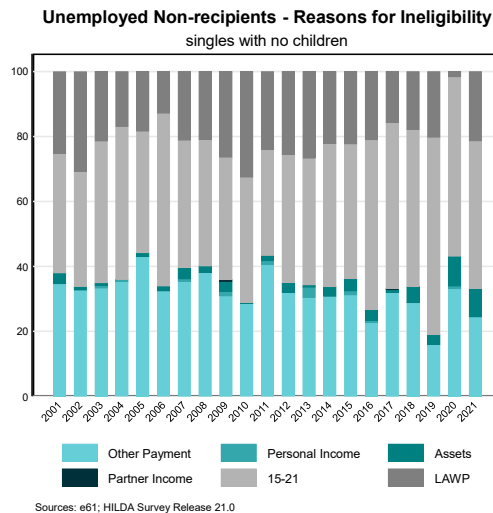


Figure H.3

Figure H.3 illustrates the reasons why this group of unemployed single individuals without children are unable to access the JobSeeker payment. There are two main drivers:

- Receiving another income support payment: on average 35% of this group are receiving another government payment, which is slightly higher than the total unemployed population (32%).
- 45% of those that are ineligible are individuals aged between 15 and 21 who are not receiving government assistance.
- Liquid Assets Waiting Period (LAWP): for 17% of unemployed single individuals without children, having liquid assets that exceed the threshold of the LAWP is the main driver behind ineligibility (outside of age). If we don't take other reasons for ineligibility into account, this number jumps to 85%.

Taking these points together, it appears that the restrictive eligibility criteria for the Youth Allowance and the binding constraint of the liquid asset waiting period are preventing single people from getting a payment they genuinely need. In a policy sense this suggest that access to the Youth Allowance, and the level of the liquid asset waiting period test, are both areas that should be considered for future reform.