MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

The Families Package and 2020-2022 income support reforms

2022 Update

Background

The Families Package was introduced from 2018 to help improve incomes for low-and middle-income families with children. It also introduced a Winter Energy Payment. The Families Package is primarily delivered through MSD and Inland Revenue.

Since 2018, other income support reforms aimed at increasing incomes, reducing child poverty, and improving wellbeing have been introduced. These have included increases to main benefits, increases to the income thresholds above which benefits begin to abate, and removal of section 192 deductions (formerly section 70A) that had applied to the benefits of sole parents who did not identify the other parent of their child and apply for child support.

Our work programme is expanding to look at these additional reforms.

The Families Package was made up of the following changes:

Boosting incomes of low-and middle-income families by increasing the **Family Tax Credit** and raising the **Working for Families** abatement threshold.

Helping older New Zealanders and people receiving a main benefit heat their homes by introducing a **Winter Energy Payment.**

Helping families in a child's early years by introducing a **Best Start tax credit** (replacing the Parental Tax Credit) and increasing **paid parental leave** from 18 to 26 weeks.

Increasing the **Accommodation Supplement** and **Accommodation Benefit**, by implementing changes that had been announced in the 2017 Budget.

Increasing financial assistance for carers by increasing the rate of **Orphan's Benefit, Unsupported Child's Benefit** and **Foster Care Allowance**.

Measuring the impacts

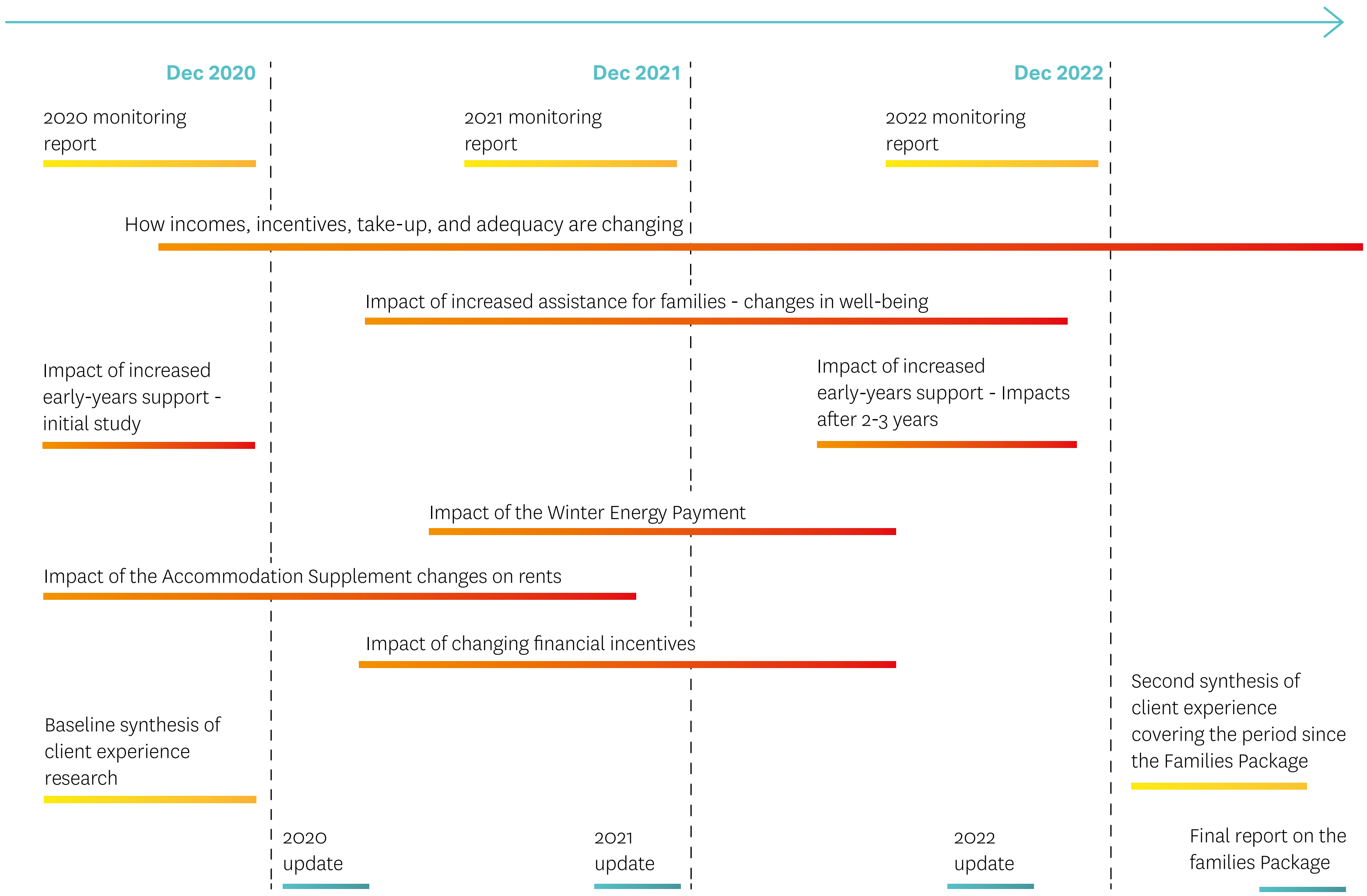
In 2021 we released a **monitoring report**, a baseline look at **client experience research** and the first of our **studies estimating the difference the Families Package made,** including:

- how incomes and incentives changed
- the initial impacts of the early-years changes in the Families Package
- effects of the Accommodation Supplement changes on rents.

Our 2022 Update presents new findings since 2021, including:

- **trends** in child poverty, total incomes, financial incentives, income adequacy, and Working for Families eligibility and take-up rates.
- **effects** of the Winter Energy Payment, and changing financial incentives.

Our Families Package work programme



Trends in child poverty

Child poverty measures trended down in the three years that followed the Families Package.

This continued a longer period of decline.

Steps towards reducing child poverty continue.

The 2021 Budget increased the weekly main benefit rates by $32 to 55 per adult, bringing them in-line with a key recommendation of the Welfare Expert Advisory Group. Some of this increase was introduced in July 2021 and the rest took effect in April 2022.

Other initiatives have been introduced to address material hardship and directly help children and their families in areas such as housing, employment, and direct services like food in schools and the Care in the Community welfare response to COVID-19.

The Government has made reducing child poverty a priority. In the Child Poverty Reduction Act 2018, the Government sets out three primary measures of child poverty and six supplementary measures. These measures are considered together because no single measure tells a complete story of child poverty.

The primary measures are:

The number of children in households with incomes much lower than a typical ('fixed line') 2018 household, **after they pay for housing costs.**

in 2020/21

16.3%

of all children were living in poverty on this measure, down from 22.8% in 2017/18.

The number of children in households with much lower incomes than a typical household, **before they pay for housing costs.**

in 2020/21

13.6%

of all children were living in poverty on this measure, down from 16.5% in 2017/18.

A measure of lack of access to the essential items for living – **material hardship.**

in 2020/21

11.0%

of all children were living in poverty on this measure, down from 13.3% in 2017/18.

All measures of child poverty trended downwards between 2017/18 and 2020/21. Most of the fall in income-based measures occurred between 2017/18 and 2018/19.
As of 2020/21, there were 66,500 fewer children in low-income households on the after-housing-costs child poverty measure than in 2017/18, 26,700 fewer on the before-housing-cost measure, and 21,900 fewer children experiencing material hardship.

Child poverty statistics now include effects of the COVID-19 pandemic (up until June 2021). The longer-term economic impacts of the pandemic and the lockdowns in 2020 and 2021, together with rising accommodation costs and costs of living, have increased financial pressure on families in the period since June 2021.

The next update on child poverty trends will be in February 2023.

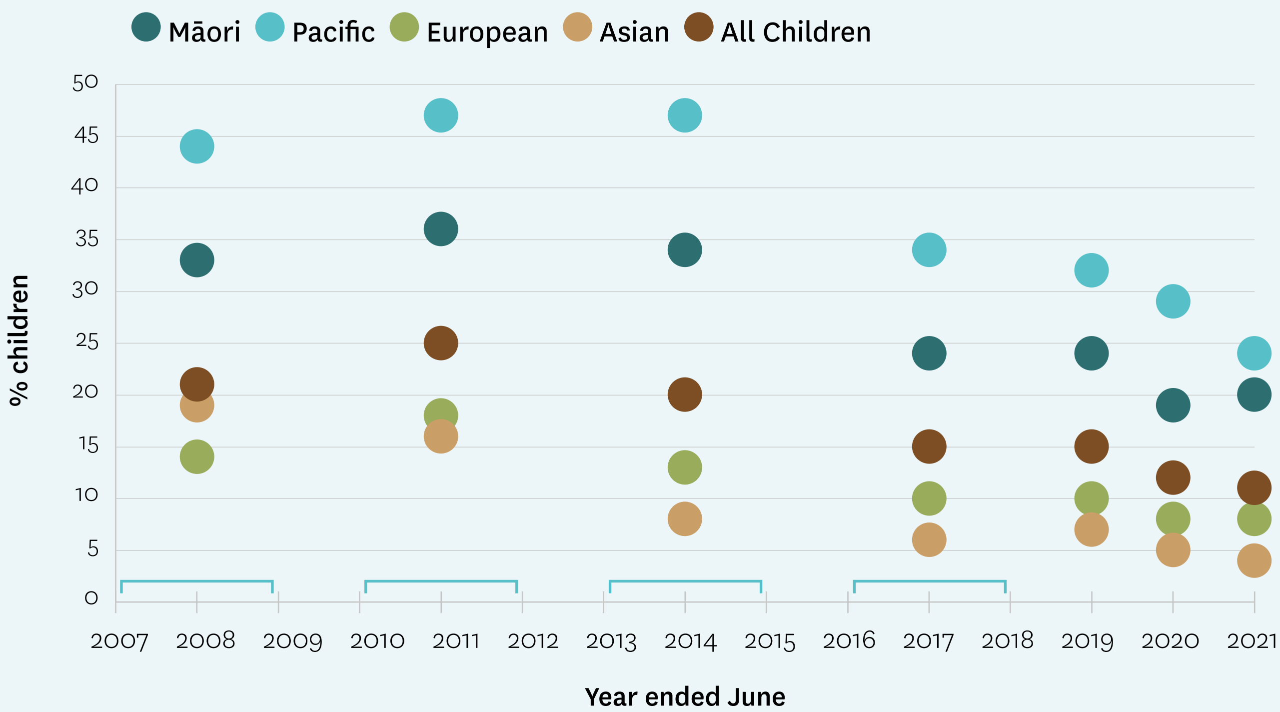
Child poverty by ethnic group and disability

Stats NZ reporting has included ethnic groups for the last three years and disability status for the last two. This means we are unable to see how the fall in child poverty between 2017/18 and 2018/19 following the introduction of the Families Package affected these different groups in Stats NZ's monitoring.

Longer-term series from **MSD's child poverty monitoring** show **continuation of a longer period of decline** in the percentages of tamariki Māori and Pacific children in poverty and experiencing material hardship. **Some ethnic disparities narrowed, especially for after-housing-costs measures.**

In 2020/21, disabled and non-disabled children were equally likely to be in poverty on the after-housing costs measure, but disabled children were twice as likely to experience material hardship. Children in households with at least one disabled person were three times more likely to experience material hardship than children in households with no disabled people.

Percentage of children living in households experiencing material hardship



Note: Data for these and after-housing-costs trends are on pages 91 and 112 of **MSD's child poverty monitoring**.

In 2020/21,

1 in 5 tamariki Māori

1 in 4 Pacific children

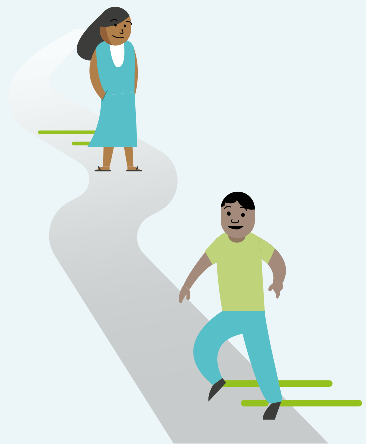
and

1 in 5 children impacted by disability

lived in households experiencing material hardship

These rates compared with

1 in 10 for all children



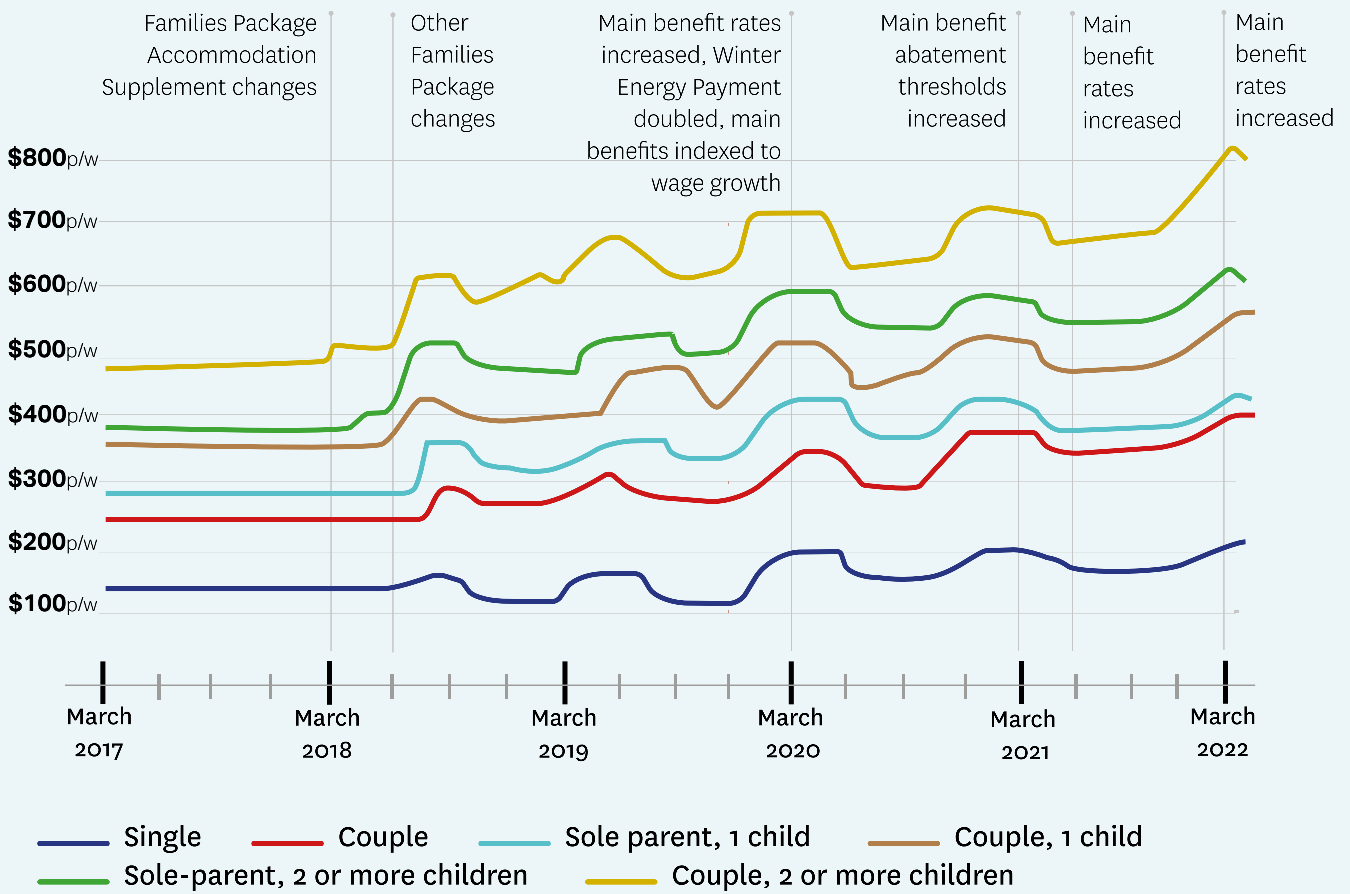
Trends in total incomes of people supported by main benefits

MSD has begun to report annually on these trends. Total incomes include benefit payments, Working for Families tax credits, and earned and other income.

The first **working paper** shows how the 2018 Families Package and 2020-2022 reforms increased the average incomes of different family types supported by main benefits.
The income gains were largest and occurred earliest for families with children.

In real terms, total incomes after housing costs of people supported by main benefits were, on average, 43% higher in 2022 than in 2018.

Average total incomes of people receiving main benefits have increased as a result of the Families Package and subsequent reforms (total incomes after housing costs, not inflation adjusted).



Comparing 2022 total incomes by ethnic group shows that among families with children receiving main benefits, families with a Māori or Pacific caregiver tend to have higher total incomes after housing costs. This may reflect factors such as larger family sizes. Single Māori clients have lower total incomes after housing costs compared to other ethnic groups, which could reflect regional trends, population demographics relating to age and benefit type, and different levels of take-up for different main benefits, and for supplementary and hardship assistance. Further analysis is required to understand the drivers of these differences.

Trends in income adequacy for example families

We updated the 'Example Families and Budgets' analysis prepared by the Welfare Expert Advisory Group to 2022.

Incomes and costs were calculated for six example families of different types. Several different work and housing scenarios were considered for each family.

The work scenarios included the adults not working, working part time, or working full time. The housing scenarios included living in public housing, private rental housing, or shared rental housing.

The families' estimated core living costs, and participation costs that include some social participation such as holidays to see family and low-cost activities for children, were compared to their income in each scenario.

Income adequacy has improved since 2018 for all example families

Incomes increased by around $150 - $160 for single person example families and by $190 - $300 for example families with children. As a result, all example families saw a reduction in the level of their income deficits, or an increase in their income surplus relative to costs, and some shifted from deficit to surplus.

Sole parent example families saw particularly large gains in income because they had a child under 3 years old – this meant they received an additional $65 a week through the Best Start payment tax credit.

However, incomes remain below the level needed to meet core costs for most example families when on benefit

Sole parent families could meet core costs in most scenarios and participation costs when working.

Couples with children had the largest deficits of all family types and could only meet core costs when one or both parents were working. They could not cover participation costs in any scenario.

Single people without children could not cover their core costs, except when living in public housing or working full time.

And, benefit incomes after housing costs continue to be below after-housing-cost poverty lines

One commonly used poverty threshold is 50 percent of median after-housing-cost income. The incomes of the example families receiving benefits were below this poverty threshold.

The incomes needed to cover the example families' costs are around the same level as current after-housing-costs measures of poverty.

Costs, wages, and payment rates are as of April 2022

Where available, costs for this analysis are calculated using the same approach as used by the Welfare Expert Advisory Group. Where updated information is not available, the costs used in that analysis are adjusted for inflation, using either the Beneficiary Household Living-cost price Index, or the Consumer Price Index, to bring them up to date.

Trends in the gap between incomes on benefit and in work

Poor financial incentives to work can result in poverty 'traps', preventing people from moving into work and increasing their income. They can also affect the incentives to increase the level of hours worked or decisions to exit work, particularly for those in low-paid or precarious work. Providing financial incentives that support employment is therefore an important poverty alleviation tool.

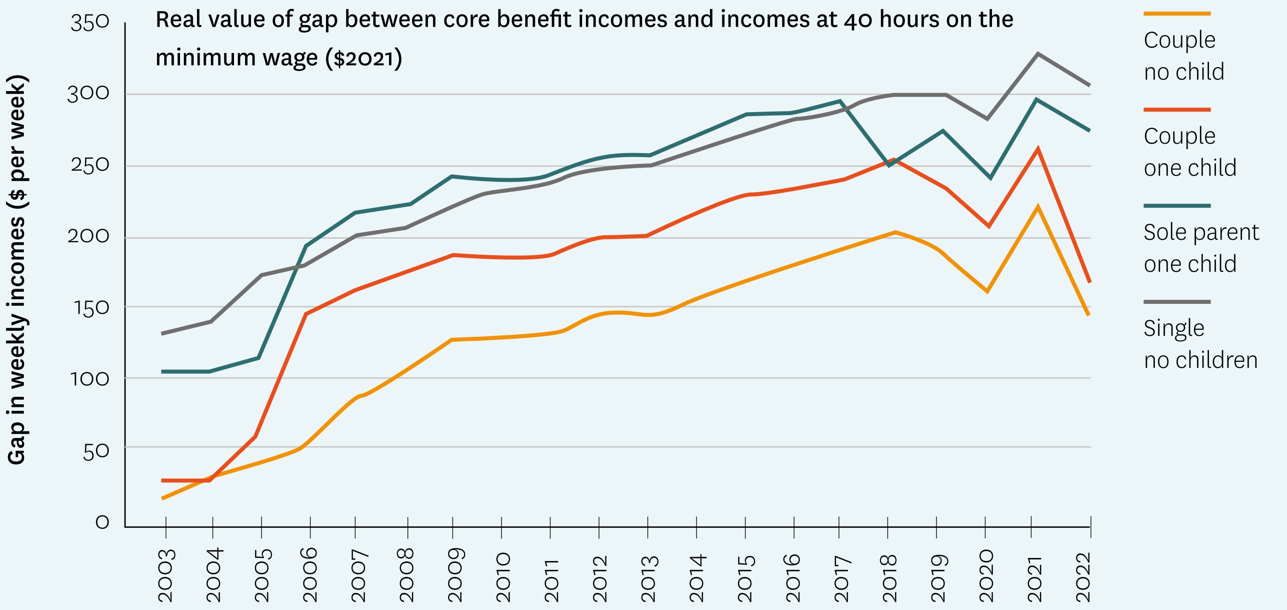
We compared the incomes of people on benefit with those in low-wage work (i.e. the gap between benefit and work) between 2003 and 2022 to demonstrate how this aspect of the financial incentives to work has changed over time.

We also considered how housing and childcare costs affect the financial incentives to work and compared trends with other OECD countries.

The gap between benefit and in-work incomes, and the financial incentives to work, increased between 2003 and 2022, particularly for single people without children. The recent main benefit increases reduced the gap, and for couples with children the gap went back to 2006/07 levels due to main benefit rates increasing by more for couples. A large reason for the increases in incentives to work between 2003 and 2022 is that wages outpaced inflation, with main benefits only increasing by inflation between 2003 and 2016.

While financial incentives to work have increased since 2003, there are still reasonably poor financial incentives to increase the level of hours worked for many low-income families. This is because when earnings increase, their income support payments are withdrawn relatively quickly.

High childcare costs and low take-up of in-work assistance can also have a negative impact on financial incentives to increase hours of work.



The 'replacement rate' trends observed in NZ are broadly comparable with the average trend across OECD countries. Replacement rates show the level of out-of-work incomes relative to the level of in-work incomes.

Trends in eligibility and take-up rates for the main Working for Families payments

If take-up rates are low, efforts to use income support payments to reduce child poverty and hardship and promote parents' employment may be less effective.

Because poverty, hardship, and employment affect wellbeing, low take-up can undermine broader outcomes too.

As part of our work to monitor and evaluate the income support reforms, we are estimating rates of eligibility for and take-up of different payments in the Aotearoa New Zealand income support system.

Our estimates should be viewed as approximations. We don't have all the information needed to accurately calculate eligibility and take-up rates.

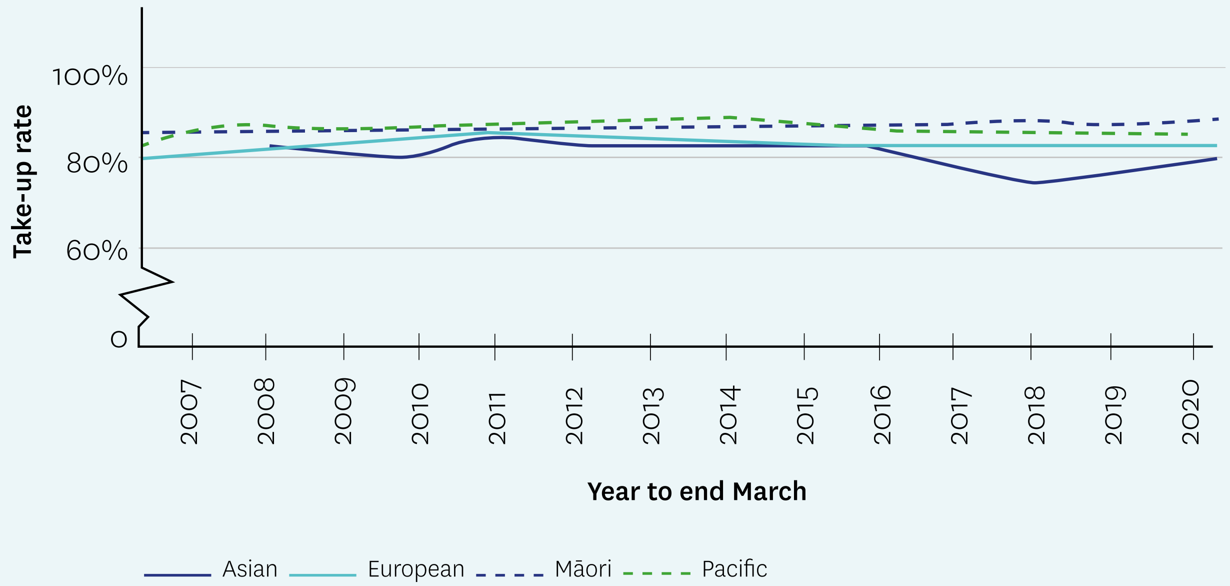
The estimated proportion of families eligible for Family Tax Credit and/or In-work Tax Credit fell from 72% in the 2010 tax year to 49% in the 2020 tax year.

This fall occurred as income from employment grew, more forms of income became assessable for determining entitlement, and Working for Families payments became more targeted to families on lower incomes. The exception to the downward trend was the 2019 tax year. In July 2018, the Families Package increased Working for Families payment levels and increased the abatement threshold and abatement rates. These changes increased the number of families eligible, and the eligibility rate temporarily rebounded.

The estimated proportion of eligible families who take-up the payments appears to have been relatively stable over time. Take-up rate estimates range between 83% and 90% overall. These estimates are within the range found for comparable payments in other countries.

Eligible families with Asian parents had low estimated take-up in recent years. The late 2010s was a period of rapid growth in the Asian population of Aotearoa New Zealand. Low awareness, uncertainty about entitlements, administrative, personal and cultural barriers to claiming, or reluctance to claim payments among recent migrants may be factors explaining the trends.

Estimated take-up over time by ethnic group(s) of parents and caregivers.



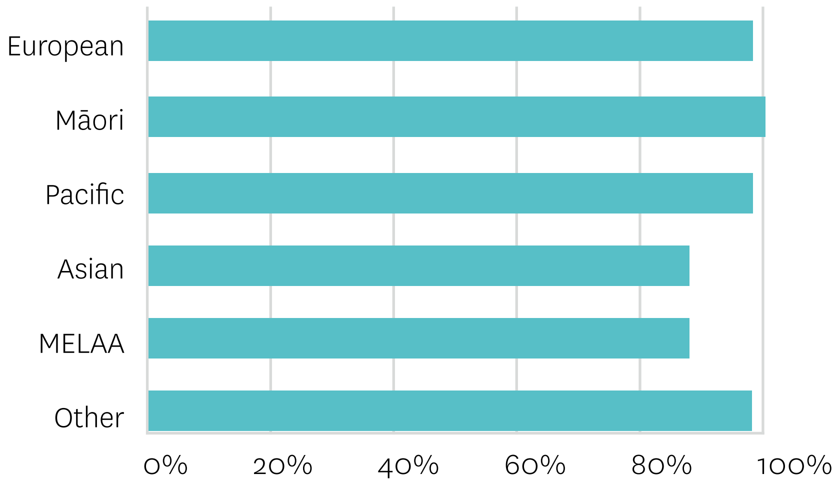
Eligibility and take-up rates for the Best Start tax credit

All families with children born or due on or after 1 July 2018 who meet residence requirements can receive Best Start for some time.

An estimated 96.5% of children born in the first 15 months from 1 July 2018 were eligible for Best Start. Families of the remaining 3.5% were estimated to be ineligible on residence grounds.

We estimate lower than average eligibility rates for children of Middle Eastern, Latin American or African (MELAA) ethnicity or from 'Other' ethnic groups. This reflected higher proportions estimated to be ineligible on residency grounds.

Percent of children estimated to be eligible by ethnic group(s) of child

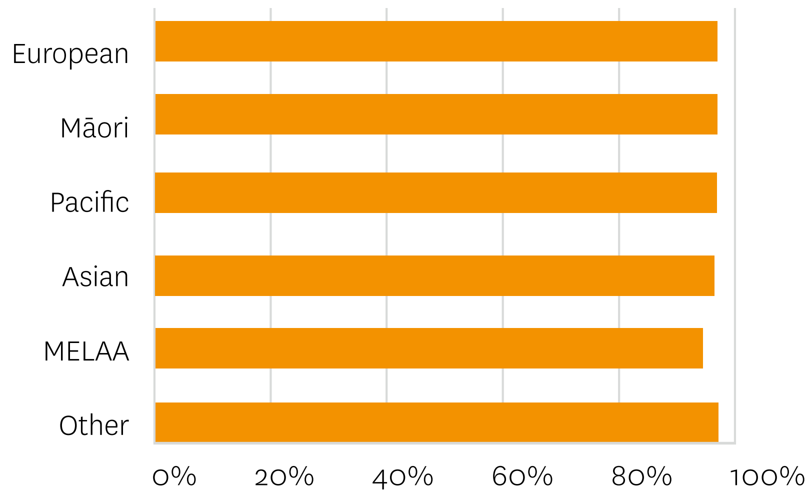


Best Start appeared to be taken up for 96.9 percent of the children in eligible families.

The estimated take-up rate was slightly lower than average for children with a parent or caregiver who had migrated from China or had refugee status, and for children of MELAA ethnicity.

The high take-up overall is likely to be due to the near-universal nature of the payment and the ease of the application process. Parents and caregivers were invited to apply for Best Start as they registered the birth of their child through a new 'SmartStart' online tool.

Percent of eligible children with take-up by ethnic group(s) of child



Effects of changing financial incentives

Understanding people's responsiveness to different financial incentives in income support settings is important for policy development.

We commissioned Motu Economic and Public Policy Research to look at whether parents responded to changed work incentives that resulted from increasing the abatement threshold for Working for Families as part of the Families Package.

The study focused on only one aspect of the changes in financial incentives that occurred with the Families Package.

The researchers found no evidence that parents responded to this particular change in financial incentives.

The Families Package increased the abatement threshold at which Working for Families tax credits begin to reduce

from $36,350 to $42,700,

and increased the abatement rate

from 22.5% to 25%

It also increased payment rates. These changes were effective from 1 July 2018.

The change in the threshold allowed parents to earn more before the maximum Family Tax Credit began to be reduced. The increased abatement rate also reduced the value of each dollar earned beyond the threshold, making it more costly to cross the threshold.

If parents responded to these changes in 'effective marginal tax rates', we would expect to see a bunching of incomes around abatement thresholds and a shift in this bunching from old to new thresholds.

The study found no evidence of this occurring, or any indication of responsiveness to other Working for Families thresholds. This held for both wage and salary earners and those with self-employment income, and for both sole and two-parent families.

In contrast to the lack of bunching at the Working for Families thresholds, there was clear evidence of bunching in parents' incomes around the top two personal income tax rate thresholds. This suggests the method used by the researchers was able to identify labour supply responses if they existed. Effects were not estimated by ethnic group due to the absence of any indication of effects in the overall analysis.

Results from this study differ from findings from the United States, where there is evidence of bunching around Earned Income Tax Credit thresholds, especially for self-employed parents.

Evidence of bunching tends to be found for high visibility and easily understood thresholds which have large impacts on disposable incomes. The Working for Families thresholds may not share these characteristics. This might be in part because of the relative complexity of the system of payments, making it difficult for parents to identify the effective marginal tax rates they face.

People may respond more to other changes in financial incentives to work.

Effects of the Winter Energy Payment

Another study by the Motu researchers estimated the impact of the Winter Energy Payment on a range of outcomes. The Winter Energy Payment is payable to people receiving New Zealand Superannuation (NZS), Veteran's Pension (VP), or a working-age main benefit.

It is relatively small ($20–$32 pw in winter months) and might therefore be expected to have small effects. Because the sample sizes in the surveys available for estimation of effects were also small, it proved challenging to detect statistically significant effects.

Although only a few of the estimated effects were statistically significant, the direction of results suggest that during the winter months recipients spent more on energy, required less hardship assistance, and experienced improvements in some health and wellbeing outcomes.

Effects were not estimated by ethnic group due to estimation challenges and small sample sizes.

The Winter Energy Payment changed financial incentives by reducing the gap between income on benefit and in work in the winter months. **The direction of results suggests people responded with higher rates of benefit receipt and lower earnings in winter, but none of the effects were statistically significant.**

Estimated effects in 2018 and 2019 (statistically significant results in **bold**)	Where at least one houshold member received NZS or VP	Where at least one houshold member received a working-age main benefit
The share of household spending that went on energy	Up	Up
% saying they put up with feeling cold	Down	Up
% saying their house was damp and mouldy	Down	**Up**
% saying their house was cold	Up	**Up**
% saying they had difficulty paying utility bills	Up	Down
% saying they would struggle with an unexpected bill	Down	**Down**
% saying they had not enough income to meet their needs	Down	**Down**
Overall life satisfaction	Up	Down
% that received hardship assistance	Down	**Down**
% with a hospitalisation that could be related to housing conditions	Down	Down
Length of these hospital stays	Up	Mixed
Cost of these hospital stays	Up	Down
Rate of moving onto a main benefit	n/a	Up
Rate of moving off a main benefit	n/a	Down
$ Earned income from wages and salaries	Down	Down

A separate study prepared by researchers from the Social Wellbeing Agency has estimated the effect of being eligible for the the Winter Energy Payment in 2020, when the payment was doubled as part of the intital response to COVID-19. Results from that study show statistically significant positive impacts on the percentage saying they had enough income to meet their needs, and how people rated their family's wellbeing.

Next steps

Our next work-programme update will be released in mid-2023.

We are working to understand how different groups of people experienced the income support changes.

A small, in-depth qualitative study has been listening to **young Māori and Pacific mothers** talk about their experiences.

A nationally representative survey is **asking low-and middle-income people** about their awareness, understanding, take-up, and experience of income support payments. This is a joint MSD-Inland Revenue study. It has a focus on producing robust evidence, including for Maori and Pacific peoples.

In 2023, we will be gathering results from these and other studies together in a second synthesis of client experience research covering the period since the Families Package.

We will also be undertaking a more in-depth study following up with people who respond to our survey to better understand non-take-up of income support payments.

Two projects are looking at the relationship between income support reforms, incomes, and wellbeing.

The Roy McKenzie Centre for for the Study of Families and Children Research is **tracking wellbeing trends** for families in Aotearoa New Zealand through the period of the reforms.

We have commissioned a study that will **explore the use of the 2018 Stats NZ Te Kupenga survey** to understand the relationship between income and wellbeing for Māori. Te Kupenga is an important survey resource that can help us to look at measures relevant to whānau wellbeing. It can help us establish a baseline for assessing changes in wellbeing when a repeat Te Kupenga survey is available after the 2028 Census.

Other projects underway include more research on financial incentives, take-up, and understanding the circumstances of people with health conditions and disabled people.

Work is underway looking at how responsive people on main benefits were to the **changes in financial incentives that occurred when main benefit abatement thresholds were raised** in 2020 and 2021.

Work is also underway to estimate **eligibility and take-up rates for Accommodation Supplement.**

Child poverty monitoring shows that we need to better understand the circumstances of **people with health conditions and disabled people**, **and families with children with health conditions or disabilities.** Over the course of 2023 we will use survey and administrative data to help fill evidence gaps. This will include **estimating eligibility and take-up rates for health and disability-related payments** such as the Disability Allowance and Child Disability Allowance.

For more detail

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