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Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator David Leyonhjelm
Liberal Democrats
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *Welfare Payments* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Andrew Watterson on (02) 6277 9543 or Gareth Tunks on (02) 6277 9550.

Yours sincerely

Phil Bowen

6 March 2017

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Policy costing—outside the caretaker period

Name of proposal:	Welfare Payments
Summary of proposal:	<p>This proposal would make the following changes to Australia’s social welfare system:</p> <ul style="list-style-type: none"> • Abolish Abstudy, the Pensioner Education Supplement, the Assistance for Isolated Children Scheme and Youth Allowance and Austudy for post-school study. • Abolish Family Tax Benefit (FTB) Part B. Reduce FTB Part A rates for children aged 13 and over to the rates for children aged less than 13. Abolish newborn, energy and multiple birth supplements included in FTB Part A. • Abolish government funded Paid Parental Leave and child care payments. • Lift the Age Pension eligibility age by three months every four months from 1 July 2023. • Provide an option for Age Pension recipients to receive a lump sum equal to the present value of actuarially-determined future Age Pension entitlements. Eligibility for the lump sum would be subject to the recipient permanently relocating to another country. A recipient who later returns to Australia would not be eligible for an age pension. The lump sum amount would be based on expectations of the recipient's life expectancy and other income likely to be received and would be calculated using the standard variable owner-occupied bank home loan rate published by the Reserve Bank. • Freeze indexation of unemployment payments for the duration of each recipient’s period of unemployment. • Make non-citizens ineligible for welfare payments except where a reciprocal social security agreement is in place with the non-citizen’s home country.

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	<ul style="list-style-type: none">• For all welfare payments:<ul style="list-style-type: none">– Include all currently exempted income and assets (including the home and superannuation) in the income and assets tests for each payment.– Increase the home-owner asset test threshold to be equal to the non-homeowner threshold.– Remove all income test free areas and calculate new payment taper rates that would start from zero income and reduce the payment amount to zero at the same income level as under current arrangements. For FTB Part A this new taper rate would be set at 14 per cent.– Apply the income test for benefits to all payments not currently subject to an income test.– Apply the asset test for benefits to all payments not currently subject to an assets test.– Abolish higher payments and asset test thresholds for singles compared to couples and higher rent assistance for singles living alone compared to singles living in share accommodation.• Limit the indexation of all payments to growth in the consumer price index (CPI).• Abolish all supplements added to a payment basic rate (except Rent Assistance). <p>This proposal would have effect from 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democrats
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	6 March 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by \$142,000 million over the 2016-17 Budget forward estimates period. This impact reflects a decrease in expenses of \$153,000 million and a decrease in revenue of \$11,000 million over this period.

This proposal would be expected to have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period. A breakdown of the impact of this proposal over the medium term is included at [Attachment A](#).

This proposal would reduce departmental expenses for the Department of Social Services (DSS), Department of Human Services (DHS) and Department of Education and Training (DET) by \$1,500 million over the 2016-17 Budget forward estimates period, reflecting the reduction in the number of payments to be processed. The financial implications do not include any estimate for redundancy payments to affected DSS and DHS staff.

Estimates in this proposal are limited to those affecting the tax transfer system and do not include flow-on effects to programs with eligibility tied to receipt of transfer payments or wider economic impacts.

This costing is considered to be of low reliability. While there is high quality administrative data for the costing base, there would be behavioural responses and flow on effects that are highly uncertain and which are not included in this costing. The costing makes a number of behavioural response assumptions and imputes asset values based on survey data, as noted in the key assumptions and methodology sections below.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	45,000	47,000	50,000	142,000
Underlying cash balance	-	45,000	47,000	50,000	142,000

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

A breakdown of the administered impact for each group of changes under this proposal is included at [Attachment B](#). There are several interactions between the separate groups of changes which means the combined impact of this entire proposal does not equal the sum of the parts (shown in [Attachment A](#)).

Key assumptions

In estimating this proposal, the PBO has assumed that:

- Recipients of income support payments for students would respond to their abolition by either increasing their earned income by the amount of student payment lost or by transferring onto an unemployment benefit.
- Seventy per cent of families receiving child care subsidies would reduce their hours of work in response to the abolition of child care subsidies in order to care for their children. This has flow on implications for taxation, unemployment benefits and family payments. The remaining 30 per cent of families are assumed to either pay the full cost of child care or utilise alternative sources of care.
- The number of Age Pension recipients taking up the offer of a lump sum payment is based on the current permanent migration rate for eligible age pensioners.

Methodology

Estimates for the Age Pension lump sum, increasing the Age Pension age and limiting payment growth to CPI growth are based on average payment rates and population projections provided by DSS as at the 2016-17 Mid-year Economic and Fiscal Outlook (MYEFO).

Estimates for all other changes over the 2016-17 Budget forward estimates period were calculated using the Policy Evaluation Model (PoEM) of the Australian personal income tax and transfer system, a micro-simulation model based on Australian Government administrative data updated for population projections and other parameters as at the 2016-17 MYEFO.

Estimates have been projected over the medium term to 2026-27 by estimated changes in the relevant indexation factors and affected populations.

Estimates of the departmental financial implications were calculated by reducing total DSS, DHS and DET departmental funding for administering welfare payments by the proportion of current recipients who would have their payments cancelled under this proposal.

Administered expenses except those relating to the Age Pension lump sum component of the costing have been rounded to the nearest \$500 million. Administered expenses relating to the Age Pension lump sum component have been rounded to the nearest \$100 million. Departmental expenses have been rounded to the nearest \$500 million.

Data sources

Department of Social Services provided PoEM as at MYEFO 2016-17.

Department of Social Services provided payment population projections as at MYEFO 2016-17.

Commonwealth of Australia, 2016. *2016-17 Budget*, Canberra: Commonwealth of Australia.
Department of Social Services, n.d. *Portfolio Budget Statement 2016-17*, Canberra: DSS.

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Department of Human Services, *Portfolio Budget Statement 2016-17*, Canberra: DHS.

Australian Bureau of Statistics (ABS), *Survey of Income and Housing 2014-15*, Canberra: ABS.

Attachment A – Welfare Payments—financial implications

The following table includes the combined impact of this entire proposal taking into account interactions between the separate groups of changes.

Table A1: Welfare Payments—Financial implications (outturn prices)^{(a)(b)}

Fiscal balance and underlying cash balance (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	48,000	50,000	53,500	151,500	56,500	59,500	62,500	66,000	70,000	74,500	79,000	619,500
Income Tax	-	-3,500	-3,500	-4,000	-11,000	-4,500	-4,500	-5,000	-5,000	-5,000	-5,000	-5,000	-45,000
Departmental	-	500	500	500	1,500	500	500	500	500	500	500	500	5,000
Total	-	45,000	47,000	50,000	142,000	52,500	55,500	58,000	61,500	65,500	70,000	74,500	579,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Attachment B – Welfare Payments—financial implications by groups of changes

The following tables include the financial implications for the groups of changes as set out in the costing request on a standalone basis. There are several interactions between the separate groups of changes which mean the combined impact of this entire proposal does not equal the sum of the parts.

Table B1: Abolish Abstudy, the Pensioner Education Supplement, the Assistance for Isolated Children Scheme and Youth Allowance and Austudy for post-school study—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	1,500	1,500	1,500	4,500	1,500	1,500	1,500	1,500	2,000	2,000	2,000	16,500
Income Tax	-
Total	-	1,500	1,500	1,500	4,500	1,500	1,500	1,500	1,500	2,000	2,000	2,000	16,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B2: Abolish Family Tax Benefit (FTB) Part B. Reduce FTB Part A rates for children aged 13 and over to the rates for children aged under 13. Abolish newborn, energy and multiple birth supplements included in FTB Part A—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	5,500	4,500	4,500	14,500	4,500	5,000	5,000	5,000	5,500	5,500	6,000	51,000
Income Tax	-	0
Total	-	5,500	4,500	4,500	14,500	4,500	5,000	5,000	5,000	5,500	5,500	6,000	51,000

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B3: Abolish government funded Paid Parental Leave and child care payments—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	1,000	1,500	2,000	4,500	2,000	2,000	2,000	2,000	2,000	2,000	2,500	19,000
Income Tax	-	-3,000	-3,500	-3,500	-10,000	-4,000	-4,000	-4,000	-4,500	-4,500	-5,000	-5,000	-41,000
Total	-	-2,000	-2,000	-1,500	-5,500	-2,000	-2,000	-2,000	-2,500	-2,500	-3,000	-2,500	-22,000

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table B4: Lift Age Pension eligibility age by three months every four months from 1 July 2023—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	-	-	-	-	-	-	-	500	1,000	2,000	3,000	6,500
Income Tax	-	-	-	-	-	-	-	-	..	500	500	1,000	2,000
Total	-	-	-	-	-	-	-	-	500	1,500	2,500	4,000	8,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B5: Provide an option for Age Pension recipients to receive a lump sum equal to the present value of actuarially determined future Age Pension entitlements—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	-400	-300	-300	-1,000	-200	-200	-100	-100	100	-1,500
Income Tax	-	0
Total	-	-400	-300	-300	-1,000	-200	-200	-100	-100	100	-1,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B6: Freeze indexation of unemployment payments for the duration of each recipient's period of unemployment—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	500	500	500	1,000	1,500	2,500	4,000	7,000	11,000	28,000
Income Tax	-
Total	-	500	500	500	1,000	1,500	2,500	4,000	7,000	11,000	28,000

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B7: Make non-citizens ineligible for welfare payments except where a reciprocal social security agreement is in place with the non-citizen's home country—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	15,000	15,500	16,000	46,500	16,500	17,500	18,000	19,000	19,500	20,500	21,500	179,000
Income Tax	-
Total	-	15,000	15,500	16,000	46,500	16,500	17,500	18,000	19,000	19,500	20,500	21,500	179,000

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B8: Changes to income and assets tests for all cash benefit welfare payments—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	24,500	25,500	28,500	78,500	29,500	31,000	32,000	33,500	35,000	36,500	38,000	314,000
Income Tax	-	-500	-500	-500	-500	-500	-500	-500	-500	-500	-4,000
Total	-	24,500	25,500	28,000	78,000	29,000	30,500	31,500	33,000	34,500	36,000	37,500	310,000

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B9: Limit payment growth to the rate of price inflation—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	-	-	-	-	500	2,000	3,000	5,000	6,500	8,500	11,000	36,500
Income Tax	-	-	-	-	-
Total	-	-	-	-	-	500	2,000	3,000	5,000	6,500	8,500	11,000	36,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.

Table B10: Abolish all supplements added to a payment basic rate except Rent Assistance—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Transfer Payments	-	9,000	8,500	8,500	26,000	9,000	9,000	9,500	10,000	10,500	11,000	11,500	96,500
Income Tax	-
Total	-	9,000	8,500	8,500	26,000	9,000	9,000	9,500	10,000	10,500	11,000	11,500	96,500

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms and an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms and a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.