

# **SUBMISSION**

## **Review of Australian Higher Education**

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***In relation to student income support and welfare issues***

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# INCOME SUPPORT ISSUES FOR STUDENTS

## 1. Inadequacy of income support for students

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The current, maximum rate of Youth Allowance for a single, independent student is \$355.40 per fortnight. The maximum rate of Rent Assistance which a student receiving Youth Allowance can qualify for is \$71.47 per fortnight.

This means that a student will receive \$426.87 per fortnight in support from the Government, if they qualify as independent, and pay sufficient rent to qualify for Rent Assistance. This entitles them to \$11,098.62 annually.

This figure is significantly below the Henderson Poverty Line. In fact, to reach the Henderson poverty line, a student must earn \$450 per fortnight (see *Figure 1*). This takes into account the fact that, after the student earns \$236 in one fortnight, their Youth Allowance payment will begin to be docked by 50 cents in the dollar.

If a student were earning \$18 per hour, this would mean that they would have to work 25 hours per fortnight, or 12.5 hours per week, simply to reach the basic standard of living prescribed by the Henderson Poverty Line.

If a student is *not* receiving Rent Assistance, they will need to earn \$628 per fortnight to reach the Henderson Poverty Line (see *Figure 2*); approximately 35 hours per fortnight, or 17.5 hours per week.

This amount of Government assistance, coupled with such a stringent income test, makes students incredibly vulnerable to poverty.

Figure 1: Student Income with Youth Allowance and Rent Assistance

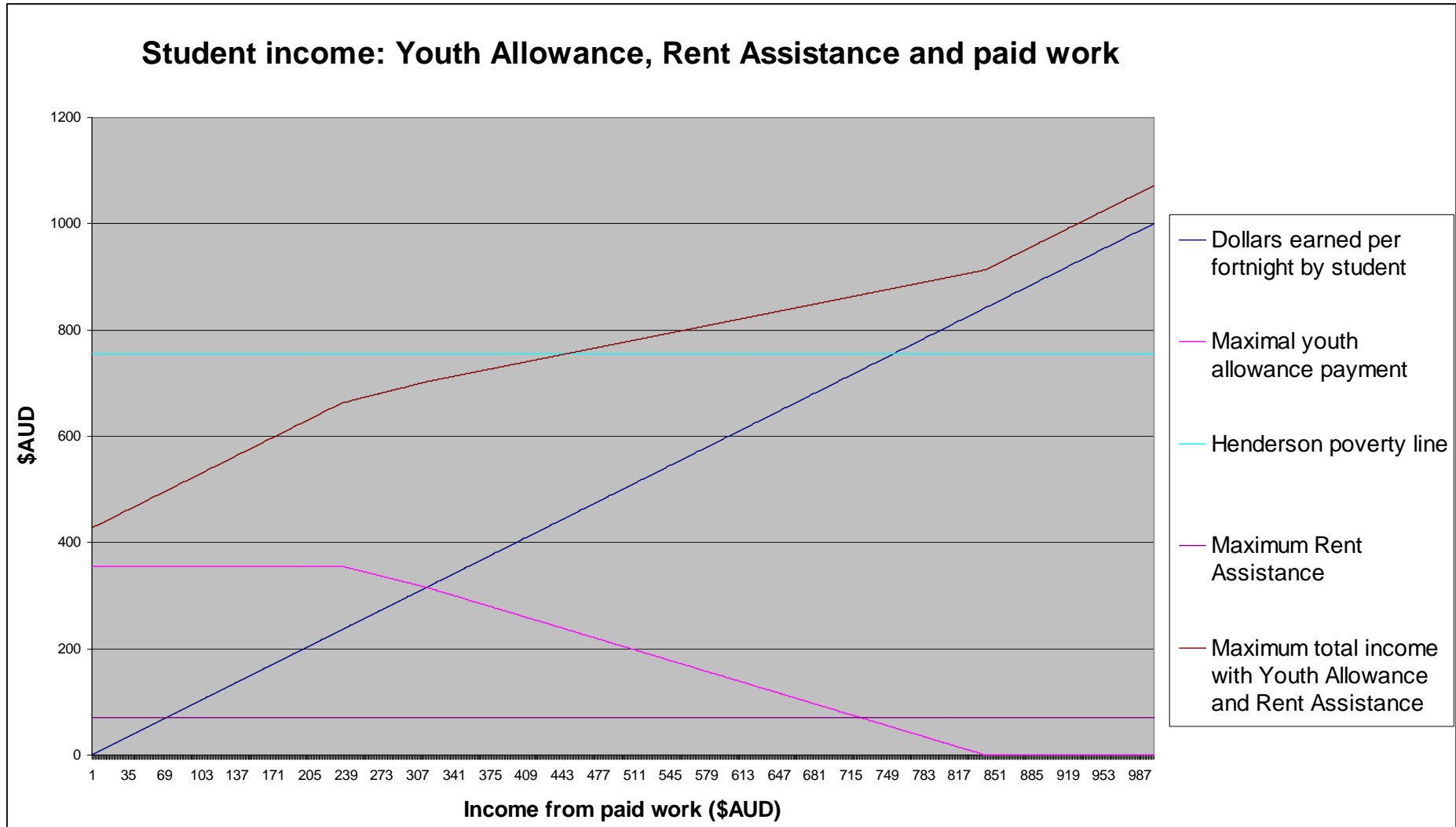
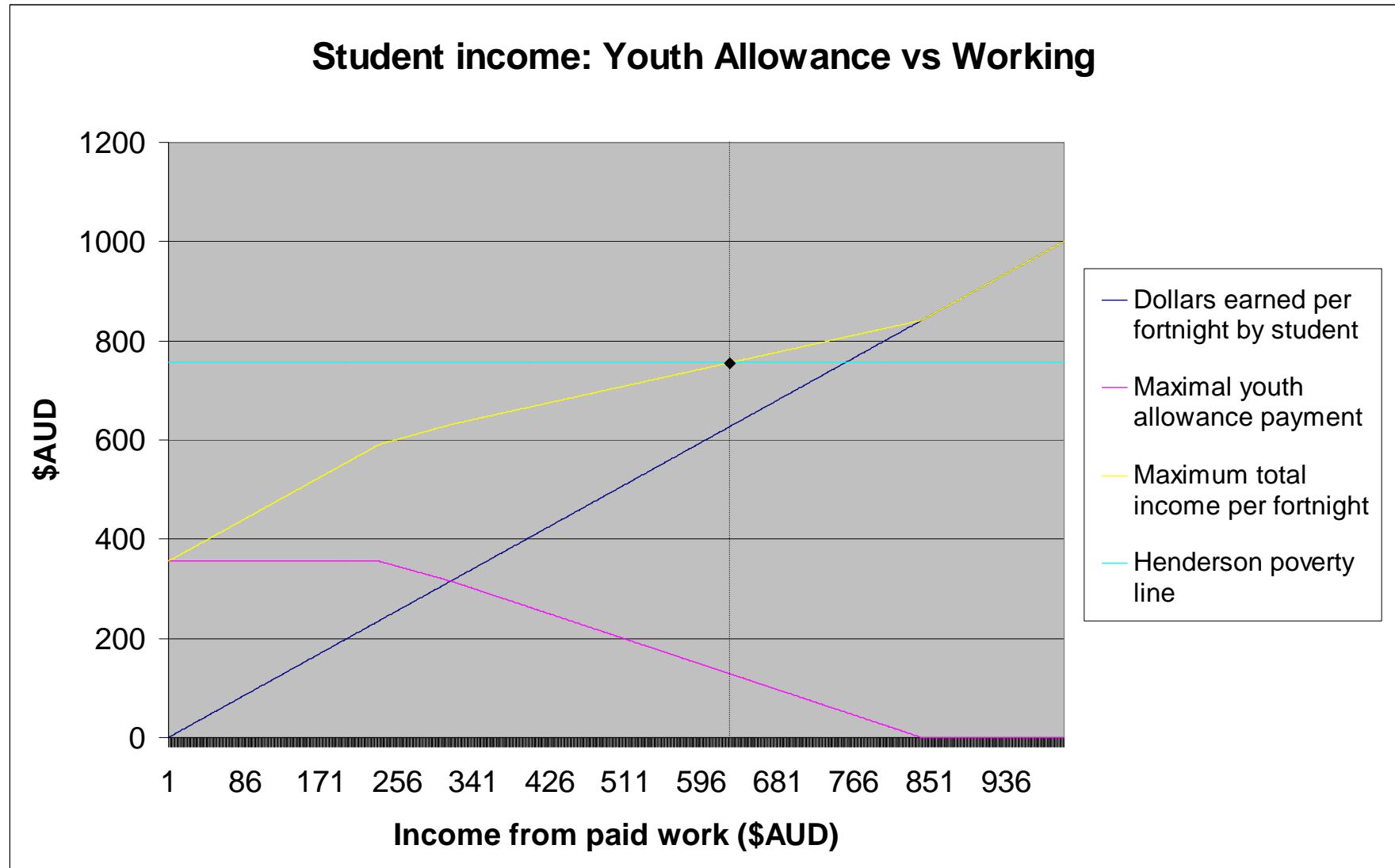


Figure 2: Student Income with Youth Allowance



Any changes to the current structure of student welfare should reflect the practical realities that:

- Rent/board makes up a huge proportion of the costs of living experienced by students who truly live independently, and should students be in a position where they need to live independently, they should be adequately supported in doing so by the Government.
- Payments of high rates of independent Youth Allowance to students who live at home and are largely supported by their parents, simply because they have reached the independence requirements by satisfying the workforce participation requirement, is a waste of money and is a disincentive to undertake part-time work.
- Studying at university incurs significant expenses, whether a student is living at home or not. Making a basic payment available to all tertiary students will significantly reduce the burden associated with buying textbooks and paying for transport to university, two major costs most students bear independently.
- It is a significant cost for parents (some of whom are nearing retirement) to fully fund their child's university experience, and many are not willing to do so. Paying some Youth Allowance to all students should ameliorate this.
- Should a child need to move out of home to study, some support – largely for rent – is appropriate and necessary. However some parental incomes do adequately allow for support of children, even those living away from home, and this should be reflected in a high parental income test.
- It is a desirable thing for students to undertake part-time work, as it teaches them a new set of skills and in theory should render them more independent and suitable for the workforce, when they graduate. However, they should not be penalised for working. Thus, not having a personal income test for Youth Allowance will encourage students to work to whatever level they consider appropriate for themselves.
- Removing the personal income test will also save significant amounts of administrative work for Centrelink, and decrease costs in this way. There will still be some costs involved in administering payments, and ensuring eligibility for Rent Assistance, but far fewer students will be eligible for Rent Assistance than Youth Allowance (as is the case now).
- Increasing Rent Assistance (or its equivalent) and decreasing Youth Allowance will *ideally* result in a system where payments are directed to the most needy students – those who live independently. However, any changes to the system as it currently exists must not result in a reduction below the current payment levels: around \$426 per fortnight for an independent student.

## **Recommendations**

Youth Allowance rates should be **decreased**, and a separate category of Rent Assistance (or a new, equivalent payment) should be established which will provide an **increased** level of support for students.

### *Payment levels*

- Youth Allowance should be **decreased** to around \$75 – \$150 per week, to cover basic costs associated with living, transport and university. This could potentially be administered at two rates: one for living at home (~\$75), and one for living away from home (~\$150).
- Any student who is still living at home should receive a maximum of \$50 – \$100 assistance per week, so as to continue to provide an incentive to undertake part-time work in addition to receiving a benefit, but also provide some support in undertaking tertiary study.
- Rent Assistance (or its new equivalent) should be increased to fully cover rental accommodation costs, up to a maximal cap. The infrastructure to administer this system already exists, and it should not require a significant change to the system to make these alterations.
- Rent Assistance should be capped at a maximum amount that reflects the availability and expense of accommodation in the area relevant to the institution in which the student is enrolled (eg rural/regional universities, compared to inner-city universities).

### *Qualification requirements*

- This new, lower rate of Youth Allowance should be available to all tertiary students enrolled at 0.75 Equivalent Full Time Study Units (**EFTSU**) or above. Part-time students (0.25 or 0.5 EFTSU) should receive half the rate of payment. There should be no other qualification requirements.
- Rent Assistance should be available to all tertiary students living independently, or to students undertaking at least a 0.75 or 1.0 EFTSU enrolment. The rate could be halved for students enrolled part-time (0.25 or 0.5 EFTSU).

### *Income tests*

- The Youth Allowance payments should not have a personal income test.
- A parental income test to qualify for Youth Allowance and Rent Assistance may be appropriate, as parents earning a high combined income (for example, greater than \$200,000 per annum) should generally be expected to support their children in undertaking tertiary accommodation.
- A partner income test (for those in marriage-like relationships) might be imposed, but the cutoff should be significantly increased to reflect the fact that partners of many tertiary students are often recent graduates themselves, potentially with their own significant debts, who simply may not be capable of subsidising their partner's life whilst they finish studying. The cutoff should be increased to *at least* the level of the CSP repayment threshold, or preferably

over \$50,000, rather than the current \$236 per fortnight cutoff (where payments begin to be reduced by 60 cents in the dollar).

## **Hypothetical case study 1**

Sarah\*, a third year Science student at Monash university, currently lives out of home because her living situation with her mother has become increasingly difficult. She qualified for independence under the 'difficult family circumstances' provision.

Sarah currently pays \$130 per week rent in shared accommodation. She receives the independent rate of Youth Allowance (\$355.40) and the maximum Rent Assistance payable (\$71.47); \$426.87 in benefits per fortnight. Her total income per fortnight is \$626.87, as she earns around \$100 per week tutoring high school students for 5 hours, the maximum amount of time she can work due to the demands of her degree.

### Under the new recommendations

Sarah would automatically receive \$150 per week Youth Allowance from the date she commenced living out of home. Upon moving out, she would receive \$260 per fortnight Rent Assistance (presuming the maximum cap is above this amount).

This would result in Sarah receiving around \$560 in benefits per fortnight – this is still below the Henderson Poverty Line cutoff of \$756.16 per fortnight, which is not ideal. However, Sarah's current rate of part-time work will be sufficient for her to reach the poverty line.

## **Hypothetical case study 2**

Tom\*, a second year Commerce student at Monash University, currently lives at home as his parents only live 10 km from the University. His parents are happy to pay for his food and board, as they would prefer him to live at home with them, and he earns an income which he uses to pay for his university textbooks, pay for petrol for a car he shares with his brother, and fund his social life.

Tom has easily earned over \$18,000 within 18 months of leaving school in order to meet the Youth Allowance independence requirements, as he only has 2 or 3 days per semester where he needs to attend university. He works as a clerk at an inner-city professional services firm 2 days per week, which he enjoys, and this provides invaluable work experience for his degree.

After qualifying for independence, Tom receives \$233.90 per fortnight in benefits. Due to the \$236 income test, he ceased working altogether, as the Youth Allowance payment easily met his expenses, and there was no longer an incentive to work, other than for the experience it would provide.

### Under the new recommendations

Tom is eligible for \$75 per week Youth Allowance as soon as he commences studying. This assists him in paying for his university-related expenses, but does not cover them completely. He continues working to supplement his income, in the knowledge that there is no income test, and thus he can determine exactly how often and how much paid work he wants to complete without his benefits being affected. He continues to live at home; this is his preference, even though he has the option of moving out, as he knows he would have to significantly alter his lifestyle to do so.

## **2. 'Independence' qualification requirements for Youth Allowance**

The current requirements to qualify for the independent rate of Youth Allowance are onerous, arbitrary and liable to abuse. To be considered independent for the purposes of Youth Allowance, a student has a number of options. These include:

1. Working full-time (at least 30 hours a week) for at least 18 months in the last 2 years;
2. Working part-time (at least 15 hours a week) for at least 2 years since leaving school;
3. Earning at least 75% of the maximum rate of pay under Wage Level A of the Australian Pay and Classification Scale in an 18 month period since leaving school;
4. Having partial capacity to work as determined by a Job Capacity Assessment;
5. Being married, previously married, or living in a marriage-like relationship for at least 12 months;
6. Having/had a dependent child;
7. Having parents who cannot exercise their responsibilities;
8. Inability to live at home due to extreme family breakdown, violence in the home, or serious threats to health or well-being;
9. Being a refugee, orphan or someone who cannot live at home;
10. Being in State care, or only stopped being in State care due to age.

You are also considered independent if you are aged 25 or over and a full-time student.

### *Problems with workforce participation criteria*

The first three options, each involving participation in the workforce, are particularly onerous for students. This is especially so for those students who have to move to the city from a rural area to undertake tertiary study. Effectively, these requirements mean that students will not be entitled to any kind of Governmental support until they have completed at least 18 months of their degree, or 2 years if they qualify under options two and three.

Even if a student does take 12 months off to earn the required amount (which is currently over \$18,000) they will still not be eligible for support for another 6 months into their University degree.

This means that many students have very little financial support for the earliest and possibly most stressful part of their time at University, particularly during the initial commencement and transition period, where significant costs are incurred: eg setting up a household, purchasing a car.

Alternatively, they are forced to defer for longer periods of time to ensure that they will be financially supported when they eventually commence University. Again, this may have an impact on rates of participation in tertiary education, which is very difficult to measure, and for which there is currently a paucity of data.

### *Earning requirements*

Additionally, the earning requirement (to earn at least 75% of the maximum rate of pay under Wage Level A of the Australian Pay and Classification Scale in an 18 month period) is fairly arbitrary and difficult for students to achieve.

There is little justification offered for this requirement, and on its face it is inconsistent. It seems ridiculous that students should effectively have to prove that they don't need income support, in order to qualify for income support.

This requirement, which currently means that students must earn in excess of \$18,000 over 18 months, effectively requires students to take time off University, or put a great deal of stress on themselves whilst they study. For the average student to earn around \$18,000 in 18 months, they must earn approximately \$230 per week over that time. For a student earning \$18 per hour, this equates to approximately 12 or 13 hours of work per week.

If a student attempts to earn that amount whilst studying at University, this is a significant task. This is particularly the case for those who undertake courses which require a large amount of direct contact time at University (eg Science, Medicine). Courses which require upwards of 20-30 contact hours per week simply do not allow for over 10 hours of part-time work, at least without a detrimental effect on the student's university experience and their course results.

Despite how onerous this independence requirement is, it is one of the most readily achievable requirements in the above list for students who require or desire Governmental support. Because of this, many students have no choice to defer, or work such long hours, in order to qualify for support.

### ***Recommendations***

Should the Government determine that the current system of Youth Allowance and Rent Assistance should remain the same, or if the recommendations in Section 1 above are adopted but an independence requirement is still imposed, changes must be made to the current independence qualification requirements. These should ensure that support is given to students who need it the most, and not to students who are capable of supporting themselves.

#### *Independence should be automatic for those truly living independently*

- Any student who is living out of home should be deemed independent. Changing the independence requirements so that anyone who wants to move out of home can do so may not flood the system with a huge amount of students suddenly living independently, as they will still have to accept a significant drop in living standards and total income in comparison to living with their family, so many may not opt to do this.

#### *Parental income test*

- A parental income test could potentially be applied to independent Youth Allowance rather than a student income test. This would mean that, for instance, any student whose parents earn over \$200,000 per annum do not qualify for Youth Allowance at all – even if they choose to live out of home, their parents still have a significant capacity to be able to support them.

*Earning requirements, or 'workforce participation' qualification requirements should be altered*

- If an income test is deemed appropriate, it should require students to work for less time (ie between 6 – 12 months) and require less money to be earned. No student should have to work more than 10 hours per week in part-time work at any point in their tertiary education.

### **3. Particular issues for rural students**

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Students who come from a rural background often have to move to a metropolitan area to undertake study. This adds increasing stress to a population of students who generally face significant barriers to undertaking tertiary study, and often come from a lower socio-economic background.<sup>1</sup>

If a student from a rural background cannot be financially supported by their parents whilst at University, they are effectively forced to defer their University studies (taking a 'gap year'), either to save up enough money to support themselves, qualify for Youth Allowance, or both.

This surely poses a significant deterrent to undertaking such studies, and in light of the shortages in the rural and regional workforce, is a problem that needs to be addressed immediately.

If a student is already eligible for Youth Allowance when they commence university, based on their parents earning less than ~\$31,000 per annum, they will be eligible for the away-from-home rate of *dependent* Youth Allowance. If their family home is greater than 90 minutes from their place of study, their payments are generally increased to the rate of a student receiving independent Youth Allowance. However, this rule does not apply to students who are not already receiving dependent Youth Allowance.

#### ***Recommendation***

- Any student who has to move from a rural/regional area to study should be automatically eligible for the maximal rate of income support (via automatic 'independence' or another test).

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<sup>1</sup> N Godden, 'Regional Young People and Youth Allowance: Access to Tertiary Education' (2007) – accessed at <http://www.csu.edu.au/research/ilws/research/docs/youth-allowance.pdf>

## **4. Personal income test and restrictions on working**

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Currently, a student cannot earn more than \$236 per fortnight through paid work or other income, before their Youth Allowance payments are reduced. Between \$236 and \$316 earned per fortnight, payment starts to reduce by 50 cents in the dollar. Beyond that, payments are reduced by 60 cents in the dollar. Once a student has earned beyond \$842, Youth Allowance payments will cease.

This amount has not been indexed since 1993. As such, a student earning \$18 an hour can only work 13 hours a fortnight before their payments start to be reduced, or approximately 6.5 hours per week. This is not even one full day per weekend.

The current system means that students have to work, on average, 12 to 13 hours a week simply to become independent (by earning ~\$18,000), but once they are, they can only work 6 or 7 hours a week to supplement their Youth Allowance before their payments are reduced. This is terribly inconsistent, and provides a disincentive to work once the student qualifies for Youth Allowance.

Many forms of paid work require a commitment to work more than 6.5 hours per week, as it is generally not in the interests of an employer to spend a significant amount of money to train staff, then have them work very few hours.

Thus, students can either: (1) avoid working and live in poverty, (2) find a job that allows them to work very few hours, or (3) work in a job which demands higher hours and experience a corresponding decrease in welfare benefits.

The current limit does not reflect reality – that students *want* the flexibility to be able to work a few more hours should they choose to do so, that living costs (particularly costs of rent) have increased, and that students should be able to work a full day on a weekend (usually ~8 hours) without their payments being affected.

### ***Recommendation***

- If a personal income test must be applied, the current point at which Youth Allowance payments are reduced (\$236/fortnight) should be increased, at least to bring it in line with indexation by CPI

## **5. Aspects of student income support that should NOT be changed**

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### **Income Bank**

The income bank is a fantastic initiative which allows students a great deal of flexibility, and reflects the practical reality that many students choose, or are practically forced, to work significant amounts of time over university holidays.

It allows students to ‘build up’ the money they do not use of their \$236 per fortnight personal income test as credit, and use that credit to earn more than \$236 per fortnight over university holidays without a corresponding reduction in benefits.

Although it would be preferable for no personal income test to apply to Youth Allowance, if it must remain then the Income Bank should also remain.