



NYCA NATIONAL YOUTH COMMISSION AUSTRALIA
INQUIRY INTO YOUTH EMPLOYMENT AND TRANSITIONS
National Youth Commission Australia

THE YOUTH INCOME GUARANTEE

A FAIR AND ACCESSIBLE INCOME SUPPORT
SYSTEM FOR YOUNG PEOPLE

ABOUT THE NATIONAL YOUTH COMMISSION AUSTRALIA'S INQUIRY INTO YOUTH EMPLOYMENT AND TRANSITIONS

The National Youth Commission Australia's Inquiry into Youth Employment and Transitions was launched in March 2019 to develop ideas on how young people could be better prepared and supported in their transition from school to work, now and in the future.

The Inquiry heard from over 1,200 individuals and organisations at public hearings and community consultations across all states and the Northern Territory over a total of 47 days. Of the 1200 people who Commissioners and workshop leaders met face to face, more than half were young people of school age or in early adulthood, both in and out of the workforce. The Commission also convened focus groups with young people to gather information specifically on their experiences of income support.

The Commission convened the Youth Futures Summit in August 2020, which brought together over 1000 participants in a week-long virtual event to discuss some of the biggest issues facing young people in 2020. Participants included young people, educators, employers, community service workers and policy makers from around Australia. The Inquiry's interim findings report, **What Future?**, and the proposed **Youth Futures Guarantee** were released during the Summit.



THE YOUTH FUTURES GUARANTEE

The Youth Futures Guarantee lays out a framework of reforms and initiatives that will support young people to meet the challenges of the future, but these also benefit Australian businesses and the wider Australian community. The Guarantee consists of nine pillars reflecting the priority concerns expressed to the Commissioners at public hearings, community consultations, in submissions and during the Youth Futures Summit.

EDUCATION AND TRAINING

JOB CREATION

EMPLOYMENT SERVICES

INCOME SECURITY

CLIMATE JUSTICE

HOUSING AND HOMELESSNESS

HEALTH AND WELLBEING

TRANSPORT

LOCAL COMMUNITY SUPPORT

Within each pillar the Commission has identified contributions from governments, organisations, businesses and communities that will improve the lives of young people and assist their transition from adolescence to adulthood. The income support system has a key role to play and not just in improving income security for young people. Well-designed income support arrangements underpin success in all areas such as education, training, employment, housing, health and wellbeing.



WHY WE NEED TO REFORM THE INCOME SUPPORT SYSTEM FOR YOUNG PEOPLE

The National Youth Commission Australia proposes the Youth Futures Guarantee to help young people navigate the transitions from school to post-school education, training and employment. Income support is one of the nine pillars of the Youth Futures Guarantee because having an adequate income while studying or looking for work assists in the transition of young people from school to work, from adolescence to adulthood, and from dependence to independence.

Youth Allowance and JobSeeker payments for young people fall well short of what is needed to meet the costs of daily living, particularly for those who must live away from home or who cannot rely on help from parents. High housing costs force students and job seekers into poverty and housing insecurity, compromising education and employment outcomes, physical and mental health. The current rate structure ignores the actual costs of study, searching for a job or meeting other participation requirements.

The income support system is complex and the rules are hard to understand. It can result in substantially different outcomes for young people in similar circumstances (e.g. living away from home), with almost identical basic living costs and similar capacity to work. The current system also reflects an old concept of unemployment as a short-term, temporary state experienced between full-time work. In reality, many young people rely on income support for several years or more while working intermittently, often while studying. Young people face ever-decreasing prospects of a secure job, earning sufficient income to live on without additional support.

Some young people struggle to successfully navigate the income support system and meet participation expectations, for example, those who are homeless, trying to live independently after leaving state care, or those living with episodic mental health conditions or other disabilities. Young people juggling school or part-time work with caring responsibilities also find the system is blind to the challenges they face every day.

The current means test lacks clear incentives for study or work. Young people over the age of 22 years receive less income support if they are studying than if they are looking for work. Young people are uncertain if they will be better off taking up a job with variable shifts, which might only be short-term. Uncertainty about how long it will take to get back on income support if the job falls through is a critical factor. It undermines incentives for young people to take up jobs in a highly precarious youth labour market.

In short, we need a different model of income support that is simple, coherent and provides adequate support for young people trying to find a foothold in a casualised and uncertain labour market. The Commission is proposing a Youth Income Guarantee designed for the complex lives of young people in the 21st Century. The Youth Income Guarantee is a single income support payment for young people comprised of a rate of payment above the poverty line, including incentive payments for participation in education, training and job search.



INCOME SUPPORT AND COVID-19

COVID-19 has had a devastating impact on Australia's economy and labour market. There has been a steep rise in youth unemployment and the number of young people dependent on income support. In a welcome response to the pandemic induced economic crisis, the Australian Government introduced a temporary Coronavirus supplement of \$550 per fortnight (reduced to \$250 per fortnight from September 2020 and reduced again to \$150 per fortnight from January 2021). The impact of the supplement was beneficial with many reports of recipients being able to afford the necessities of life (rent, food and medicine) for the first time on income support. The supplement was an implicit acknowledgement of low levels of income support before COVID-19.

In December 2020, the Commission conducted two online focus groups of young people on income support. The focus group participants were asked about their experience on income support during the pandemic. Almost all the focus group participants said the Coronavirus supplement was used to pay for food, rent, bills, medicines and transport (including fuel and car insurance). One young man told the Commission he reduced his debts to friends, family and his energy company. The payment rate change allowed him and many other young people to cover all their basic needs.

"My (coronavirus supplement) goes straight to rent."

'C', aged 20, Focus Group on 9 December 2020

Unfortunately, the Australian Government removed the supplement on 31 March 2021. While income support payments did not return to their pre-COVID levels, the Government increased payments by \$50 per fortnight from 1 April 2021. This short-sighted decision is completely inadequate and is forcing income support recipients to again live in poverty. People reliant on income support are again being forced to choose between paying for food, rent or medicine. Their ability to gain work is reduced, even as the economy recovers, because they lack the resources to meet the costs of searching for work (e.g. phone, internet, and travel costs).



DESIGN PRINCIPLES FOR THE YOUTH INCOME GUARANTEE

A contemporary model of income support would deliver an adequate level of support for young people to live decent lives, have clear incentives to pursue education or take up available work, and operate as a true safety net for those seeking a foothold in a precarious labour market.

The Commission's Inquiry into Youth Employment and Transitions identified three important design principles for a new model of youth income support.

A true safety net that provides a secure income to support young people as they:

- Navigate key life transitions.
- Take up uncertain employment in a precarious youth labour market.

Adequate payments for a decent life, where:

- Rates of payment reflect the costs of daily living and the costs of education, training, job search and other activities.
- Rates of payment recognise the fact that a substantial number of young people receive payment for an extended period.
- Payments are equitable and based on need, not age.

Strong incentives to education, training, and employment, with:

- A means test that rewards work.
- Incentives and rewards for participation in education, training and work.





A TRUE SAFETY NET

“I was sick, working three jobs, studying honours, and basically pushing myself into the ground for the sake of making sure that I had employment and I could still do my university studies.

Jemille McKenzie, Bendigo VIC, 27 June 2019.

HELP THROUGH KEY LIFE TRANSITIONS WITHOUT DISRUPTION TO INCOME SECURITY.

Jemille McKenzie told the Commission about her experience of work and income support. She incurred a ‘robodebt’, became fearful of relying on income support and relied on insecure work to pay her way through university and repay the debt. The income support system failed her when it should have assisted her in completing her study and transitioning into secure and meaningful employment in her chosen field. Stories like this are all too common.

The current system of income support reflects a linear view of young people’s transitions from school to work often via post-school education and training. Income support is paid (subject to means tests) to those studying full-time or who are unemployed on the assumption that when they start work, they will no longer need income support. It is also based on the premise that young people are either unemployed and on income support or working sufficiently not to need income support.

The reality for many young people is that the transition from education to secure work is not linear or straight forward. Young people may combine full-time or part-time study with work. Young people move in and out of work because it is insecure (casual, temporary or ‘gig’ work) and often poorly paid. Reliance on income may be intermittent in that young people go off income support for short periods while working. Income support payments can be variable because their income from employment varies from fortnight to fortnight, making planning for the future difficult and heightening experiences of financial and psychological insecurity.

“You have different payments depending on whether you’re in education and training, whether you’re in work. And then you also have different payments depending on whether you’re in a relationship with somebody else. And I think all of those things are, you might say, less and less appropriate for the real lived experience of the lives of young people.”

Ben Spies-Butcher, Macquarie University, Sydney, 30 October 2019.

The income support system reflects an old concept of unemployment as a short term, temporary state between full time work. Australia needs to re-imagine income support as payments that facilitate access to study, encourage job search and work while topping up low wages for those who do not earn enough income to meet basic living costs or needs. We need a higher income free area or lower taper so that young people can retain more of their income support as they earn.



Young people who do transition to paid work that is 12 weeks or less face lengthy delays in their income support payments resuming. These delays create a serious disincentive to taking up a job that may not last and young people can lose income support payments while engaging in short-term employment. Reapplying for concessions once the work dries up can add further delays and barriers to education and new employment. An effective safety net would minimise interruptions to payments or other benefits for those on low incomes, by:

- Guaranteeing fast-track restoration of income support (within one week) for those who need to return to income support within six months of leaving payment.
- Creating an automatic invitation to apply for a Low-Income Health Care Card once a young person loses access, to help ease young people's transition into low paid work.

A new model must provide effective support for those who need short-term help between full-time jobs, those who need to rely on payments for extended periods and those who have reduced capacity for supporting themselves. A single payment system for young people aged 16 to 24 years would reduce complexity and create a true safety net. The Youth Income Guarantee would merge Youth Allowance (students and apprentices), Youth Allowance (other) and JobSeeker Payment into a single youth payment. The introduction of the Youth Income Guarantee as a single payment for young people would greatly simplify the system.

Recommendation 1: Establish a single income support payment system, the Youth Income Guarantee, for young people aged 16 to 24 years.



“Centrelink needs to hear individual’s stories and put faces to the stories so they can understand what’s happening for people in their life!”

Brophy Youth & Family Services, Submission, 28 November 2019.

“Income support needs to be more personal”

‘J’, aged 21, Focus Group on 8 December 2020.

“Centrelink is a really, really complicated process to be able to get through. And I’ve sat there with numerous young people trying to get them to access payments and trying to get them to get support.”

Tahnee Ledgerwood, Anglicare QLD, Brisbane, 23 September 2019.

IMPROVING ACCESS

Some young people are missing out on income support because they lack the knowledge, skills, resources or support needed to navigate the system. In particular, the Commission heard that young people who are homeless, leaving out-of-home care, refugees or First Nations people had the greatest difficulty in accessing income support. Even young people not experiencing disadvantage found applying for income support difficult to navigate. ‘Ni’, who recently graduated with a science degree, told the Commission how he:

... struggled to get onto the payments and staff were not helpful. - ‘Ni’, aged 24, Focus Group on 9 December 2020

Young people told the Commission that better and clearer information needs to be available informing people about what income support they qualify for and how to apply.

The young people the Commission spoke to raised fairness as a consistent theme. Cutting income support for minor infringements on the system without asking questions was considered unfair. The long waiting times to get onto the payments were also considered unfair. One young woman told the Commission that Centrelink should:

... reduce the wait times for applications. It’s way too long and people are already struggling when they applied. - ‘Na’, aged 24, Focus Group on 9 December 2020

A new model of access should reduce waiting times and ensure that those without internet access, or who have poor English, literacy or numeracy skills can get assistance. Simplifying the rules will help to improve access. Practical assistance is also needed, for example, to help young people obtain identity documents, or to facilitate online lodgement of forms. Co-design with young people is the best way to identify and resolve blockages in access to income support.

Recommendation 2: Design a fair and easy to access Youth Income Guarantee in collaboration with young income support recipients.



“Youth Allowance has to be raised; we can’t let people languish on payments that haven’t had a real increase in over 25 years, while living costs have gone through the roof.”

*Jackie McKenzie, Youth Action, Sydney NSW
19 October 2019.*

ADEQUATE PAYMENTS FOR A DECENT LIFE

The Youth Income Guarantee would set income support payments at a level that allows young people to pay for essentials and to maintain health and wellbeing, as well as provide clear incentives to study or look for work. The young people the Commission spoke to were not seeking an income that would be considered excessive. As one young person put it, income support should provide:

...stability for when times get tough. - ‘C’, aged 20, Focus Group on 9 December 2020

Another young person just wanted:

An adequate payment from the Government [which] would mean I could pay my bills and not cry for hours at a time because I know I’m not going to have enough. - ‘S’, aged 23, Focus Group on 9 December 2020

There are several ways of determining the costs of daily living for young people. For example, the poverty line is an estimate of the minimum income required

to procure the necessities of life. There are two main measures of the poverty line in Australia. The first is the Melbourne Institute Poverty Line (or Henderson Poverty Line) which was established in 1973. The Henderson poverty line established a benchmark of the minimum income required to support the basic needs of a family of two adults and two dependent children. Poverty lines for other types of family are derived from this benchmark. While the poverty lines are updated every three months using an index of per capita household disposable income it has not been recalculated to take into account the differences between living in the 1970s and the 2020s.

The second measure uses fifty per cent of the median income to establish the poverty line. This measure is commonly used as a measure of poverty in economically advanced countries. However, this measure does not consider the actual costs of living but applies to changes in income, which may or may not reflect changes in costs.

Neither of these measures has actually considered what it costs to live in twenty-first century Australia.

“Obviously for those young people who can’t live with their families existing on Newstart, and Youth Allowance is extreme poverty, and is really forcing young people to live in quite precarious situations as the only way they can survive.”

Kym Goodes, Tasmanian Council of Social Service, Hobart TAS, 4 June 2019

However, the Social Policy Research Centre (SPRC), University of NSW, calculated the cost of living in 2016. The SPRC used a budget standards method that priced items needed for a minimum standard of healthy living for different family structures where the primary income earner was either unemployed or in low-income employment. Such calculations need to be updated regularly as relative costs change and technology advances.

Maintaining the real value of income support payments is also vital between updates. Increasing youth income support payments in line with the median wage and the Consumer Price Index (CPI), as per the Aged Pension, would ensure that payments more closely align with living costs.

HOW MUCH DOES A YOUNG PERSON LIVING AWAY FROM HOME NEED TO MEET THE COSTS OF DAILY LIVING IN 2020?

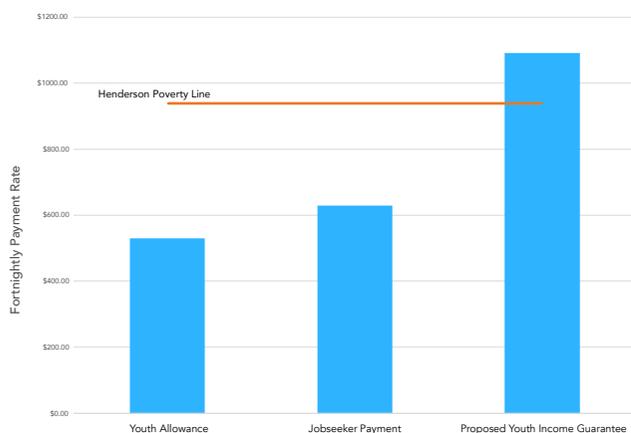
The SPRC estimated that in 2016 a single person on Newstart required around \$866 per fortnight to cover the average minimum cost of healthy living.¹

Indexing the 2016 level in line with CPI and wage increases results in \$965 per fortnight being the income required to cover the minimum cost for healthy living for an unemployed single person in 2020.² This amount is substantially more than the current rates of JobSeeker Payment (\$705 per fortnight) and Youth Allowance (\$602 per fortnight).³

The Commission believes that the rate of payment of the Youth Income Guarantee should be above the minimum income for healthy living. The Commission recommends a rate of payment that

is around ten per cent above this amount. Further, the Commission believes only a small proportion (twenty to twenty-five per cent) of this income should be subject to participation conditions such as enrolment in education, training or job search. This small proportion effectively becomes an incentive for participation. The amount subject to conditions should not be so high that it minimises the effectiveness of the incentives nor so low that it makes it impossible to live on.

Comparison of current Centrelink payments and the proposed Youth Income Guarantee



Recommendation 3: Set the Youth Income Guarantee living away-from-home rate to 110 per cent of the minimum cost for healthy living of an unemployed adult as set by an updated budget standard – estimated to be \$1,065 per fortnight as at January 2021.

HOW MUCH SUPPORT DOES A YOUNG PERSON LIVING AT HOME NEED?

The current Youth Allowance payments to those living at home are insufficient to cover the costs of daily living, particularly in low-income families with few resources. The current rate of Youth Allowance for a 17-year-old living at home is \$253 per fortnight,⁴ less than three per cent above the rate of Family Tax Benefit for a 15-year-old student. When the young person turns 18, the payment rises by about \$50 per fortnight. Young people told us that this is not sufficient to cover the transport and related costs of active job search or study, especially for those who are 18 or 19 years old.

The current income support system assumes that parents or guardians will financially support their children until their 22nd birthday (or are otherwise considered independent). The Commission acknowledges that there are a range of views of the role of parents supporting their adult children but found no compelling evidence for change. Therefore, the Commission’s proposed Youth Income Guarantee does not seek to change the role of parents financially supporting adult children living at home.

The at-home rate of the Youth Income Guarantee should be set using the same method from the away-from-home rate (i.e. 110 per cent of the minimum income for healthy living) but excluding housing costs.

Recommendation 4: Set the Youth Income Guarantee at-home rate to 110 per cent of the minimum income for healthy living excluding housing costs - estimated to be \$516 per fortnight as at January 2021.

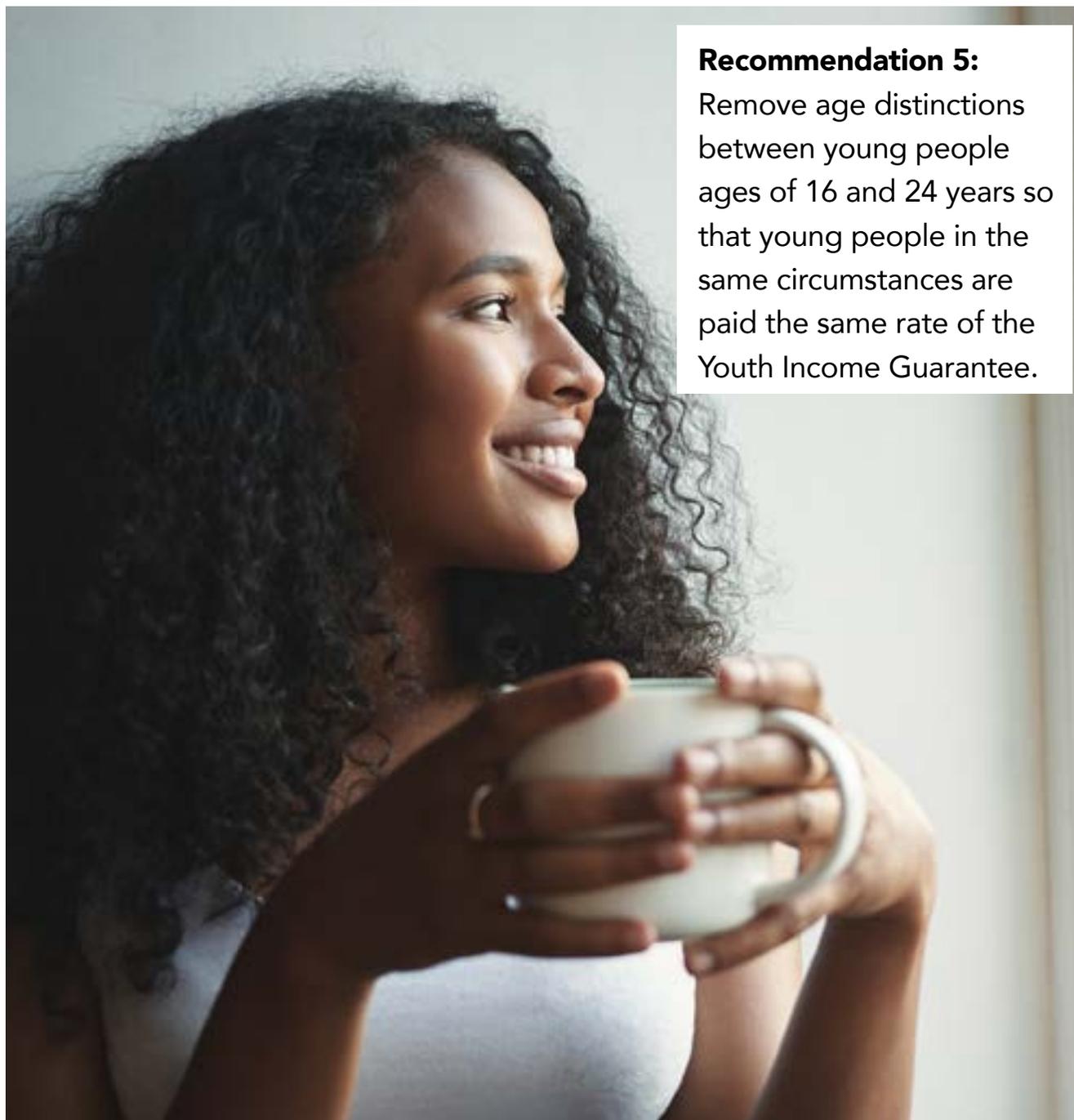


MEANS TESTING PARENTS

Improvements in the adequacy of income support payments may need to be balanced by adjusting the parental means test to ensure that additional assistance is directed to the young people who need it most. The aim is to ensure that those receiving income support can live a reasonable life, combine study and work, seek employment, and have some leisure. This aim is best achieved by adjusting the parental income threshold at which the income test applies. Unfortunately, there is insufficient data available to the Commission to make a definitive recommendation on the parental income test threshold.

AGE

As a general principle, payments to young people should reflect their needs, not their age. Young people's costs do not dramatically increase because they are recognised legally as an adult when they reach 18 years of age. At present, a 19-year-old on Youth Allowance receives 85 per cent of the amount of income support paid to a 22-year-old on JobSeeker Payment in the apartment next door. Their circumstances and costs are identical. All that sets them apart is their age. It is reasonable that if a young person must live away from home, the Australian Government should provide a level of support sufficient to meet their needs irrespective of their age.



Recommendation 5:

Remove age distinctions between young people ages of 16 and 24 years so that young people in the same circumstances are paid the same rate of the Youth Income Guarantee.

STRONG INCENTIVES TO EDUCATION, TRAINING AND EMPLOYMENT

There is no doubt that young people want to work. All the young people the Commission spoke with wanted employment and many were striving to achieve long-term career aspirations.

A system designed to help young people move into and sustain employment must have a fair and sensible income test. It should make it clear how wages will affect payments, supplements and concessions. It should also encourage young people to establish themselves in long-term employment by providing a safety net that enables them to return to their former income support payment (and concessions) if a job ends or hours are reduced.

The current income test has three elements that determine the rewards from work. These are the income test threshold area, the rate at which income support reduces (the taper rate) for every extra dollar received above the income test threshold, and a mechanism to smooth the effects of fluctuating income (the working credit or income bank). Ideally, these three elements should be consistent such that young people in similar circumstances experience similar outcomes. This consistency will help make income support for young people as consistent, fair and as simple as possible.

THE INCOME TEST THRESHOLD

Full-time students and apprentices receiving Youth Allowance can have an income of up to \$437 per

fortnight before their payment begins to reduce. For other single Youth Allowees and JobSeeker recipients, payments start to decline once income reaches \$106 per fortnight.⁵ As a result, a full-time student or apprentice can get Youth Allowance if their income is below \$25,137 a year, but all other Youth Allowees lose income support once their income reaches \$17,580 a year.⁶ The greater rewards from work for students are reflected in the data: 41 per cent of full-time students declared earnings in December 2019, compared to 17 per cent of other Youth Allowees and Newstart recipients.⁷ There is no reasonable justification for maintaining this distinction in earning capacity.

The simplest model of income support for young people would apply the same free area of \$437 per fortnight to all recipients of income support. The increase in the threshold would enhance the incentives for young people to take up available work and strengthen workforce attachment by allowing them to keep more of their income support. It would also improve equity between full-time and part-time students, jobseekers and those doing other approved activities. In effect, all young people would be able to earn \$11,362 a year before their income support was affected.

Recommendation 6: Set the Youth Income Guarantee personal income test to \$437 per fortnight and index this level to movements in wages.



“So, those who are losing [income support] at 60 cents in the dollar are effectively losing more income than someone who earns \$300,000 a year. They face a higher effective marginal tax rate.”

Ben Spies-Butcher, Macquarie University, Sydney, 30 October 2019

THE TAPER RATE

A significant criticism of the existing income test is that payments to young people reduce at the same time as they begin to pay tax, reducing the rewards from work. The combined effect of income test withdrawals and taxation on wages is called the ‘effective marginal tax rate’. The existing income test reduces Youth Allowance for those not in full-time study by 50 cents in every dollar earned over \$143 per fortnight, and 60 cents in every dollar earned above \$250 per fortnight. For JobSeeker recipients, the 50 cents taper cuts in at \$106 per fortnight, and the taper rate rises to 60 cents in every dollar over \$256 per fortnight. The same kinked taper applies to full-time students and apprentices on Youth Allowance, but the 50-cent taper cuts in after \$437 per fortnight and the 60-cent taper applies only when income exceeds \$525 per fortnight.

The taper rate at 50-cent in the dollar plus the actual marginal tax rate of 19 cents for incomes over \$18,000 per year creates an effective marginal tax rate of 69 cents above the income free threshold.⁸ The effective tax rate becomes 79 cents in the dollar at the 60-cent

taper rate. These are higher than the top marginal tax rate of 47 cents applied to annual incomes over \$180,000. What reasonable justification is there for young people on insecure and low incomes be taxed more than someone earning over \$180,000?

The system should be encouraging young people to work but high effective marginal tax rates plus insecurity of employment, leading to periods of no work income or income support, combine to create a powerful disincentive to work.

A single taper rate should be applied to all income over the income free area for all recipients. By increasing the income free area to \$437 per fortnight, this effectively reduces the taper from 50 cents to zero for income between \$143 and \$437 per fortnight. Removal of the 60-cent taper would reduce the disincentive to work.

Recommendation 7: Set the Youth Income Guarantee taper rate to 50 cents in the dollar on personal income above \$437 per fortnight.

“So, when you’re transitioning between one thing and another, you know that once you fall off the rolls of youth allowance, to have to re-register takes a delayed period. That obviously creates a strong disincentive from leaving anything, which actually prevents young people from taking a risk on a job. So, these are very risk-averse incentives that the system currently has.”

Ben Spies-Butcher, Macquarie University, Sydney, 30 October 2019



“Some don’t understand “working credits” or the systems and processes. It’s too complicated for their needs at the time.”

*Daneka Easthope, Submission,
8 October 2019*

THE INCOME BANK AND WORKING CREDIT

There are two similar mechanisms in the existing income tests that aim to smooth the impact of casual and seasonal income earned in addition to income support payments. The current Income Bank allows full-time students to accrue any ‘unused’ part of the fortnightly income free area up to a ceiling amount. Young people can use this bank when they take up work to enable them to keep more of their Youth Allowance, AUSTUDY or ABSTUDY. Full-time students can accrue up to \$10,000. Others on Youth Allowance can accrue up to \$3,500 in an equivalent ‘Working Credit’ account, but young JobSeeker recipients can accrue only \$1,000. The result of these different rules is that young people with similar patterns of employment can see a vastly different impact on their income support payments.

Some young people on income support to whom the Commission spoke were unaware of the Working Credit or Income Bank. Confusion often arose because of the different systems and levels of different payment types.

As with the income free areas and taper rates, income banks or working credit arrangements should be consistent for young people in similar circumstances.



It should be simple and easy for young people to work out how much they would gain from starting a job or increasing their hours. However, the Working Credit is a complex concept, which reduces its effectiveness as an incentive to take up available jobs. Adoption of the \$10,000 Income Bank for income support recipients under 25 would improve equity between students and young jobseekers and would simplify payments.

Recommendation 8: Apply a \$10,000 Income Bank or Working Credit to income from intermittent employment to young people receiving the Youth Income Guarantee.

“We have found that if you talk to a youth job seeker, they often see us as bystanders. We’re just there to rap them on the knuckles if they don’t turn up or they don’t submit their job search.”

*Paul Costigan, Matchworks,
Bendigo VIC, 27 June 2019*

INCENTIVES AND REWARD FOR PARTICIPATION

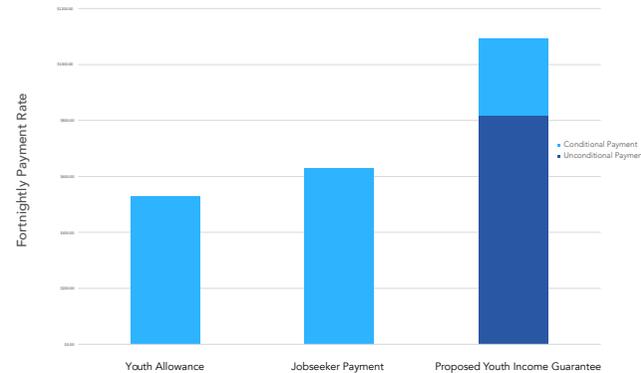
The current system of income support provides little in the way of incentives to seek work, study, or participate in self-improvement activities. Rather, penalising young people by withdrawing benefits enforces participation in activities not often useful in gaining employment.

The design of the Youth Income Guarantee would apply conditionality on a small proportion of the payment, effectively creating a participation incentive payment. That is, payment would be made when young people undertake accredited education or training or undertake activities as determined with an employment service.

The incentive payment needs to be at a level that covers the costs of additional participation as well as providing an explicit reward. The incentive would expand the concept behind the Work for the Dole Supplement (which offers \$20.80 a fortnight to cover ‘expenses such as transport’) and the PaTH Internship that adds \$200 a fortnight to income support payments to interns.

Offering a participation incentive payment of around 20-25 per cent of the base away-from-home or independent rate would more than address the adequacy gap highlighted by the SPRC budget standards research.

Proportion of income support payment subject to conditions



Participation activities would need to be co-designed with each young person and be suitable to their unique circumstances. The activities could include full-time or part-time study, job search activities, personal development, health and wellbeing activities or combinations of these.

Recommendation 9: Apply participation conditions to around 25 per cent of the Youth Income Guarantee payment, effectively creating a participation incentive payment.



A NEW MODEL OF YOUTH INCOME SUPPORT

“Inadequate income support has led to poverty and entrenched disadvantage, generational and entrenched disadvantage for many of these young people.”

Silvia Alberti, Uniting, Sunshine VIC, 26 March 2019

It is possible to design a model of income support that provides an adequate level of support for young people to live decent lives, that has clear incentives for young people to pursue education or take up available work and which operates as a true safety net for young people seeking a foothold in a precarious labour market.

The Commission is proposing a new Youth Income Guarantee that creates a single payment system for 16 to 24-year-olds that provides sufficient support for those who need short-term help between full-time jobs and those who need to rely on payments for several years or more. It would recognise that even if young people on income support work part-time, those part-time jobs are often low-paid and insecure and do not guarantee a path to secure, well-paid employment.

Higher rates of payment would improve the lives of young people who are either living at home or living away from home by reducing poverty and housing insecurity, as well as improving health and wellbeing. Young people living in similar circumstances would receive equal payments even if their ages differ.

Means testing needs to be simple, consistent and fair for all recipients, extending the same income free area of \$437 per fortnight to all recipients would strengthen incentives to work. Reducing the taper rate from 60 cents to 50 cents in each dollar would improve returns from work.

Simpler, more consistent rules would make it easier for young people to understand how their income support payments would be affected by taking a job or increasing hours. Greater consistency would ensure that work incentives operate as intended. For instance, simplifying the rules to smooth the impact of casual and seasonal work on payments would lift work incentives and strengthen workforce attachment. Widening the \$10,000 income bank rules to all income support recipients under 25 would achieve these goals.

Applying contingency to only a small proportion of the Youth Income Guarantee effectively creates a participation incentive payment. Such an ‘incentive’ should be sufficient to cover the cost of study and job search.

A true safety net would minimise unnecessary disruptions to young people’s income support as their circumstances changed. To give young people confidence to take up jobs that might not last, the new model would guarantee a fast-track return to benefits within six months of leaving payment. It would also automatically invite claims for low-income health care cards to ease young people’s transition into low-paid work.

Some young people miss out on income support because they lack the skills, resources or support needed to navigate the system. Redesigning access arrangements in consultation with young people would result in fewer young people missing out, in particular ensuring those without internet access, or who have poor English literacy or numeracy skills are not denied assistance.

The new Youth Income Guarantee is designed to respond to the economic and social challenges now facing modern Australia. Fair, equitable and effective income support arrangements with strong incentives for education and employment will be the mainstay of that system. Income support must be complemented by effective supports and services, as well as employment opportunities for all.

FOOTNOTES

¹ Saunders, P., & Bedford, M. "New Minimum Income for Healthy Living Budget Standards for Low Paid and Unemployed Australians. (SPRC Report 11/17)", Social Policy Research Centre, UNSW, 2017.

² The indexation was based on the change in Male Total Average Weekly Earnings between May 2016 and May 2020 as measured by the Australian Bureau of Statistics Cat No. 6302.0 Average Weekly Earnings Australia.

³ These rates include maximum rent assistance but exclude the temporary coronavirus supplement

⁴ Excludes the temporary coronavirus supplement.

⁵ There is a temporary increase in the income test threshold to \$300 per fortnight due to the Coronavirus pandemic. It is due to expire on 31 March 2021.

⁶ For simplicity, the comparisons between partnered recipients and those with children are ignored, as is the impact of rent assistance. Rates, free areas and cut-outs current at July 2020.

⁷ Full-time students includes apprentices.

⁸ There is a temporary low income tax offset and a temporary low and medium income tax offset that effectively increase the taxable income threshold above \$18,000.

⁹ The Work for the Dole Supplement has not been increased since introduced in 1998.



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