

Defeating Dependency: Moving Disability Support Pensioners Into Jobs

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EXECUTIVE SUMMARY

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People with disabilities are often among the most disadvantaged in our society. There is widespread support for the idea that as a community, we should provide financial assistance to those who cannot adequately support themselves because of their disability.

However, the huge growth in the number of people relying on Disability Support Pension (DSP) has sparked concern among policymakers from both sides of the political divide. In the mid-1980s, about one in every 40 working-age people relied on DSP; by the mid-2000s, this had doubled to one in 20.

There are now more than 750,000 disability support pensioners in Australia. For most people, a move onto DSP means a lifetime on welfare. The majority of recipients stay on DSP until they die or go onto the Age Pension. Just over 1% leave welfare each year to get a job. And taxpayers spend more than \$8.5 billion on DSP each year.

More than half of all disability pensioners come from other welfare payments, and most of these come from unemployment benefits. Many existing disability pensioners are not compelled to ever look for work again, so few do.

There is a growing consensus that simply consigning people with a disability to a life of dependency is damaging for both the individual and the community. It's a lose-lose situation: individuals are isolated from social and community life, while taxpayers pick up the tab.

The reforms introduced by the Howard government in 2006 tightened eligibility for new recipients and have had some success in slowing the rate of growth in DSP numbers. The Rudd government has also announced changes designed to further restrict eligibility for new applicants that will take effect in July 2010. But as both these reforms target new applicants rather than existing recipients, they will not lower the overall number of disability pensioners or increase the incentive for existing recipients to look for work.

If the government wishes to reduce the number of disability support pensioners, it must embrace strategies to encourage existing recipients back into the workforce.

Two-thirds of DSP recipients have 'moderate,' 'mild' or 'less than mild' limitations, yet less than 10% work. One reason for this is that the definition of 'able to work' is inconsistent. DSP recipients who applied after the 2006 reforms are assessed 'able to work' if they can manage a job for 15 hours a week, in which case they are moved onto Newstart Allowance and given job search requirements.

But recipients who were on DSP prior to the reforms are not considered 'able to work' and do not have to move onto Newstart until they can work for 30 hours.

Subjecting those recipients who were on DSP prior to 2006 to the 15-hour rule would correct this inconsistency and would undoubtedly result in a large number of disability pensioners being reassessed as 'able to work.'

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Further reforms could be modeled on the United Kingdom's two-track system, where recipients with mild disabilities are subject to ongoing participation requirements, while those with severe and profound disabilities are exempt.

There is a danger that any decrease in DSP numbers will simply lead to an increase in the unemployment rolls. Therefore, reform efforts must also focus on the availability of suitable jobs and on providing adequate assistance for people with disabilities to find and retain work.

There is a large group of disability pensioners who are realistically not able to work regardless of the incentives. Attempts to reduce the number of people on DSP are not an attack on those people with severe disabilities and who are unable to re-enter the workforce. But encouraging those who can work back into the jobs market will pay dividends for both these individuals and the wider community.

Introduction

In October 2009, the Rudd government quietly announced a new set of policy measures designed to reduce the number of people on Disability Support Pension (DSP). Reducing the number of people on welfare and the size of welfare spending has become a bipartisan goal. In the early 1970s, welfare spending accounted for about 3.5% of GDP, but by the latest federal budget it had reached 10.5%. Some of this growth is due to more generous payments, but much of it is simply due to more people of working-age relying on welfare than ever before. One reason for this is the huge increase in the number of people with disabilities on income support.¹ DSP costs taxpayers more than \$8.5 billion each year.²

There are now more than 750,000 disability support pensioners in Australia—about one in 20 people of working age. For most people, a move onto DSP means a life on welfare. The majority of recipients stay on DSP until they die or go onto the Age Pension. About 1% leave welfare each year to get a job. The cumulative results are ballooning welfare spending by government and a large swathe of the population permanently dependent on income support. There is a growing perception that simply consigning people with a disability to a life of dependency is damaging for both the individual and the community. It's a lose-lose situation: individuals are isolated from social and community life, while taxpayers pick up the tab.

Providing support for those who genuinely can't care for themselves is at the heart of our welfare system, and people with a disability are among the most disadvantaged with lower levels of education and income than the wider population. Attempts to reduce DSP rates can provoke a fear among the public that some of society's most vulnerable people will be left to fend for themselves. This makes attempts to reform DSP both complex and politically charged.

Unlike the unemployed, some disability pensioners can never realistically rejoin the workforce. There is a broad community consensus that as a compassionate society, we shouldn't expect them to. For this group, the disability pension is—by necessity—a long-term, last resort payment. However, this group does not make up all disability pensioners. At the other end of the spectrum are those DSP recipients for whom employment, even if it is part-time or assisted in some other way, is possible and who will benefit from it both personally and financially.³ These are the people that government policy should focus on.

DSP is often a form of 'hidden' welfare dependence: a 'too-hard' basket for those who find it difficult to compete in the jobs market. While many recipients are genuinely unable to work, others move onto a disability pension to avoid the work requirements associated with unemployment benefits or have less serious disabilities that would allow them to work. Policymakers from both sides of the political divide recognise that—due to population ageing, budgetary pressures, productivity concerns, social harmony, and social 'inclusion'—we simply cannot afford to have a growing proportion of the population permanently excluded from the workforce and reliant on income support. The difficulty lies in designing a policy that adequately addresses this problem without attacking those people with a disability who genuinely are unable to work.

DSP recipients account for only half of all people with a disability in Australia, and 40% of people with a disability have a job. These figures show that disability needn't always lead to a life on welfare. Yet DSP is designed as a one-way ticket. Once on it, recipients often have little incentive to leave. To reduce the number of people on DSP and encourage more disability pensioners to work part-time, it must be redesigned to provide incentives (and compulsion where appropriate) for recipients to rejoin the workforce.

DSP is often a form of 'hidden' welfare dependence: a 'too-hard' basket for those who find it difficult to compete in the jobs market.

What is DSP?

In 1910, the Commonwealth government introduced the Invalid Pension, one year after it introduced the ‘old-age pension.’ These non-contributory and means-tested payments were partly modeled on similar schemes in New Zealand. Few changes were made to the Invalid Pension until it became the Disability Support Pension in 1991.⁴ DSP is now available to working-aged people (aged 16–64) who are ‘unable to work for 2 years because of illness, injury or disability, or ... are permanently blind.’⁵ Welfare reforms over the past decade have shifted the emphasis from a person’s medical condition to their ability to work. New DSP claimants are required to undertake a Job Capacity Assessment (JCA), which takes into account both their level of impairment and how that impairment affects their ability to work. According to the federal government’s *Guide to Social Security Law*, ‘JCAs are a comprehensive exploration of the person’s participation barriers and ability to work, and identify any services that could improve their capacity to work. The assessment includes input from a range of medical and allied health professionals, where appropriate.’⁶ The JCA judges DSP applicants against three criteria:

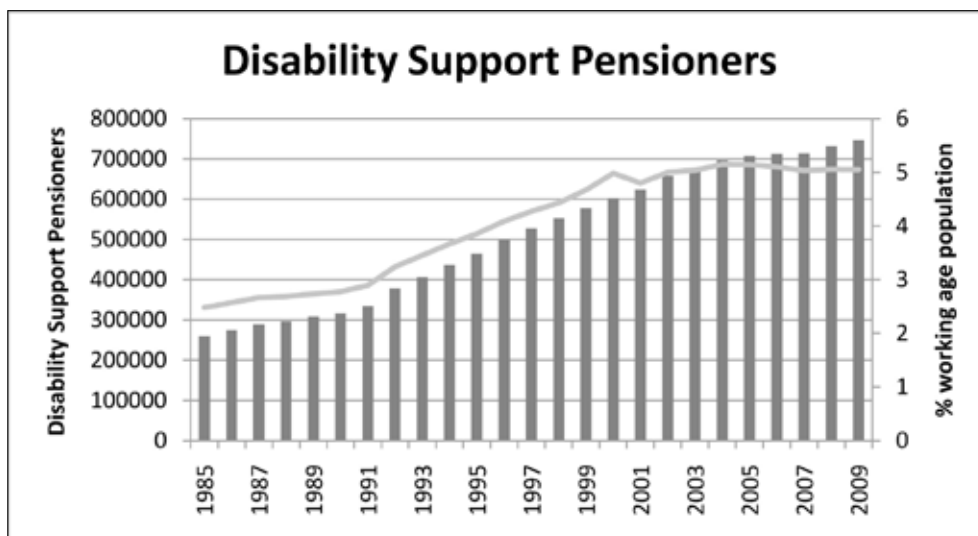
1. An ‘impairment table,’ which assigns a rating for each applicant based on the severity of their medical condition. To be considered for DSP, applicants must meet a threshold of at least 20 points on this table.
2. A ‘continuing inability to work,’ which uses medical diagnoses to certify the applicant’s condition. To be considered for DSP, the applicant must have undergone any appropriate treatment and the condition must be likely to last for at least two years without any functional improvement. In determining a person’s continuing ability to work, factors such as their ability to travel to work, communicate with others in the workplace, and understand and follow instructions in the next two years are taken into account. Assessors also determine whether the applicant is able to undertake any training or re-skilling within two years, which would enable them to work in a different occupation (for example, moving to a less physically demanding job after an accident). Applicants whose condition is likely to improve within two years are granted Newstart Allowance (unemployment benefits) instead of DSP, and they can apply for a short-term exemption from job search requirements based on their medical condition.
3. The inability to work for 15 or more hours a week (or 30 hours work a week for DSP recipients who applied prior to June 2006). Applicants who are able to work 15 or more hours are not granted DSP, even if they meet the medical criteria. ‘Work’ is defined as any job that pays at or above minimum wage anywhere in Australia, even if it is different to the applicant’s prior occupation or in a different location.

To be granted DSP, applicants must meet all three of these criteria.⁷ DSP continues to be means-tested, so anyone with a household income over a certain level is excluded.

The number of disability pensioners has grown continually since the payment was introduced, far outstripping population growth through the 1980s and 1990s. In 1985, about 2.5% of the working-age population was on a disability pension. By 2005, this had doubled to more than 5%. The proportion of working-age people relying on DSP has since stabilised (for reasons to be discussed in this report), but is still at historically high levels. The raw number of disability support pensioners is still climbing, tripling from 250,000 in the mid-1980s to 750,000 today.

In 1985, about 2.5% of the working-age population was on a disability pension. By 2005, this had doubled to more than 5%.

Figure 1: One in 20 working-age Australians now relies on DSP.



Source: FaHCSIA, Australian Bureau of Statistics⁸

DSP is overwhelmingly a long-term payment. The average time spent on it is nearly nine years, and the average disability pensioner spends 11 years on all types of welfare combined.⁹ The most common reasons for leaving DSP are death or moving onto the Aged Pension: in other words, recipients are more likely to die on DSP than leave it for a job.¹⁰ Disability support pensioners comprise a large proportion of long-term welfare recipients, accounting for half of all very long-term (more than two years) working-age, full-time welfare recipients in Australia.¹¹ Disability pensioners are allowed to combine part-time work with a part-pension, but few do: about 92% of DSP recipients have no earned income from work.¹²

Disability and employment

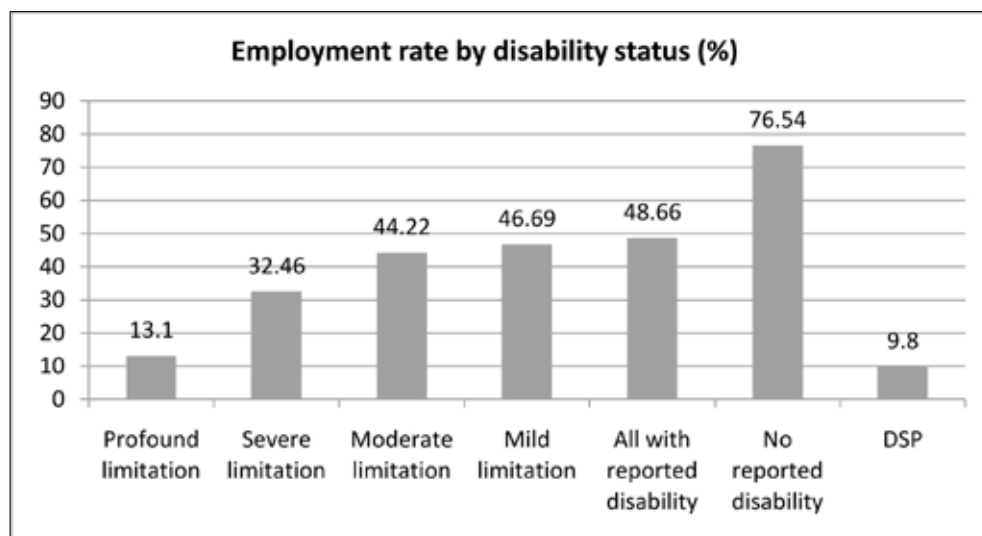
In the ABS' most recent major survey on disability, conducted in 2003, about 17% of working-age people (15–64 years) reported that they had a disability. However, not all of them had a disability that affected their ability to work. About 12% of working-age people said they had a disability that in some way affected their ability to undertake employment or education.¹³ But—even assuming that all survey participants 'self-reported' accurately—these are not necessarily the same people who are on DSP. Survey data show that, in Australia, a third of DSP recipients do not assess themselves as having a disability.¹⁴ It seems likely that there are both people with disabilities who are not on DSP as well as disability pensioners who probably don't need to be. But how many?

As Figure 2 shows, the work rates of people with disabilities are strongly correlated with the severity of their disability. Many people have a disability that does not affect their ability to live independently or participate in work or school. Of those people with a disability who do have a 'core activity limitation' (trouble with communicating, mobility or self-care), four categories are used to describe their degree of impairment: profound, severe, moderate and mild.¹⁵

- People with a profound limitation are unable to communicate, be mobile, or care for themselves, and always need help with one or more of these tasks.
- Those with severe limitations sometimes need help with these tasks.
- Those with a moderate limitation don't need any help but still have trouble performing one or more of these tasks.
- People with mild limitations are able to perform these tasks, but must use an aid or other piece of equipment, or have another problem such as being unable to walk up a flight of stairs or bend over to pick something up.¹⁶

A third of DSP recipients do not assess themselves as having a disability.

Figure 2: Rates of work vary with degree of disability but DSP recipients work the least of any group.



Source: FaHCSIA, Australian Bureau of Statistics¹⁷

Note: Figure 2 should be viewed with some caution as it compares two different data sources because of a lack of comparable data. The employment rate of people with different types of disability comes from the ABS' 2003 Survey of Disability, Ageing and Carers, while the employment rate for people with DSP is a 2008 measure of disability pensioners with some income from work. Nevertheless, there is no reason to think that these two datasets are not at least broadly comparable. Moreover, the DSP measure was taken at a time of very low unemployment, suggesting that employment rates of disability pensioners would actually be higher than at other times.

Work rates of disability pensioners are significantly lower than work rates of the wider disabled population.

DSP recipients have, on average, more severe disabilities than the general disabled population. The Productivity Commission estimates that about one-third of disability pensioners have profound or severe core limitations,¹⁸ which is consistent with estimates in other developed countries.¹⁹ By comparison, about 4% of the working-age population has such limitations.²⁰ Yet this means that the remaining two-thirds of disability pensioners—about half a million people—have moderate, mild or less than mild 'core limitations.'²¹ Despite this, work rates of disability pensioners are significantly lower than work rates of the wider disabled population. While the overrepresentation of people with profound and severe limitations indicates that disability pensioners can't realistically achieve the same average work rates as people with moderate or mild limitations, the very low work rates of DSP recipients compared to people with a disability generally suggests that there are many who could be working.

So why the difference?

Despite improvements in medical and rehabilitative treatments, and changing attitudes about people with disabilities in the workplace, the proportion of working-age people on DSP has grown significantly. This is a paradox not yet solved but needing urgent attention. In a Productivity Commission inquiry into men's declining workforce participation, Ralph Lattimore argues that 'many men with disabilities currently on DSP must have once been inherently employable, and something in the economic or social environment, rather than their disabilities per se, must have affected their job success.'²² Similarly, in its review of disability pensions around the developed world, the OECD asks, 'why is it that average health status is improving yet more and more people of working-age leave the workforce and rely on health-related income support?'²³ Given the huge increase in the number of disability pensioners and the markedly different rates of employment for DSP recipients and other people with a disability, it seems safe to

assume that factors other than a person's disability often determine whether they apply for, and are granted, DSP.

The reform consensus

Although the welfare policies of both major parties differ in detail, scope, and even motivation, there is now a bipartisan consensus about the need to reduce long-term dependence on DSP. Australia is not alone in this determination. For most Western governments, the reduction of disability pension rolls is a central—but elusive—social policy goal.²⁴ The Rudd government is committed to 'social inclusion': the idea that every person should be able to participate fully in community life, including in the paid workforce.²⁵ For the Howard government, reducing the number of people reliant on all types of income support was an explicit and central policy aim.²⁶

Much of the motivation also comes from concerns about cost. Disability pensions are linked to wage growth, which means DSP will continue to grow as a proportion of the GDP, even as the proportional level of spending on other working-age welfare benefits falls.²⁷ Because disability pensioners make up such a large portion of long-term welfare recipients, any program that effectively reduces their numbers will pay large dividends for taxpayers. In total, taxpayers spend twice as much on DSP as on unemployment benefits.²⁸ Increasing the number of people leaving DSP by just 1% each year would save \$1 billion over the next decade.²⁹

Policy responses

In 2006, the Howard government introduced 'Welfare to Work,' which aimed to reduce the number of people on both DSP and Parenting Payment (or PP, the payment for single parents or parents with an unemployed or very low income partner). DSP claimants who were judged to be able to work part-time (more than 15 hours per week) were required to look for a part-time job and placed on Newstart Allowance, the payment usually given to unemployed people.³⁰ PP recipients were required to look for a part-time job after their children reached school age.

A CIS report published in October 2009 found stark differences in the outcomes of these reforms. In the three years after the reforms were enacted, the number of PP recipients fell by an impressive 20%. The number of DSP recipients stabilised but did not fall.³¹ One reason for this is that existing recipients were treated differently. While existing PP recipients were subject to the new rules, existing DSP recipients were not. The cohort of existing PP recipients reduced over time, while the cohort of existing DSP recipients remained the same size. The report concluded that DSP should be the focus of future welfare reform.

Shortly after this, in October 2009, Jenny Macklin, the Federal Minister for Families, Housing, Community Services and Indigenous Affairs, outlined a series of policy changes designed to make DSP more difficult to get. From July 2010, a new assessment system will be introduced to fast track the applications of individuals who are clearly eligible (for example, due to profound disability or terminal cancer) and exclude individuals who are clearly not eligible earlier in the process. A new 'Health Professional Advisory Unit' will assist with the assessment of anyone whose case is less clear cut, evaluating their doctor's report, and providing other medical advice on treatment and rehabilitation to allow the claimant to work. Claimants' past work history will also be taken into account.³²

Why have DSP rates grown?

The design of disability benefits systems, as well as other external conditions, has a large impact on the number of people claiming them. Changes in the labour market, welfare reforms, and other policy shifts have all contributed to the growth in the number of disability pensioners.

DSP costs taxpayers more than \$8.5 billion each year.

The countries with the least generous benefits system have the lowest proportion of people on disability pensions.

International studies have found that the number of people claiming disability benefits increases with the generosity of those benefits, and that labour market conditions have a marked effect on the number of people applying for and being given disability benefits.³³ OECD countries with the most generous welfare policies, such as Sweden, Norway and Denmark, have among the highest rates of working-age people relying on disability benefits. The countries with the least generous benefits systems—Mexico, Japan, Korea and Italy—have the lowest proportion of people on disability pensions.³⁴ This does not indicate that the populations of the latter countries are much healthier than those living in Scandinavian countries. In fact, it would probably be safe to assume that people in Mexico have significantly worse health because they are much poorer. What this actually indicates is that incentives and policy choices play a huge role in determining the number of people on disability benefits.

Policy shifts

Much of the growth in disability pensioners in recent years is due to larger numbers of women applying for DSP. Some of this is due to policy changes. The retirement age for women is gradually being moved from 60 to 65 and payments such as Widow's Pensions are gradually being phased out, meaning that some women in this age group who once would have applied for a Widow's Pensions or Age Pension are now applying for DSP.³⁵ The number of women with a disability has not necessarily grown, but the incentive for older women to apply for DSP has grown.

Much of the growth in DSP numbers among men can be explained by the changing composition of the workforce. While women's workforce participation has dramatically increased since the 1970s, men are increasingly less likely to be employed. Between the early 1970s and the early 1990s, the participation rate of working-age men dropped from nearly 90% to less than 70%. From 1991 to 2003, DSP applicants aged 55 and over (who made up about one-third of total applicants) had not only their disability but also local labour market conditions taken into account when being assessed for DSP, leading to charges that the payment was becoming an 'early retirement' option for older workers in areas with high unemployment.³⁶ At a time when many low-skilled jobs were being transferred overseas or made obsolete by technology, low-skilled and older unemployed men were often moved onto the disability pension.³⁷ Gregory and Cai found that the impact of this policy was significant, and could explain more than 30% of the increase in DSP recipients (and claims) throughout the 1990s.³⁸ At the height of the boom in 2007, ANU economist Robert Gregory warned that once this 'hidden' unemployment was taken into account, the real unemployment rate was somewhere in the range of 10% to 12%.³⁹ DSP's low attrition rate means that most of these men would have stayed on DSP until they reached the pension age—or they are still there.

Unemployment and welfare reform

Changes in the labour market clearly influence the incentive to apply for DSP. People with a disability have, on average, lower levels of education than the general population. About half have less than a secondary school education,⁴⁰ so it seems fair to assume that many work in low-skilled and low-paid jobs and are vulnerable to unemployment during recessions.⁴¹ Once unemployed, people with a disability have a clear incentive to apply for DSP—even if their disability does not prevent them from working.⁴² Welfare payments fit into one of two categories: pensions and allowances. Pensions such as DSP are designed to provide long-term income support for people who can't work as well as recognise the extra cost of living faced by many people with disabilities. They are more generous than allowances such as Newstart, which are designed to be a short-term payment for someone who will re-enter the workforce. DSP pays more than \$100 a week more than the Newstart Allowance. Different income and assets tests apply, meaning that some of those who have a working partner or financial assets will be eligible for DSP but not for Newstart. DSP recipients are eligible for a Pensioner Concession Card,

which entitles them to refunds for medical expenses and concessions on transport and utilities.⁴³ DSP has a more generous ‘taper rate,’ so recipients are able to earn more income before their payment is withdrawn.⁴⁴ And, unlike Newstart, DSP recipients are not required to undertake job search activities or any mutual obligation activities such as Work for the Dole.⁴⁵ The rational choice for any person with a disability who becomes unemployed would be to apply for DSP.

When it becomes more difficult to find a job—for example, during times of high unemployment—the incentive to apply for DSP grows. Between August 2008 when unemployment was 4.2% and May 2009 when it had climbed to 5.7%, the number of applications had grown by 23%.⁴⁶ Gregory and Cai found that about 40% of the growth in DSP throughout the 1970s, ’80s and ’90s was due to changes in the unemployment rate. As unemployment went up, so did the number of DSP recipients. Jenny Macklin, the Federal Minister for Families, Housing, Community Services and Indigenous Affairs, recently admitted, ‘many new applications for the disability pension are not triggered by the acquisition of an impairment or disability, but by changes in an individual’s employment circumstances.’⁴⁷

Given the relative generosity of DSP compared to Newstart, it is unsurprising that people are much more likely to go on DSP if they are already unemployed or on some other form of welfare than if they are employed—regardless of the unemployment rate. Fewer than half of all new DSP recipients come from outside of the welfare system.⁴⁸ About 35% came from unemployment benefits, while 21% came from other welfare payments such as Youth Allowance, Parenting Payment, or Sickness Allowance. Switching between payments is not necessarily a problem as the payment type doesn’t change the total number of people relying on welfare. But once a person moves from an allowance like Newstart to DSP, the chances of ever leaving welfare for the workforce diminish dramatically—even when the unemployment rate drops. Although many disability pensioners come from unemployment, DSP numbers do not drop once the labour market recovers.⁴⁹

The welfare reforms undertaken over the past decade—which primarily targeted unemployed people and contributed to the falling unemployment rate—have made DSP increasingly attractive to Newstart recipients. Robert Gregory argues that as more restrictions have been placed on the unemployed and programs such as ‘work for the dole’ have been introduced, the incentive for unemployed people—particularly older age groups who suffer from disabilities in greater numbers—to ‘substitute’ from unemployment to DSP has grown.⁵⁰

This is borne out in the data. Although moving between all welfare payments is relatively common, the most frequent move is from unemployment benefits to DSP. Once on the relatively more generous DSP, there is little incentive to move back to a less generous allowance, so any move to a welfare payment other than the Aged Pension is rare.⁵¹ This means that DSP becomes a ‘destination’ payment for working-age welfare recipients. Disability pensioners are the least likely of all working-age welfare recipients to go back to work,⁵² and most of those that do return to welfare within two years.⁵³

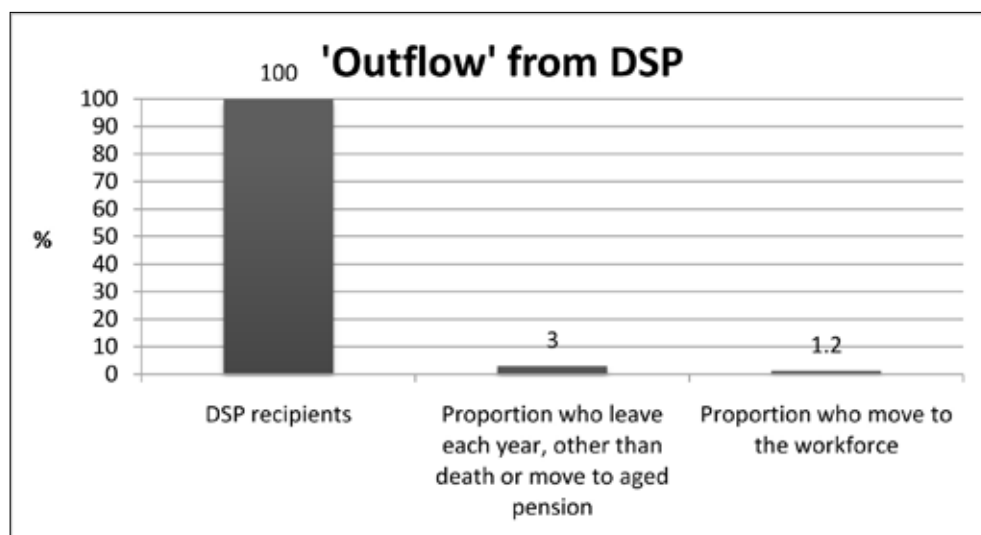
‘Outflow’

Cai, Vu and Wilkins found that between 1995 and 2002, less than 3% of DSP recipients ‘made the transition off all payments’ each year, excluding a move to the Aged Pension or death. Of the 3% that did leave, less than 40% actually returned to work. The remaining 60% either no longer qualified for benefits (for example, if their spouse got a higher earning job that pushed them above the income threshold) or were pushed off benefits due to non-compliance.⁵⁴ Despite continual improvements in treatment and rehabilitation, and new government incentives for employers to take on disabled workers (such as meeting the costs of office fit outs and equipment), only 1.2% of all DSP recipients return to the workforce each year.

Fewer than half of all new DSP recipients come from outside of the welfare system.

The welfare reforms undertaken over the past decade have made DSP increasingly attractive to Newstart recipients.

Figure 3: Very few people leave DSP for work ...



Source: Lixin Cai, Ha Vu, and Roger Wilkins, 'Disability Support Pension Recipients: Who Gets Off (and Stays Off) Payments?' *Australian Economic Review* 40:1 (2007), 37–61.

Authorities do make some effort to move recipients who are no longer eligible off DSP. Prior to 2003, all DSP recipients were subject to regular 'medical reviews.' These were held at five-yearly intervals, or at two-yearly intervals for recipients whose medical conditions were likely to improve within that time. Some recipients were exempt due to the severity of their incapacity. In 2003 a new system was introduced. Recipients identified as being at risk of no longer being eligible for DSP became subject to an 'automatic review,' including a new Job Capacity Assessment. Manual reviews can also be conducted when Centrelink suspects that a person may no longer be eligible for DSP.⁵⁵ But the continuing low rates of outflow from DSP suggest that these measures seem to have little effect on the movement of people from disability pensions back into work.

While moves to tighten entry requirements to DSP are a step in the right direction, alone they are not enough.

How to reduce the number of people on DSP

This goes to the heart of the problem in reducing DSP numbers. The system is designed with the assumption that for most disability pensioners, an eventual recovery or return to work—even in a limited capacity—is impossible. Unsurprisingly, and in a self-fulfilling prophecy, only a few do return to work. While both the current and former governments have attempted to make it more difficult to get disability benefits, few attempts have been made to design a mechanism to—where appropriate—get existing recipients off.

We don't yet know what impact the government's changes to DSP assessment procedures, which take effect in July 2010, will have on DSP numbers. However, as they only target procedures for new applicants to DSP, it seems safe to assume they will not result in a decrease in the overall number of disability pensioners. Like the Howard government's 2006 reforms, the best possible outcome will be a steadying of the growth of new admissions to DSP.

If the number of disability support pensioners is to be genuinely reduced, a new mechanism must be introduced to move back into the workforce those existing recipients who can work. DSP must be recast not as a final destination but as a payment that provides ongoing financial security to profoundly and severely people with a disability without undermining the work incentives of those who are moderately or mildly disabled and may be able to work again. While moves to tighten entry requirements to DSP are a step in the right direction, alone they are not enough.

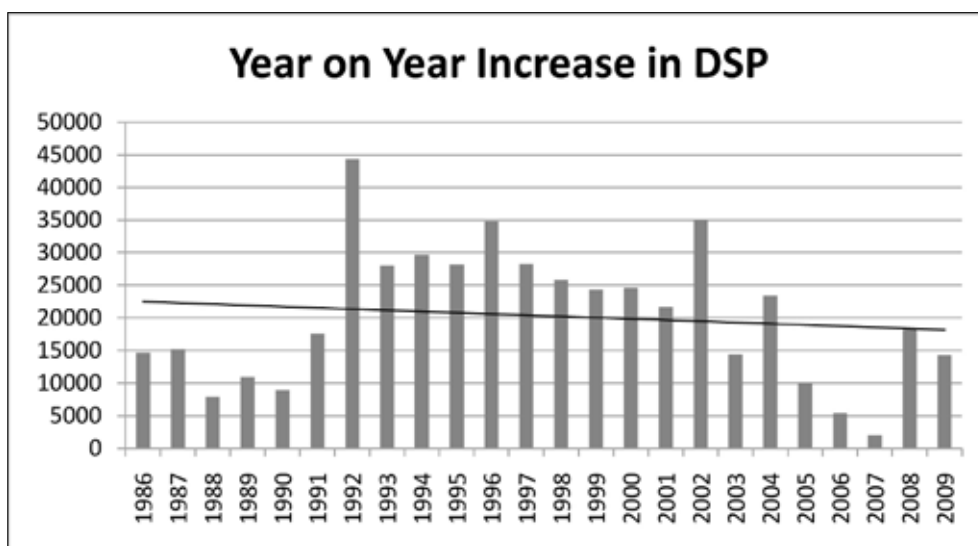
Apply the 2006 Welfare to Work changes to existing DSP recipients

To increase the number of DSP recipients who return to the workforce, and reduce the total number of people reliant on DSP, the 2006 Welfare to Work reforms should be extended to all existing DSP recipients—regardless of when they joined the payment. This inconsistency means that while those disability pensioners who applied under the new regime are moved off the payment if they can work for 15 hours a week, recipients who applied prior to the changes are only moved off DSP when they can work 30 hours a week.⁵⁶ If new applicants are subject to stricter work tests, it seems only fair and equitable that existing recipients are subject to the same rules.⁵⁷

While the raw number of DSP recipients has continued to climb, the Welfare to Work reforms were effective in slowing the rate of new entrants. Between 2004 and 2005, the number of disability pensioners increased by 10,000. But between 2005 and 2006, when the reforms were announced, the number grew by only 5,000. The following year, it grew by less than 2,000. The number of new entrants grew again in 2008 and 2009; however, it seems likely that this was due to an increase in applications as a result of growing unemployment following the global financial crisis. This is consistent with one-off increases during both the 1992 and 2002 recessions, and can be expected to fall somewhat in coming years as the unemployment rate drops. Tighter eligibility conditions had a marked impact on the number of people being granted DSP.

The 2006 Welfare to Work reforms should be extended to all existing DSP recipients—regardless of when they joined the payment.

Figure 4: The Welfare to Work reforms resulted in less people going on to DSP.



Source: FaHCSIA, Australian Bureau of Statistics⁵⁸

It seems likely that if tighter eligibility requirements were successful in slowing the rate of entry onto DSP, they should be successful in speeding up the rate of exit off DSP if applied to pre-2006 recipients. In 2008, there were more than 600,000 DSP recipients who had been on the payment for more than three years, suggesting that the large majority of DSP recipients are subject to the old—and less restrictive—rules.⁵⁹ We can assume that many of them would be reassessed as being ‘able to work’ if the 2006 reforms were applied.

In its review of disability benefit policies around the developed world, the OECD concluded that mandatory participation requirements for those assessed as ‘able to work’ are vital. Voluntary participation requirements have been proven to be ineffective in reducing disability benefit rolls.⁶⁰ But the definition of ‘able to work’ is inconsistent in Australia, resulting in some DSP recipients being given mandatory participation requirements and some being given voluntary requirements—even when they have the same capacity to work. As such, the OECD recommends extending the 15-hour rule to all recipients regardless of when they joined DSP.⁶¹

The UK 'Employment Support Allowance'

Another possible avenue for reform may be the United Kingdom's recently introduced two-track system for disability pensioners called the Employment Support Allowance, which replaces the old Incapacity Benefit. New disability pensioners with some ability to return to work in the future will be required to meet participation requirements, in the form of interviews and sessions that focus on preparation for work and work skills. The UK's Department of Work and Pensions says 'most' recipients will fall into this category. Those who meet these requirements can continue to receive the more generous disability payment while those who do not are moved onto a less generous payment, meaning there is a financial incentive to undertake work-preparation activities. People with a severe or profound disability who are assessed as being manifestly unable to ever return to work do not have any participation requirements, are not subject to any future reassessments, and automatically qualify for the higher rate of payment.⁶²

While the system initially applies only to new applicants, recipients of the existing Incapacity Benefit will be gradually reassessed over a period of three years. The system attempts to create a distinction between those disability pensioners with severe or profound limitations for whom reassessment would be an inconvenient—and ultimately pointless—exercise and those with mild limitations who probably can work with some extra 'help and hassle.' Under the old Incapacity Benefits system, about one-third of new applicants were assessed as being able to work, whereas more than two-thirds have been assessed as being able to work under the new structure.⁶³

This system is relatively new and problems will undoubtedly emerge. However, the United Kingdom has had a similar boom in disability benefit rolls over the past decade as Australia, and its experience with this policy shift suggests that similar reforms could have an impact on DSP numbers here. The Rudd government has announced a pilot program commencing in mid-2010 which will see 16,000 new DSP entrants required to attend 'targeted information sessions providing advice on disability employment, outlining the services available and possible assistance' during their first year of benefit receipt.⁶⁴ If successful this could provide a blueprint for a wider reform effort.

The United Kingdom's recent policy reforms included not just a change in the way people with a disability are assessed for income support but also a name change from Incapacity Benefit to Employment Support Allowance. This is purely symbolic but sends an important message: instead of emphasising a person's disability, the focus shifts to their ability to work. In Australia, unemployment benefits have been called Newstart Allowance since 1991, signaling to recipients that the payment is a short-term 'hand up' until they get their next job—not a long-term 'hand-out.' Similarly, DSP could be recast to emphasise rehabilitation, re-skilling, and returning to work, implying that anyone who can return to work should do so.

Increasing Unskilled Jobs

Of course, any moves to reduce the number of people on DSP could have the unintended consequence of increasing the number of unemployed people. New data suggest that while the 2006 Welfare to Work changes may have stopped some people with disabilities from going onto DSP, a relaxation of mutual obligation requirements under the Rudd government hasn't necessarily led to them rejoining the workforce. In December 2009, about 40% of all Newstart recipients were exempt from job search requirements (up from 25% in December 2003). Much of this increase is due to the tighter conditions for entry onto DSP that were enacted in 2006. Despite being assessed as able to work 15 hours a week or more, they are able to gain an exemption from job search once on Newstart Allowance.⁶⁵ While growth in DSP numbers has slowed, it has been counteracted by a jump in the number of people with disabilities on other welfare payments who are exempt from work.

By avoiding any measures that target existing recipients in their efforts to reform DSP, policymakers have managed to avoid the hardest question: what to do with

DSP could be recast to emphasise rehabilitation, re-skilling, and returning to work.

those disability pensioners who can work but for whom suitable jobs are not available. If policymakers attempt to move disability pensioners—many of whom have lower levels of education and have been out of the workforce for many years—into the workforce, government must also ensure there are suitable jobs available. It is for this reason that the OECD suggests that any reforms to DSP should initially target younger recipients who have been on the payment for a shorter time and are most likely to be work-ready.⁶⁶

Much of the growth in DSP numbers has been borne from structural changes in the labour market. Although new skilled jobs have been created, many unskilled jobs have been lost. Many DSP recipients are these older, unskilled people who have experience in areas where jobs have been lost. Any policy that successfully reduces the number of people on DSP could simply result in a larger number of long-term, older and unemployed people with little change of labour market success.

Although beyond the scope of this report, a key component in reducing welfare numbers—especially among long-term recipients such as disability pensioners—must be increasing the number of low-skilled jobs available.

While direct job creation or subsidy schemes have proven to be expensive and inefficient, there are policy settings that governments can put in place to stimulate the creation of low-skilled jobs.⁶⁷ Australian and international studies suggest that allowing the value of the minimum wage to fall would result in more low-skilled jobs being created.⁶⁸ But this is also problematic. A high minimum wage has become a de facto pillar of Australia's social welfare system, making work—even a low-paid job—a virtual guarantee against relative poverty.⁶⁹ Any policy reform that results in the real value of the minimum wage dropping must not erode this advantage.

One solution is the creation of a system of 'in-work benefits' that uses the tax-transfer system to top up the wages of low-paid workers, compensating them for a drop (or freeze) in minimum wages. Such a system exists in the United States, where the Earned Income Tax Credit tops up the income of low-paid households whose income comes from work, not welfare.⁷⁰ A similar proposal was put forward in Australia in 1998 by the 'Five Economists,' who argued that allowing the real minimum wage to decline in value and compensating workers through an Earnings Credit would stimulate both the supply of low-skilled jobs and the demand for them.⁷¹ Another option is to simply increase the tax-free threshold, which increases the incentive for all taxpayers to increase their income (either through work or some other means). While these proposals do have a few drawbacks, they would go some way towards removing existing structural impediments to low-skilled jobs growth—including for disability support pensioners looking to return to the workforce.⁷²

Peter Saunders argues that as the manufacturing jobs that many low-skilled workers used to perform will never be created again, a shift in focus towards personal services could provide an avenue for low-skilled jobs growth. Services such as aged care, child care, mentoring for disadvantaged children, and other community services could provide potential employment opportunities for some disability support pensioners.⁷³

Helping people with disabilities find work

Another broader—and potentially more difficult—problem than how to get people off DSP is how to get more people with disabilities into jobs. Even when suitable jobs are available, people with disabilities often have problems with mobility and transport or require flexible working conditions or modifications to their workplace. These often complex needs mean that people with disabilities can find it much harder than other jobseekers to find and retain employment. Around the developed world, efforts to reintegrate people with disabilities back into the labour market have not been particularly successful.⁷⁴ Discriminating against people on the basis of their disability is illegal in Australia, but this has not resulted in a large increase in the employment of people with disabilities.⁷⁵ Employers are able to access funds from the government to modify their workplace, and are able to access wage subsidies for employees with disability whose

A more difficult problem is how to get more people with disabilities into jobs.

productivity is below the market rate.⁷⁶ But anecdotal and statistical evidence suggests that people with disabilities still find it much more difficult to find work than other jobseekers. Some commentators have suggested that if disability pensioners are to have more pressure put on them to find work, then equal pressure should be put on employers to hire them.⁷⁷ It may be inconsistent to argue for pushing people with disabilities off DSP and into work but refuse to acknowledge any case for requiring employers to make provision for them.

In recognition of these difficulties, people with disabilities are provided with specific help to find and prepare for work. Disability Employment Services was established in March 2010 to replace the former Disability Employment Network. This system operates in the same way as the broader Employment Services network (formerly Job Network). The federal government contracts a network of for-profit and not-for-profit organisations to assist jobseekers to find work, and they are paid based on how successfully they are able to do this. Disability Employment Services specifically helps people with disabilities (including people on DSP) to find work.⁷⁸ However, these services have not always been particularly successful in placing people with disabilities into jobs. In 2003–04, only 17% of jobseekers with a disability who commenced with the Disability Employment Network were still in employment, education or training three months after completing their program (compared to 24% of the wider jobseekers population).⁷⁹

It is too early to tell whether the new service will produce better outcomes, but it does appear that some other major problems have been addressed. For many years, DSP recipients were automatically reassessed if they sought the help of an employment service provider. This acted as a disincentive for many to do so. In addition, many recipients were fearful that if they took a job and were subsequently unable to maintain it, they would not be able to return to DSP. However, all DSP recipients now have the right to return to their pension at any time within two years of leaving voluntarily for work.⁸⁰ The removal of this disincentive means that recipients can now comfortably ‘test the waters’ with employment or at the very least sign up for job search help.

Another issue identified by the OECD was the actual availability of job search help. Under the old system, anyone with a disability assessed as able to work for 15–30 hours a week could access employment services. However, places for people assessed as able to work less than 15 hours a week or more than 30 hours a week were capped. This meant that people on DSP (or people with disabilities and not on DSP) who wanted help to look for work were often placed in lengthy queues and unable to access services. The OECD recommended increasing the supply of employment support places and making them available to all people with disabilities, regardless of whether or not they were on income support.⁸¹ The number of places is now demand driven, which may result in more DSP recipients moving into jobs or training.

Despite the available job search help, few DSP recipients actually use the facility.⁸² Since the time new rules were introduced in 2008 increasing the incentive to use employment services, more than 12,000 DSP recipients have voluntarily signed up for employment assistance.⁸³ The government has trumpeted this as a success, and it is a step in the right direction. However, it only represents 1.6% of all disability support pensioners.⁸⁴ Similarly, of the 750,000 people on DSP in September 2009, only 10,500 were customers of Job Services Australia—1.4%.⁸⁵ There is clearly some way to go in encouraging disability support pensioners with some work capacity to take up job search help.

Conclusion

Disability pension reform is politically difficult. It is clear that both the sheer number of disability pensioners, and the prevalence of DSP recipients among working-age people, has grown substantially over the last few decades. But turning this trend around requires a complex and nuanced response. DSP performs a vital function in society: it provides a safety net for those who cannot work to support themselves and whose families cannot

Recipients can now comfortably ‘test the waters’ with employment or at the very least sign up for job search help.

support them. There would be little public support for dismantling the DSP or for undermining the safety net that guarantees the financial security of some of our society's most vulnerable members.

Yet, there is a growing understanding that a system that allows people who may otherwise be able to work to remain permanently on welfare—and, in fact, provides incentives for them to do just that—is not in the best interests of society or the individual. For this reason both major parties, when in government, have attempted to restrict access to DSP for those who may be able to work.

However, this approach can only have limited success. There is already such a large pool of disability pensioners—one in every 20 people of working age—that any attempt to seriously reduce their number must also focus on encouraging existing recipients, where appropriate, back into the workforce. Waiting for the natural rate of attrition to bring down the number of disability pensioners will take decades. Not all DSP recipients can, or should, be expected to work. Because of this, a nuanced approach is required. But if it is fair to expect DSP recipients who joined the payment after 2006 to seek part-time work if they can, then it is fair to expect other recipients to face the same requirements. Making this change retrospective could help reduce the number of people on DSP without unfairly targeting those recipients who are manifestly unable to rejoin the workforce. The recently introduced 'Employment Support Allowance' in the United Kingdom could provide inspiration for further reform. Beyond reforming the DSP, governments should more broadly look at measures to assist people with disabilities into work and at policies that lead to greater low-skilled job creation. Lowering the number of people reliant on the DSP who could otherwise be in the workforce will pay dividends for both the broader community and for the individuals themselves.

Lowering the number of people on DSP will pay dividends for both the broader community and for the individuals themselves.

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6. See Australian Government, *Guide to Social Security Law, Assessment for DSP*.
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13. 'Disability, Ageing and Carers: Summary of Findings,' Australian Bureau of Statistics, Cat. No. 4430.0 (Canberra: 2003), 23.
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17. Employment rates from all categories except for Disability Support Pension are from 'Disability, Ageing and Carers: Summary of Findings,' as above, 26. Employment rates for disability support pensioners are from 'Characteristics of Disability Support Pension Recipients June 2008,' as above. Please note that these figures may not be directly comparable as they are from different years. People with a disability have higher than average rates of unemployment, so the participation rate for these groups would be slightly higher. However, as this information is not available for DSP recipients, employment rates were used.
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