



Submission

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# Adequacy of Newstart and related payments and alternative mechanisms to determine the level of income support payments in Australia

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Orygen, The National Centre of Excellence in Youth Mental Health (Orygen) welcomes the opportunity to provide a submission to the Senate Community Affairs References Committee inquiry into the adequacy of Newstart and related payments, and alternative mechanisms to determine the level of income support payments in Australia.

## About Orygen

Orygen is the world's leading research and knowledge translation organisation focusing on mental ill-health in young people. Orygen leadership and staff work to deliver cutting-edge research, policy development, innovative clinical services, and evidence-based training and education to ensure that there is continuous improvement in the treatments and care provided to young people experiencing mental ill-health.

## Introduction

This submission addresses the terms of reference provided by the Senate Community Affairs References Committee inquiry into the adequacy of Newstart and related payments, and alternative mechanisms to determine the level of income support payments in Australia. In particular, this submission will focus on terms: (c) the changing nature of work and insecure work in Australia; (d) appropriateness of current arrangements for supporting those experiencing insecure and/or inconsistent employment; and (h) the adequacy of income support payments in Australia and whether they allow people to maintain an acceptable standard of living, in line with community expectations, and to fulfil job search activities (where relevant) and secure employment and training.

This submission will focus on the social and economic impacts of the current payment mechanisms on young people, particularly those experiencing mental ill-health, and provide a high-level overview of global and national evidence to support a number of future opportunities.

## Changing nature of work

The world today is rapidly changing, with dynamic high-tech innovations and technological disruption bringing new dimensions to the way that humans live, work and communicate. In Australia, the impact of technological innovations on the labour market and employment outcomes are significant.

Recent analysis indicates that around 44 per cent of current Australian jobs are at high-risk of being affected by automation and technology over the next 20 years.<sup>1</sup> Young people are likely to be disproportionately affected by automation, as they typically gain entry into the labour market in sectors that will be heavily impacted by technological advancement that may not exist in the future.<sup>2</sup>

Meanwhile, demand in more advanced skillsets is expected to increase as new innovative and technical jobs are created and employers require more specialised workers.<sup>3</sup> There is an emerging unmet need for workers with greater science, technology, engineering and mathematics (STEM) skillsets, with research indicating that 75 per cent of the fastest-growing occupations will require STEM skills and training.<sup>4</sup> Australians who do not hold post-school qualifications experience significantly higher unemployment and lower labour force participation rates when compared to their tertiary educated counterparts.<sup>5</sup> Increasing numbers of university-educated workers in both developed and emerging countries is also leading to a global competition for talent.<sup>6</sup> Conversely, the period of transition between education and employment is being prolonged, with young people more likely to start full-time work at a later age<sup>7</sup> and the proportion of higher-education graduates finding full-time employment within a few months after completing their course also decreasing.<sup>8</sup>

Social and emotional skills, or soft skills, are also necessary to successfully engage and perform in modern workplaces. Indeed, in a survey of Australian employers, interpersonal skills were the most important candidate attributes that they looked for during recruitment.<sup>9</sup>

## Impact of current labour market conditions on young people

Young people aged 15–24 years are the most likely group of employees to be engaged in non-standard work (e.g. includes part-time work, temporary work, fixed-term contracting and subcontracting, and self-employment) and their participation in casual and part-time work has increased considerably in the last decade. Among young people with jobs, three times as many teenagers (aged 15–19 years) and more than twice as many young adults (aged 20–24 years) were employed in part-time jobs in 2011, compared to a generation ago.<sup>7</sup> This increase in the proportion of young people employed part-time has made underemployment an issue, alongside unemployment. Importantly, there is a strong association between casual work and long-term low earnings in Australia.<sup>10</sup> Young people in casual and part-time roles are also less likely to have access to training and development opportunities, receive no paid leave entitlements, have precarious tenure and are more vulnerable to job losses.<sup>6</sup>

In January 2019, the Australian youth unemployment rate was 11.5 per cent, which is more than double the rate recorded for all other persons.<sup>11</sup> Underemployment rates are also higher for young people. While the youth underemployment rate marginally declined from 18.5 per cent to 17.3 per cent from January 2018 to 2019, it remains significantly higher than the 8.1 per cent rate recorded for all other persons.<sup>11</sup> Young people continue to encounter difficulty securing work and face longer instances of unemployment. Youth long-term unemployment (unemployed for two years or greater) has increased to 45,500 young people in January 2019; 186.2 per cent above the level recorded in September 2008.<sup>11</sup> Unemployment experienced early in a young person's career has detrimental effects on employability and earning prospects decades later, referred to as 'scarring effects'.<sup>12</sup>

Young people face considerable barriers to participating in the labour market, including:

- decreasing availability of entry-level jobs;
- poor job-readiness;
- employer reluctance to employ candidates without experience;
- lack of informal networks; and,
- high travel costs, particularly in outer urban, regional and rural areas and greater reliance on public transport options to get to work.<sup>13</sup>

The challenges faced by young jobseekers are exacerbated when there is only one job available for every eight people seeking work<sup>14</sup> and they are considered the least educated, experienced and/or employable of all jobseekers.

Australian research emphasises the importance of providing targeted and effective supports to young people to maximise their engagement or reengagement in education, employment and training. This includes findings that a person unemployed for one year has more than a 50 per cent chance of becoming long-term unemployed and, after a second year of unemployment, there is a 60 per cent chance of remaining unemployed for an additional year.<sup>15</sup>

## Connection between employment and mental health

The majority of mental health issues develop during adolescence and young adulthood, coinciding with critical periods for education attainment and entry into the workforce. Both Australian and international research indicates a strong relationship between youth unemployment and low levels of mental health and wellbeing.<sup>6</sup>

Participation in the workforce can support the health and wellbeing of individuals, and is a key element of the recovery process for those with or at-risk of mental ill-health.<sup>16</sup> Delaying or discouraging vocational engagement can have negative consequences, in particular by increasing self-stigma, social isolation, hopelessness, suicidality and chronic disability.<sup>13</sup> Long-term unemployment can have significant effects on a young person's mental health, including: greater levels of anxiety and depression, higher suicide rates, alienation and increased anti-social behaviour.

Orygen explored the connection between employment and mental health in the policy report, *Tell them they're dreaming*, which outlined the benefits of supported employment services.<sup>16</sup> Young people experiencing mental ill-health rank education and employment as their number one goal - above symptom recovery - and vocational support services can act as a powerful clinical engagement tool to help young people return to work or study. In a landmark study of 209 young people treated for first-episode psychosis, returning to work or school within 14-months of treatment commencing was a better indicator of long-term recovery than symptomatic recovery at 14-months.<sup>16</sup> Nearly 60 per cent of young people who had re-engaged with work or education at 14-months went on to attain full functional recovery at 7.5 years follow-up.

Interrupted education can result in lower literacy and numeracy levels making finding employment more difficult. Interrupted employment is also a barrier, with a lack of employment references and experience. Together these factors contribute to a lack confidence to apply for jobs or enrol in further study.

Young people with mental ill-health are less likely to participate in employment, education and training compared to the general youth population. Many find themselves disadvantaged in attaining educational outcomes and meeting jobseeking activity requirements due to experiences of stigma, difficulties navigating a fragmented system between mental health and employment services, and a lack of understanding regarding their particular barriers to study and employment. As a result,

unemployment rates for young people experiencing mental ill-health can be up to three times higher than the standard youth unemployment rate.

### Economic costs

A 2009 Australian study of the economic impact of mental ill-health experienced by 12-25 year olds found that the annual cost to the economy was over \$10.6 billion.<sup>17</sup> The majority of these costs were not associated with health care system expenditure (13.4 per cent), but rather productivity costs, resulting in 70.5 per cent of total cost through: employment impacts, absenteeism, presenteeism, premature death and search and hiring costs. The study estimated that economic costs are largely borne by individuals (61.6 per cent), followed by governments (31.1 per cent), and then employers (7.2 per cent).<sup>18</sup>

Further, young people with a mental illness are at-risk of not being supported to enter the labour market and instead needing to rely on disability support.<sup>16</sup> Between 30-50 per cent of all new disability benefit claims are due to mental ill-health, or a higher proportion of over 70 per cent for young adults.<sup>16</sup> Given the early onset of mental illness, there is a potential for a young person to spend more than 40 years on disability payments. Aligned to the priority they place on vocational outcomes, including young people with mental ill-health in the workforce will reduce significant costs for different levels of government and society more broadly. It is therefore critical that young people experiencing mental ill-health are supported to remain in or return to education and employment.

## Policy context

In recent years, Australia has introduced a number of policy responses to address youth unemployment, such as assisting young people to remain in school beyond 16 years, as well as broadening accessibility to its active labour market programs (ALMPs).<sup>19</sup>

ALMPs seek to increase employment participation of people receiving income support from government, or at-risk of becoming unemployed. In Australia, ALMPs take three main forms, namely job search; work experience; and formal training and education. These programs are mostly run by contracted employment service providers through the jobactive system.<sup>19</sup> Evidence supporting employment outcomes resulting from ALMPs is varied for unemployed people generally, across and within different ALMP types. However, young people tend to benefit less from ALMP participation than adults.<sup>8</sup> ALMPs are predominantly effective for individuals who are job-ready, but have limited outcomes for the most disadvantaged jobseekers.<sup>8</sup>

The most successful programs directly targeting disadvantaged young jobseekers by providing a comprehensive package of support services, such as: literacy and remedial education; vocational and job-readiness training; job search assistance and career guidance and counselling; and social support and workplace training. The best-practice programs involve collaboration between service providers and employers at a local level, and though these achieve significant medium- and long-term employment outcomes, they tend to be costly.<sup>20</sup>

## Current service responses for unemployed young people with mental ill-health

Evidence from federally-funded youth mental health service headspace indicates that existing and traditional employment and study support mechanisms do not provide adequate support for young people experiencing mental ill-health.

During 2017-2018, 25.8 per cent of young people presenting at headspace centres were not in education, employment or training, increasing to more than 30 per cent in regional and rural areas, and above 40 per cent for some centres in regional Queensland, Victoria and Tasmania.<sup>21</sup>

Young people experiencing mental ill-health report that they do not feel comfortable engaging with the traditional vocational supports available to them, largely due to ongoing stigma and low mental health literacy among service providers across the employment services system.<sup>21</sup> People with mental ill-health, particularly those with mild-moderate symptoms, are often channelled towards employment services targeted at the general community. Generic employment services (such as jobactive) do not offer low enough caseloads and lack the subject matter expertise to support young people with mental ill-health.<sup>16</sup>

Issues of high staff turnover, poor skill sets and a tendency towards a punitive approach to employment support within these systems has had a detrimental impact on user satisfaction, with 73 per cent of respondents dissatisfied with mainstream employment service.<sup>22</sup> Further, support providers' role in the benefit compliance system (and the risk of loss of payment) was a major source of anxiety.<sup>22</sup>

Services for this cohort are also fragmented. Employment services are seldom located with or linked to mental health services, resulting in difficulty navigating the service system, and creating barriers to holistic, person-centred care.

While headspace centres are expected to provide vocational services, there is no federally-funded stream that supports such services, with centres expected to draw upon 'in-kind' support from consortium partners. Further, traditional vocational and educational funding streams are not suitable because they are limited in their reach or not suited to the unique needs of young people experiencing mental ill-health (e.g. by having a disability focus). To attempt to fill this large service gap, a number of innovative programs have been and are being developed, trialled and evaluated. These include the Individual Placement Support (IPS) trial, the eheadspace Digital Work and Study Service, the Youth Online Training and Employment System (currently a research trial at Orygen), and incorporating youth vocational peer workers into IPS programs.

In particular, IPS has a strong evidence-base behind it. A 2014 report by Orygen highlighted the program effectively increased workforce participation among young people experiencing mental ill-health and diverted them from the Disability Support Pension.<sup>16</sup>

The Australian Government provided more than \$13.6 million in funding for a three-year national trial of the IPS model of vocational assistance for young people aged 25 years and under experiencing mental ill-health. An initial 14 IPS trial sites were rolled out in headspace centres in 2016. On the strength of the outcomes achieved through this program, additional funding to extend the 14 trial sites for a further two years and establish an additional 10 IPS sites was announced in 2019.

A recent international meta-analysis of randomised controlled trials also highlighted the competitive employment outcomes provided through the IPS. The analysis found that participants in IPS achieved better vocational outcomes compared to standard job supports.<sup>23</sup> Another systematic review and meta-analysis in 2016 found that IPS was more than twice as likely to lead to competitive employment when compared with traditional vocational rehabilitation.<sup>24</sup>

## Current income support payments for unemployed young people

Young jobseekers are able to access two forms of income support payments from the government; Youth Allowance, for those under 22 years, and Newstart, for those aged 22 years and above. Nationally, 62,526 young people receive Newstart and 222,885 receive Youth Allowance.<sup>25</sup>

Though it is intended to be a support for transitioning jobseekers during short periods of unemployment, the average length of Newstart support is 147 weeks. While young people receive

Newstart for a significantly shorter period than other age groups, they still access an average of 46 weeks of payments, equating to almost a full year without meaningful employment.<sup>25</sup>

The current Newstart support payment amount for a 'Single person with no dependents', is \$555.70 per fortnight, equating to \$277.85 (before tax) per week.<sup>26</sup> An individual can generally earn up to \$104 every fortnight before their payment is reduced.<sup>26</sup> The current Youth Allowance support payment amount for a 'Single person over 18 years, with no dependents, living away from home' is \$455.20 per fortnight, equating to \$227.60 (before tax) per week.<sup>27</sup> An individual can generally earn up to \$437 every fortnight before their payment is reduced.<sup>27</sup>

In August 2019, the national minimum wage per 38-hour week was \$740.80 (before tax).<sup>28</sup> There is a clear gap between the amount currently being provided by the Australian Government in the form of income support, compared with the minimum wage. The level of financial support provided by Newstart and Youth Allowance is not enough to afford access to food, secure housing, transportation and/or phone and internet.<sup>25</sup> These fundamentals are essential to securing access to employment in the current labour market and limiting access to any of these may result in increased stress and distress, greater disadvantage and reduced employability.<sup>8</sup>

## Policy opportunities

There are multiple, complex issues affecting the employment prospects of young people in Australia. Young people will need to develop sufficient cognitive, social and emotional skills to thrive in an increasingly competitive employment environment with greater expectations for minimum educational attainment.

Research from Australia and overseas indicate that there are significant benefits in supporting young people to engage in meaningful and sustainable employment early, before they experience the various negative consequences associated with not being engaged in education, training or work. As young people are vulnerable to the changing nature of the labour market and face significant barriers to engaging in full-time employment, it is essential that current government income supports are sufficient to support them to secure long-term workforce engagement.

The current income support payment rates are significantly lower than the Australian minimum wage and do not provide enough support for individuals to confidently prepare and apply for employment opportunities. This creates significant financial stress and places additional disadvantage on young jobseekers, who already face higher likelihood of long-term unemployment. This financial environment can be particularly damaging for young people experiencing mental ill-health who would benefit from support that improves their mental health and employment outcomes.

Further, the current lack of meaningful integration and resourcing to support pathways between educational, vocational and mental health services results in large numbers of young people falling through the gaps between these systems, increasing their risk of long-term unemployment and exacerbated mental ill-health.

There are significant opportunities for the government to use the current inquiry to increase the level of financial support provided to young people, as well as access to appropriate services to support young people into education, training and employment, particularly those experiencing mental ill-health.

## Recommendations

The following recommendations outline key opportunities for the Australian Government to improve the adequacy of current government income support payments and existing systems.

1. It is recommended that the Australian Government raise current payment rates of Newstart and Youth Allowance income supports, to a level that reflects the cost of living and enables people to focus on finding employment. This is particularly important for young people who are already disadvantaged by their lack of experience and perceived employability.
2. Supported employment and education programs, embedded within mental health services (including those delivered online), improve employment and mental health outcomes, and mitigate against future reliance on social welfare supports among young people with mental illness.<sup>15</sup> The Australian Government should investigate expanding the availability and improving the integration of education, vocational and mental health service pathways, to better support young people who are not engaged in employment or education. Particular focus should be placed on existing evidence-based best-practices, such as IPS, which deliver long-term employment outcomes for young people with mental ill-health.

## Contact details

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