MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 5 April 2019

Security Level: BUDGET SENSITIVE

To: Hon Carmel Sepuloni, Minister for Social Development

Final advice on Welfare Package to inform Budget 2019 Cabinet paper

Purpose of the report

1 This report:

- provides further advice on the proposed Welfare Package for Budget 2019 and seeks agreement to key decisions to inform the Budget Cabinet paper, and
- sets out final costings for the Welfare Package, to be included in the Budget Cabinet paper.

2 The Treasury, Inland Revenue, and the Child Poverty Unit have been consulted on this report and are comfortable with its contents.

Executive Summary

3 The Ministers for Child Poverty Reduction, Finance and Social Development (Joint Ministers) have indicated that for Budget 2019 they would like to progress:

- removing the section 192 sanction (formerly section 70A) on sole parents who do not identify the other parent of the child and apply for Child Support
- increasing the abatement thresholds of main benefits in line with planned increases in the minimum wage
- indexing main benefits to wages each year, using the growth rate in net average wages.

4 s 9(2)(f)(iv) [redacted]

5 This report seeks your confirmation of the detailed elements of the proposed package, including:

- The particular measure of wages to use for wage indexation (net average ordinary time weekly earnings per full-time equivalent).
- Confirmation that wage indexation of main benefits will not also consider increases in inflation (ie the increase will not be the higher of either wage growth or inflation, only wage growth).
- Specifying the payments that are included (and excluded) as main benefits for the purposes of wage indexation.

- That the link between main benefit abatement thresholds and the minimum wage is maintained relative to the minimum wage (including factoring in the most recent minimum wage increase on 1 April 2019), and applies only to the first abatement threshold.
- That the link between the main benefit abatement thresholds and the minimum wage is applied over the next four years only.
- That the second abatement threshold will continue to be $100 per week above the first abatement threshold.

6 The Welfare Package is estimated to cost $536.110 million over the forecast period. Because of the indexation of main benefits to wages, the fiscal costs will grow significantly beyond the Budget forecast period (which is a result of increasing gains to recipients in the longer term).

7 As a result of the Welfare Package, around 339,000 people are expected to gain an average of $5 per week in 2020/21, increasing to around $15 per week by 2023/24.

8 The Welfare Package will support the Government's objectives for a sustained reduction in child poverty on all of the measures, particularly on the 10-year child poverty reduction targets. The wage indexation of main benefits is expected to have the most significant impact, with an estimate of around 5,000 fewer children below the BHC50 poverty threshold in 2022/23. Removing section 192 may result in a reduction of around 1,000 children below the BHC50 and AHC50 thresholds.

9 There are a number of flow-on impacts from increasing benefit abatement thresholds and wage indexing main benefits. The most significant of these are to the Accommodation Supplement and the Minimum Family Tax Credit. Detailed information on the flow-on implications is provided in Appendix Three.

10 While the vast majority of recipients gain from the package, a small number of people are likely to be financially disadvantaged as a result of the changes due to complex interactions in the welfare system. However it is important to note that small losses in income are experienced by some income support recipients every year at the Annual General Adjustment (AGA), when many payments are adjusted to keep pace with inflation. People with small losses as part of the AGA are not generally compensated for these losses.

11 Without this package and as result of the AGA, around 5,500 people would be financially disadvantaged on 1 April 2020 – these losses are generally small in scale (around $3 per week), and are largely due to interactions with the Accommodation Supplement for non-beneficiaries. Given that these are non-beneficiaries who are receiving wages, their overall income may also increase as a result of the increases to the minimum wage (or general wage growth) – the loss only relates to their income support payments.

12 Within those financially disadvantaged by the AGA there is a smaller group (around 50-60 people) who lose more, as the increase in assistance affects their entitlement to Temporary Additional Support. There are also a small group of people who may lose from interactions between the Accommodation Supplement and Childcare Assistance (around 20 people).

13 When considering those who are financially disadvantaged only because of the package (and excluding the impact of the AGA), around 3,600 people will be financially disadvantaged by an average of $1 per week on 1 April 2020, when compared with 31

March 2019. However, some of these people would have been worse off as a result of the AGA, so we estimate that the additional number due to the package is only around 2,800 people. This means that, when considering the combined impact of the AGA and the package, around 8,300 are expected to be financially disadvantaged on 1 April 2020 (5,500 from the AGA and 2,800 from the package). Most of these are due to the interactions with the Accommodation Supplement described above.

14 Previous welfare packages have generally provided a short-term Transitional Assistance Payment to compensate some of the people who are financially disadvantaged as a result of a package. This is usually done in the context of a significant one-off change to a particular payment, which results in more significant losses than are usually experienced in the welfare system.

15 Officials do not recommend a Transitional Assistance Payment for this package, primarily given the small scale of the average weekly losses in the context of the losses experienced as part of the AGA and the multi-year impacts of the changes. Transitional Assistance Payments are also administratively complex and relatively expensive. However, if you wish to include a Transitional Assistance Payment in this package, officials will need to report back with further detailed advice on the potential design of the payment and options for funding following Budget 2019. Treasury have advised that no additional operational and benefit expenditure funding can be sought through Budget 2019 given the late stage in the Budget process.

16 Officials can also provide further advice, after Budget, on potential longer-term solutions to the underlying policy settings that cause any significant losses in income to occur.

17 Officials recommend that the wage indexation of main benefits is done though an amendment to primary legislation, as it is our understanding that this change is intended to be permanent and mandate this level of indexation for future governments. s 9(2)(f)(iv) [redacted]

18 Officials recommend a different legislative approach for the linking of main benefit abatement thresholds to the minimum wage, as we understand that this change is time-limited (i.e. linked to the planned increases in the minimum wage, rather than a permanent change). Rather than amending primary legislation, officials recommend that this change is agreed via Cabinet and implemented via changes to secondary legislation (Order in Council).

19 While section 192 of the Social Security Act 2018 will be repealed in Budget 2019, officials recommend that the obligation to apply for Child Support remains in the Child Support Act 1991. s 9(2)(f)(iv) [redacted]

Recommended actions

It is recommended that you:

1 **Consider** the draft Budget Cabinet paper recommendations in Appendix One, subject to final MSD review and Treasury's internal quality assurance process, and provide feedback on any significant changes

2 **Note** that Treasury have advised that no additional operational and benefit expenditure funding can be sought through Budget 2019 given the late stage in the Budget process, so no Transitional Assistance Payment can be progressed through Budget 2019

3 **Indicate** if you would like further advice on a Transitional Assistance Payment and options for funding following Budget 2019, including advice on potential longer-term solutions to the underlying policy settings that cause any significant losses in income to occur in the future

Yes / No

4 **Agree** that the wage indexation of main benefits is done though an amendment to primary legislation

Agree / Disagree

5 **Agree** that changes to benefit abatement thresholds is done via Cabinet and implemented via changes to secondary legislation (Order in Council)

Agree / Disagree

6 **Agree** that while removal of section 192 of the Social Security Act 2018 will be repealed in Budget 2019, the obligation to apply for Child Support remain in the Child Support Act 1991

Agree / Disagree

7 **Agree** to forward a copy of this report to the Ministers for Child Poverty Reduction, Finance, and Revenue.

Agree / Disagree

s 9(2)(a) [redacted] Policy Manager Income Support Policy	Date	Hon Carmel Sepuloni Minister for Social Development	Date

Background

20 The Ministers for Child Poverty Reduction, Finance and Social Development (Joint Ministers) have indicated that for Budget 2019 they would like to progress:

- removing the section 192 sanction (formerly section 70A) on sole parents who do not identify the other parent of the child and apply for Child Support
- increasing the abatement thresholds of main benefits in line with planned increases in the minimum wage
- indexing main benefits to wages each year, using the growth rate in net average wages.

21 s 9(2)(f)(iv) [redacted]

Detailed design of components

22 Some of the detailed design elements associated with wage indexation of benefits and increasing the benefit abatement thresholds have not been explicitly agreed by Joint Ministers.

Wage indexation of main benefits

23 The approach used for wage-indexing main benefits is recommended to be the growth rate in net average ordinary time weekly earnings (per full-time equivalent).[1] The gross average ordinary time weekly earnings measure will be sourced from Stats NZ Quarterly Employment Survey, using the latest available data published before 1 March in each year. The net amount is derived by deducting ACC levies and income tax, based on 1 April for the year the adjustment occurs (not for the period the average wage covers).

24 The wage adjustment will not also factor in inflation (either through a wage band approach or use the higher of wage growth or inflation).

25 Main benefits in this context refers to:

- Jobseeker Support (with and without children)
- Sole Parent Support
- Supported Living Payment (with and without children)
- Youth Payment
- Young Parent Payment
- Emergency Benefit/Emergency Maintenance Allowance.

[1] This is the same measure of wages used for indexation of New Zealand Superannuation (NZS), though the increase in NZS also considers inflation and is constrained by a wage band.

26 Wage indexation will not be applied to:

- Working for Families payment rates
- Orphan's Benefit, Unsupported Child's Benefit, and the Foster Care Allowance. These three payments are analogous to the Family Tax Credit (a partial contribution towards the costs of children)
- Student Allowance rates.

Benefit abatement thresholds

27 The following abatement thresholds are proposed to be linked to the minimum wage:

- Jobseeker Support
- Sole Parent Support
- Supported Living Payment
- New Zealand Superannuation / Veteran's Pension Non-Qualifying Partner

28 Changes to the abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime which is the same as for Student Allowance. Nor does it impact Orphan's Benefit or Unsupported Child's Benefit as these do not have an income test.

29 The link between benefit abatement thresholds and the minimum wage will be applied to ensure the level of hours worked on the minimum wage before the benefit begins to abate is maintained relative to $16.50 per hour (therefore also including the effects of the recent minimum wage increase to $17.70 per hour). This means Jobseeker Support recipients will continue to be able to work around 4.5 hours on the minimum wage before their benefit begins to abate, and Sole Parent Support and Supported Living Payment recipients around 6 hours.

30 The link to the minimum wage will be applied over the next four years only, in line with the commitment to increase the minimum wage to $20 per hour in 2021, as well as more modest estimated increases in 2022/23 and 2023/24 (projected using wage growth). No further adjustments will be made after 1 April 2023.

31 The second abatement threshold, which is currently $200 per week, for Sole Parent Support and Support Living Payment recipients, will continue to be fixed at $100 per week above the lower benefit abatement threshold. The benefit abatement thresholds have been rounded up to the nearest $5 per week, to avoid creating additional administrative complexities.

32 These detailed elements will be reflected in the recommendations contained in the Budget Cabinet paper. We have included the draft recommendations in Appendix One of this report. These draft recommendations are still subject to final MSD review and Treasury's internal quality assurance process, which takes place next week.

Summary of impacts

Financial impacts

33 Table 1 provides updated fiscal costs over the budget forecast period for the package of initiatives agreed by Joint Ministers.

Table 1: Financial implications

Net fiscal cost	2019/20	2020/21	2021/22	2022/23	4 year total
Removal of section 192	$5.879m	$29.459m	$36.442m	$41.590m	$113.369m
Wage indexing main benefits	$13.066m	$62.583m	$104.874m	$139.682m	$320.205m
Increasing the abatement thresholds	$4.619m	$22.469m	$30.943m	$39.069m	$97.100m
Implementation costs	$3.767m	$0.788m	$0.608m	$0.538m	$5.700m
Total cost of Welfare Package[2]	$27.343m	$115.292m	$172.764m	$220.711m	$536.110m

34 Because of the indexation change, the fiscal costs will grow significantly outside of the Budget forecast period, as the difference between wage growth (proposed change) and inflation (current state) is likely to accumulate over time.

35 Also, note that the costing for 'Package 1' provided to Ministers in the most recent advice did not include behavioural impacts from removing the section 192 sanction[3]. s 9(2)(f)(iv) [redacted]

Poverty impacts

36 The Package will support the Government's objectives for a sustained reduction in child poverty on all of the measures, in particular on the 10-year child poverty reduction targets.

- Removing section 192: TAWA is not able to model the poverty impacts of removing section 192. Using MSD administrative data, our best estimate is around a reduction of 1,000 children across both BHC50 and AHC50 thresholds.
- Wage-indexing main benefits: The impact on rates of poverty are more likely to be seen over a much longer time horizon, which means that indexation is more

[2] Note that the individual components of the package will not sum to the total cost due to interactions between the components.

[3] We have assumed that if section 192 is repealed, there will be fewer applications for Child Support, and therefore less Child Support will be retained by the Crown to offset benefit costs. This is because the sanction for not applying for Child Support will be removed. Human behaviour is inherently difficult to cost, but we have based the behavioural impact of repealing section 192 on the compliance rate of Unsupported Child's Benefit (UCB) carers.

relevant to the long-term targets. It is estimated that around 5,000[4] fewer children will be below the BHC50 poverty thresholds in 2022/23, the last year in the Budget forecast period.

- Increasing the benefit abatement thresholds: Officials noted in previous advice that the inclusion of different abatement options in the Welfare Package is likely to only have a small impact on child poverty and generally does not change the headline number-of-children figures, particularly as TAWA estimates are rounded to the nearest 5,000 children.

37 Due to the relatively low level of interactions between the three initiatives and the inability of TAWA to model the poverty impacts of removing section 192, poverty modelling on the combined package has not yet been undertaken. We expect, however, that the headline number-of-children figures would not change from the modelling provided for the impact for indexation alone.

Distributional impacts

38 Table 2 below shows the number of people who gain and the average gain, when considering the package and any flow-on implications from the changes. It also includes the number of people who are financially disadvantaged and their average loss.

Table 2: Distributional impacts

	Gainers		Worse off	
	Numbers who gain	Average gain	Numbers worse off	Average loss
1 April 2020	339,000	$5pw (increasing to $15pw in 2023)	3,600	$1pw

39 The number of people expected to be worse off as a result of the package (on its own) is around 3,600 people. Considering the combined impacts of the AGA and the package, this number falls to around 2,800 people are expected to be worse off as a result of the package. More information on those who are worse off and whether a Transitional Assistance Payment is required is provided later in the report.

40 Appendix Two includes further information on the estimated impact on benefit rates of wage indexation, and the benefit abatement thresholds from linking them to the minimum wage. These are estimates only, with the actual increases dependent on wage growth in future years.

[4] Access to the anonymised data used in this study was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975 and secrecy provisions of the Tax Administration Act 1994. Statistics NZ confidentiality protocols were applied to the data sourced from the Ministry of Social Development. The results have been confidentialised to protect individual persons, households, businesses and organisations from identification. The results presented in this study are the work of the Treasury, not Statistics NZ.

Flow-on implications

41 There are a number of flow-on impacts from increasing benefit abatement thresholds and wage indexing main benefits. These include increasing the Minimum Family Tax Credit (MFTC), increasing the number of people eligible for Accommodation Supplement (AS) and increasing the rate of AS received for some current recipients. More information on these implications is provided in Appendix Three.

We do not recommend including a Transitional Assistance Payment for those financial disadvantaged

42 Some people will be financially worse off due to the complexity and interdependencies of the social welfare system. Changes in one type of assistance often cause a change in entitlement to other assistance. While these "flow-on" impacts are often appropriate, they can create unintended financial disadvantage for a small number of clients.

43 In previous reforms such as the Families Package, a small fiscal provision was set aside for a time-limited payment to families who were financially disadvantaged. This is usually done in the context of a significant one-off change to a particular payment, which results in more significant losses than are usually experienced in the welfare system. This payment also only operates for a short period of time (usually one to two years) to give people time to adjust to the (one-off) change in income.

44 Small losses in income are experienced by some income support recipients every year at the AGA, when many payments are adjusted to keep pace with inflation. People with small losses as part of the AGA are not entitled to transitional assistance.

45 Without this package and as result of the AGA, around 5,500 people would be financially disadvantaged on 1 April 2020 – these losses are generally small in scale (around $3 per week), and are largely due to interactions with the Accommodation Supplement. This reflects an implicit assumption in the system that the incomes of those in work are likely to increase each year, so families are unlikely to be worse off overall after any wage increases are taken into account.

46 Within those financially disadvantaged by the AGA there is a smaller group (around 50-60 people) who lose more, as the increase in assistance affects their entitlement to Temporary Additional Support. There are also a small group of people who may lose from interactions between the Accommodation Supplement and Childcare Assistance (around 20 people).

47 When considering those who are financially disadvantaged only because of the package (and excluding the impact of the AGA), around 3,600 people will be financially disadvantaged by an average of $1 per week on 1 April 2020, when compared with 31 March 2019. However, some of these people would have been worse off as a result of the AGA, so we estimate that the additional number due to the package is only around 2,800 people. This means that, when considering the combined impact of the AGA and the package, around 8,300 are expected to be financially disadvantaged on 1 April 2020 (5,500 from the AGA and 2,800 from the package).

48 Officials do not recommend a Transitional Assistance Payment for this package because:

- The proposed changes are unlike previous packages, as they are not one-off increases. They are permanent changes to settings (ie indexation) or multi-year gradual increases (ie abatement thresholds) that will mean that:
    - The average losses per week as a result of the package are very small (averaging $1 per week).
    - These (small) losses will continue over multiple years, so there seems to be a weak rationale for having a Transitional Assistance Payment only for the first year.
    - Essentially, this package means that the number of people financially disadvantaged as part of the AGA, and the average reduction in assistance, will be greater because of these changes (and continue to increase over time).
- The majority of those financially disadvantaged are non-beneficiaries receiving Accommodation Supplement (who are generally not compensated by a Transitional Assistance Payment), many of whom would have faced a small reduction in assistance regardless of the package. Given that these are non-beneficiaries who are receiving wages, their overall income may also increase as a result of the increases to the minimum wage (or general wage growth) – the loss only relates to their income support payments.
- It is administratively very difficult to differentiate people who are financially disadvantaged as a result of the package from those who are disadvantaged as a result of the AGA for Transitional Assistance Payments, and they require significant operational resources to administer.
- As people are financially disadvantaged each year as part of the AGA, there is a stronger argument in this case to consider changes to the underlying settings for why people are financially disadvantaged (particularly for those affected by interactions with Temporary Additional Support who face more substantial losses) than to provide a Transitional Assistance Payment.

49 As such, officials recommend against doing a Transitional Assistance Payment and instead doing further work on providing a long-term solution to the underlying policy settings causing more significant losses in income from changes to payments. Officials will provide further advice on this after the Budget.

50 If you wish to pursue a Transitional Assistance Payment, officials will need to report back with further detailed advice on the potential design of the payment and options for funding following Budget 2019. Treasury have advised that no additional operational and benefit expenditure funding can be sought through Budget 2019 given the late stage in the Budget process.

Legislative approach

51 The initiatives have the following legislative implications:

- Removing section 192 requires amendment to primary legislation (both Social Security Act 2018 (SSA) and consequential amendments to the Child Support Act 1991 (CSA))
- There are options for Ministers in terms of legislative change for wage indexing main benefits and linking the benefit abatement thresholds to the minimum wage.

52 Increases to main benefits through wage indexing can be done each year using existing Order in Council powers, but it would be necessary to amend primary legislation to make these increases mandatory for successive governments.

53 The SSA provides for discretionary increases in benefit rates to be done through secondary legislation (Order in Council). By using this discretionary power governments can adjust benefits, over and above inflation, using wage indexation without changing primary legislation. This is similar to the approach taken for supplementary assistance, where rates are adjusted by convention (as opposed to being required in primary legislation), or the decision by successive governments to keep NZS rates at 66 percent of net average wage (rather than 65 percent as in primary legislation).

54 Officials recommend that the indexation changes be incorporated into primary legislation because:

- It ensures that the changes are mandatory for successive governments, therefore providing certainty for the public and clients.
- It increases the transparency of the changes, and makes legislation consistent with practise. It may only be appropriate to delay amending primary legislation if this was an initial commitment ahead of more comprehensive changes to indexation settings being progressed as part of the response to the Welfare Expert Advisory Group report.
- In situations where wage growth is lower than inflation, the legislation would require the CPI adjustment to occur (which would be inconsistent with the policy intent).

55 The decision on whether to legislate for the increases to benefit abatement thresholds is slightly different. Officials understand that the intention is to establish a link to the minimum wage in the context of the planned increases for the next few years rather than create a permanent link between the abatement thresholds and the minimum wage.

56 If the intention is to link the abatement thresholds to the minimum wage only temporarily, officials recommend that this is done by Order in Council using the discretionary power in section 452 of the SSA. This can be progressed at the same time as the Orders in Council required as part of the AGA.

s 9(2)(f)(iv) [redacted]

57 s 9(2)(f)(iv) [redacted]

s 9(2)(f)(iv) [redacted]

58 s 9(2)(f)(iv) [redacted]

The interaction between the proposal to remove section 192 of the Social Security Act 2018 and the obligation to apply for Child Support

While section 192 of the Social Security Act 2018 will be repealed in Budget 2019, officials recommend that the obligation to apply for Child Support will remain in the Child Support Act 1991

59 Under Section 9 of the CSA, sole parent beneficiaries and people receiving Unsupported Child's Benefit are required to apply for Child Support following a formula assessment through Inland Revenue. Joint Ministers have agreed to progress removing section 192 of the SSA as part of Budget 2019, s 9(2)(f)(iv) [redacted] Repealing section 192 does not remove the obligation to apply for Child Support.

60 Officials recommend that the obligation to apply for Child Support remains [redacted] s 9(2)(f)(iv) [redacted] If there is no obligation for sole parent beneficiaries to apply for Child Support under the CSA, some sole parent beneficiaries could bypass the Crown retention of Child Support under section 142 of the CSA (to offset the benefit cost). This would be a form of Child Support pass-on only available to::

- new sole parent beneficiary clients[5], and
- sole parent beneficiary clients who could successfully negotiate private Child Support arrangements with the liable parent.[6]

61 s 9(2)(f)(iv) [redacted]

[5] This is because sole parents who entered the benefit system after 1 April 2020 would not have the obligation to apply for Child Support, but those who already were in the Child Support system are prevented from withdrawing their application under section 27 of the Child Support Act.

[6] This is because if clients would keep any money they could negotiate through a private arrangement. Whereas if a client were reliant on the CSA in order for liable parents to pay Child Support, that Child Support would be retained by government up to the value of the main benefit paid to the sole parent beneficiary.

Consequential changes to the Child Support Act 1991 are required

62 s 9(2)(f)(iv) [redacted] However, officials recommend some consequential amendments to section 9 of the CSA as a result of the removal of section 192 of the SSA. The key change sought is to enable the Commissioner for Inland Revenue as well as the Chief Executive for MSD to determine whether one of the exceptions to the obligation to apply for Child Support under section 9(5B) of the CSA apply.

63 This change will allow the client to have the conversation about whether they need to apply for Child Support with either department. Under current legislation only MSD can make the decision that an exception applies. This can result in some clients having intrusive conversations about private matters with both Inland Revenue and MSD to be exempted from the obligation to apply for Child Support.

64 Other consequential legislative amendments may be required to the CSA as a result of the removal of section 192 of the SSA. The draft recommendations in the Budget 2019 Cabinet paper seeks authorisation for Joint Ministers to make other minor and technical policy changes which may be required as a result of the removal of section 192 of the SSA.

Next Steps

65 MSD will work with the Treasury to confirm the detailed elements of the Package to be reflected in the final Budget 2019 Cabinet paper.

Appendix One: Budget Cabinet paper recommendations

Draft recommendations for the B19 cabinet paper – note still subject to internal MSD and Treasury QA process before finalisation. Note these are in addition to the standard financial recommendations/changes to appropriations etc.

1 **agree** to an income support package comprising changes to indexation settings for main benefits, main benefit abatement thresholds and child support settings;

2 **note** that the package is consistent with the direction of the Welfare Expert Advisory Group's (WEAG) recommendations;

3 **note** that related initiatives have been submitted in Vote Revenue (initiative 11623) and Vote Housing and Urban Development (initiative 11657), as well as a related initiative in Vote Social Development for the implementation costs associated with this package (initiative 11674);

Indexation settings for main benefits

4 **note** that under current policy settings:

4.1 rates of main benefits are adjusted annually in line with any upwards movement in the Consumers Price Index (CPI) under section 453 of the Social Security Act 2018; and

4.2 benefit levels have declined as a proportion of average wages over time, which has meant that the gap between the livings standards of beneficiaries and other New Zealanders has grown;

5 **agree** that the rates of main benefits be adjusted annually in line with any upwards movement in net average ordinary time weekly earnings per full-time equivalent (wage growth) rather than CPI from 1 April 2020;

6 **agree** that for the purpose of the decision taken in recommendation 5, **main benefits** are defined as Jobseeker Support, Sole Parent Support, Supported Living Payment, Youth Payment, Young Parent Payment and Emergency Benefit/Emergency Maintenance Allowance, and that this excludes the Orphan's Benefit and the Unsupported Child's Benefit;

7 **note** that for the avoidance of doubt:

7.1 if wage growth is negative, the rates of main benefits will not reduce;

7.2 if growth in CPI is higher than wage growth, the rates of main benefits will adjust in line with wage growth; and

7.3 the net average ordinary time weekly earnings per full-time equivalent measure is the same as used with relation to New Zealand Superannuation, though the approach to adjustment is different;

8 **agree** to amend section 453 of the Social Security Act 2018 to reflect the decision taken in recommendation 5;

9 **note** that changing indexation settings:

9.1 reflects a shift in objectives towards maintaining a link between the living-standards of beneficiaries and the living standards of broader New Zealand society; and

9.2 will support Child Poverty objectives over the long term because the status quo implies an increase in the numbers of children in poverty over time;

10 **note** that the Treasury's long term fiscal forecasts will reflect this change;

Abatement thresholds

11 **agree** that the abatement thresholds for main benefits will be adjusted to align with planned increases to the minimum wage to 1 April 2023, as follows:

	1 April 2019	**1 April 2020**	**1 April 2021**	**1 April 2022**	**1 April 2023**
Jobseeker Support	$80	$90	$95	$100	$105
New Zealand Superannuation Non-Qualifying Partner	$100	$115	$120	$125	$130
Sole Parent Support and Supported Living Payment (Threshold One)	$100	$115	$120	$125	$130
Sole Parent Support and Supported Living Payment (Threshold Two)	$200	$215	$220	$225	$230

12 **agree** that these changes, and any consequential changes, be made through an Order in Council under section 452 of the Social Security Act 2018;

13 **note** that changes to the benefit abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime which is the same as for Student Allowance;

Child support settings

14 **note** that under current policy settings, sole parents receiving a benefit:

14.1 have an obligation to apply for child support under section 9 of the Child Support Act 1991;

14.2 may have their benefit reduced under section 192 of the Social Security Act 2018 if they fail to apply for Child Support; and

14.3 Child Support payments are retained by Inland Revenue under section 142 of the Child Support Act 1991;

15 **agree** to remove deductions from benefits for sole parents who fail to apply for Child Support by repealing section 192 of the Social Security Act 2018 (and consequential repeals of sections 193 and 194 of the Social Security Act 2018 and sections 9(6), 9(6b), 9(7) and 122(2) of the Child Support Act 1991), to have effect from 1 April 2020;

16 **agree** to a consequential amendment to section 9 of the Child Support Act 1991 to enable either the Commissioner for Inland Revenue or the Chief Executive for the Ministry of Social Development to determine whether one of the exceptions to the obligation to apply for Child Support under section 9(5B) of the Child Support Act 1991 apply;

17 s 9(2)(f)(iv) [redacted]

Other matters

18 **note** that changes to main benefits can affect other entitlements such as Accommodation Supplement, Income Related Rent Subsidy, Child Support, rates and thresholds of supplementary assistance, and Temporary Additional Support;

19 **note** that there are flow-on implications from this package that impact other votes, specifically:

- 19.1 an anticipated behavioural response to the removal of section 192, which expects that the number of sole parents who do not apply for Child Support will increase (related initiative 11623 in Vote Revenue);
- 19.2 an automatic increase to the Minimum Family Tax Credit for working families on the lowest incomes, to maintain the margin between benefit and work income (related initiative 11623 in Vote Revenue); and
- 19.3 the amount of Income Related Rent Subsidy paid to public housing providers for beneficiaries will reduce as a result of the proposed changes to the indexation of main benefits (related initiative 11657 in Vote Housing and Urban Development);

20 **note** that a small number of people will be financially disadvantaged as a result of this package;

Legislative implications

21 **agree** that these amendments be added to the Social Assistance Legislation Amendment Bill, which is already on the 2019 Legislative Programme, with a category 4 priority;

22 **invite** the Minister for Social Development and Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office to draft amendments to give effect to the policy decisions agreed above;

23 **authorise** the Minister of Finance, Minister for Social Development and Minister of Revenue to make minor and/or technical policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy objectives, to implement this package;

Appendix Two: Estimated future benefit rates and abatement thresholds

66 The table below shows the additional increases that would result from wage-indexing some selected main benefit rates, over and above the expected increases that would result from CPI adjustment under the current status quo.

Benefit rate increases	April 2020	April 2021	April 2022	April 2023
Job-seeker Support - Single 25 and over	$3	$5	$7	$10
Job-seeker Support - Married - no children	$4	$9	$12	$16
Job-seeker Support - Married - with children	$5	$10	$13	$17
Sole Parent Support - 1 child	$4	$8	$11	$15
Supported Living Payment - Single 18 years and over	$3	$7	$9	$12
Supported Living Payment - Couple rate (each)	$3	$6	$8	$10

67 The table below shows the projected abatement thresholds that would result from linking the benefit abatement thresholds to the minimum wage. They reflect the most recent minimum wage increase from $16.50 to $17.70 an hour on 1 April 2019, and indicative rates of $18.90 from April 2020 and $20 from April 2021, and a more modest adjustment in 2021/22 in line with wage growth.

68 This translates to the following thresholds.

	April 2019	April 2020	April 2021	April 2022	April 2023
Abatement threshold for JSS	$80	$90	$95	$100	$105
Abatement threshold for NZS-NQP	$100	$115	$120	$125	$130
SPS and SLP abatement threshold 1	$100	$115	$120	$125	$130
SPS and SLP abatement threshold 2	$200	$215	$220	$225	$230

69 A person who qualifies for New Zealand Superannuation (NZS) (or Veteran' Pension) can choose to include a non-qualified partner in their payment. If they do, they receive payment for a couple but NZS becomes subject to an income test based on the income of both partners. The abatement threshold is currently $100 per week. Income above that threshold reduces the before tax weekly amount of NZS by 70c in the dollar (70%).

70 Under the Social Security Act 2018, NZS is defined as a benefit and a recipient is a beneficiary. Any change to the income test for main benefits should be reflected in the income test applying to NZS when a non-qualified partner is included.

71 While Youth Payment and Young Payment are main benefits (and are included in the wage indexation proposal), they have a separate abatement regime that is the same as for Student Allowance. This regime has a higher abatement threshold, but a 100% abatement of their benefit applies above this. This is intended to allow for a reasonable amount of part-time work, but consistent with the educational obligations associated with these payments, not to incentives full-time work.

72 Officials have not included changes to the YP/YPP abatement thresholds in the current proposal given its link to the Student Allowance and substantially different structure.

Appendix Three: Detailed flow-on implications from wage indexing benefits and increasing the abatement thresholds

73 The flow-on implications from wage indexing main benefits and increasing the benefit abatement thresholds is provided below. Note the difference between wage and CPI indexation is relatively small in initial years, so the initial impacts will be small.

Increases in the benefit population

74 Increasing main benefit rates and the benefit abatement thresholds increase the income cut-outs at which people can receive a main benefit, therefore increasing the eligible benefit population. This also results in more people being eligible for the Winter Energy Payment.

Temporary Additional Support / Special Benefit

75 Temporary Additional Support is a non-taxable supplementary payment that can be paid for a maximum of 13 weeks at a time. It is paid as a last resort to help clients with their regular essential living costs that cannot be met from their income and other resources. Temporary Additional Support essentially provides for a guaranteed minimum level of income after regular essential costs are taken into account.

76 If benefit rates were to increase:

- Beneficiaries not on the maximum payment are likely to see a reduction in their rate of Temporary Additional Support to reflect an increase in their income. The reduction is not dollar for dollar, as the Temporary Additional Support formula also makes an assumption that people's core costs (such as food and electricity) are equal to 70% of main benefit rates. The net effect of this means that, on average, Temporary Additional Support recipients will gain by around 30% less than those not receiving Temporary Additional Support.
- Beneficiaries who on the maximum payment are likely to see an increase in their rate of Temporary Additional Support because the maximum payment amount is linked to the relevant benefit rate

77 Special Benefit preceded Temporary Additional Support and is a discretionary non-taxable benefit. Its intent is to provide assistance to clients whose particular circumstances are causing them hardship. Special Benefit rates are discretionary and therefore benefit increases will not immediately affect rates of Special Benefit.

Income Related Rent Subsidy

78 Public housing tenants pay an Income-Related Rent which limits the amount of rent they pay to generally be no more than 25% of their after tax income. As such, an increase in benefit rates may result in a higher rate of Income Related Rent payable for those in public housing.

Accommodation Supplement

79 Increases in benefit rates through wage indexation or increasing the benefit abatement thresholds can impact the rate of Accommodation Supplement received in two ways, via flow-ons to the entry threshold and the abatement threshold.

80 The entry thresholds for the Accommodation Supplement are linked to 25% of benefit rates (for all recipients) and 25% of Family Tax Credit rates (for families with children). The entry threshold is the level of accommodation costs that people are expected to meet from their income before they qualify for the Accommodation Supplement. The link between the entry threshold and benefit rates means that any increases to benefit rates may flow through to a lower Accommodation Supplement payment for those not receiving the maximum Accommodation Supplement. People receiving both a main benefit and Accommodation Supplement will be better off overall as the increase in their benefit payment is only partially off-set by the associated increase in the entry threshold for Accommodation Supplement.

81 The Accommodation Supplement abatement threshold (the level of income in which the payment rates begins to abate for non-beneficiaries) is linked to the relevant benefit cut-out[2]. Any increases in benefit rates or benefit abatement thresholds will therefore result in a higher Accommodation Supplement abatement threshold, which in turn results in higher Accommodation Supplement for non-beneficiaries who are receiving an abated rate of payment. It may also result in more middle-income families becoming eligible for the Accommodation Supplement due to a higher income cut-out.

82 Whether non-beneficiaries gain overall depends on the combined impacts of the increase in the entry threshold (which decreases their Accommodation Supplement payment) and the increase in the income threshold above which the Accommodation Supplement abates (which increases their Accommodation Supplement payment).

Minimum Family Tax Credit

83 The Minimum Family Tax Credit (MFTC) provides a guaranteed minimum level of after-tax income to families with children in full-time work, by topping up the net income they receive from work to a set level (the MFTC threshold).

84 The MFTC is designed to ensure that someone not receiving a main benefit and in full-time work is no worse off than if they worked and continued to qualify for an abated benefit. The threshold is usually adjusted each year to reflect expected changes in annual benefit levels.

85 Increases to benefit rates would flow through to an automatic adjustment in the MFTC.

Childcare Assistance

86 Some benefit assistance is included as income for eligibility for Childcare Assistance.

Relativities with student allowances

87 Wage indexation of main benefits will impact on relativities in the broader social assistance system. For example, if Student Allowance rates continue to be CPI adjusted, benefit rates may become higher than student allowance rates over the long-term, creating a disincentive for beneficiaries to enter study. This relativities will need to be considered as part of WEAG response.

Other potential flow-ons

88 There are additional flow-on impacts which are not expected to have a substantial impact and have not been costed:

- Child Support – the living allowance is increased in line with rates of Supported Living Payment and Sole Parent Support
- the rates rebate scheme – social assistance payments are considered income for the scheme
- the Community Services Card – Main beneficiaries and Accommodation Supplement recipients automatically qualify for the Community Services Card therefore increasing the eligible card population

[2] This is to avoid multiple payments abating simultaneously at low income levels.