Kia Piki Ake
Welfare
Expert Advisory Group

The income support system

BACKGROUND PAPER

Contents

Summary

This paper provides a detailed introduction to the income support system in New Zealand, and is focused on the system for working-age people.

First, three key frameworks are introduced that help to describe the key objectives and features of the welfare system.

This is followed by a description of the income support system in New Zealand, starting with the general eligibility requirements for income support payments in New Zealand. We then provide a comprehensive overview of most income support payments that includes:

- specific eligibility requirements
- work obligations
- payment rates
- cut-out points[1]
- income and asset tests (abatement)
- indexation settings.

A description of the current obligations and sanctions regime follows.

We then describe some key concepts regarding financial incentives, including a description of personal income tax rates, and show how income support (and income tax) fit together.

This description is then illustrated using four example families, and we show the impacts of the income support (and income tax) system on the incomes of and incentives to work for these families.

This is followed by a brief summary of some of the key issues in the income support system that emerge from the description above.

We follow this with a summary of current recipient numbers and characteristics, and historical trends in government spending on welfare.

This paper is designed to function as a useful reference document. However, the system is highly complex with many interacting parts, and this paper is not comprehensive.

For further detail on income support payments, visit Work and Income's Manuals and Procedures (MAP) website:

https://www.workandincome.govt.New Zealand/map/index.html.

Many figures in this paper are based on the March 2018 benefit fact sheet: https://www.msd.govt.New Zealand/about-msd-and-our-work/publications-resources/statistics/benefit/archive-2018.html.

1 The point at which a person's payment is reduced to zero because of their income or assets is known as the 'cut-out point'.

Frameworks for the welfare system

This section presents three frameworks commonly used in welfare system analysis:

- The iron triangle.
- The five levers.
- The tiers of assistance.

The iron triangle

The iron triangle illustrates some key trade-offs in welfare policy (i.e. welfare objectives that are difficult to achieve at the same time). These trade-offs occur between three of the key objectives of a welfare system:

- Improving adequacy/alleviating poverty.
- Improving or maintaining incentives to work.
- Sustainable cost to government.

The iron triangle highlights the difficulty of identifying welfare policies that achieve all three of the objectives above. With any given policy change, it is generally possible to achieve two of the three objectives at most. It is important to note that this framework takes a narrow and short-term perspective on cost. There is a broader perspective that would consider the flow-on impacts of changes in income support to other areas of government such as health, justice, tax revenue and education. This broader and longer-term perspective can substantially change the estimate of the overall cost to government.

Other key objectives that are not part of the iron triangle (because there is not the same difficulty achieving them at the same time as others) include:

- improving the dignity and experience of people using the system
- supporting participation and inclusion in society
- supporting broader wellbeing, including the management of health conditions and disabilities, and further education and training.

The five levers

Another useful framework is the ‘five levers of the welfare system’. This framework identifies the key ‘levers’ that governments have to influence the welfare system. These levers are:

- gateways (e.g. eligibility settings)
- obligations and sanctions
- financial incentives
- case management
- services.

This paper discusses the first three levers above.

It is important to note that there are different ways that governments can 'use' the levers. Governments can change:

- legislation (which sets the 'rules' for most of the system)
- payment rates and settings
- policies (which may or may not require changes to legislation)
- ministerial oversight
- governance structures
- organisational form
- performance measures.

There has been some criticism of the five levers framework in that it misses many of the 'soft' levers that can be used to influence the welfare system. These include the varying levels of effort that the system requires of people to gain and maintain entitlement, driven by the complexity of forms, the channels to access the system, pre-benefit activities, the availability and ease of access to information about entitlements and the way that settings are applied (i.e. more or less aggressively) and people are treated.

This paper is also primarily focused on the policy settings of the system i.e. the framework of rules that operates. We do not focus on the interpretation and administration of these settings, or the experiences of the users of the system.

The tiers of assistance

First tier

The main working-age benefits in the New Zealand welfare system are based on a categorical system, which identifies the main reason for a person being without full-time paid work. The maximum rate of benefit varies according to the benefit type, the person's age, and whether the person is single, partnered or a sole parent. Main benefits are known as the first tier of assistance. The key payments are:

- Jobseeker Support (JS), to support people who are unemployed and able to work, including those with short-term inabilities to work (at all or full-time) due to health conditions or disabilities
- Sole Parent Support (SPS), to support sole parents to care for children, and (once their youngest child is three) to support them if they are unemployed
- Supported Living Payment (SLP), to support people who are severely restricted in their capacity to work in the long term
- Youth Payment (YP), to support young people (16-17 years) without children, who are not supported by their parents
- Young Parent Payment (YPP), to support young people (16-19 years) with children.

The rate of payment does not relate to the person's previous income from employment; rather it is intended to provide an income to meet the cost of living, within a context that includes the availability of further income support, known as second- and third-tier assistance.

Second tier

Second tier assistance refers to additional assistance provided to people for specific ongoing costs, such as accommodation, disability and the direct costs of children. The additional assistance may be in the form of a subsidy rather than covering the additional costs completely. Second-tier assistance is mostly income tested, and may be cash-asset tested. Second-tier assistance is often also referred to as 'supplementary' assistance.

Examples of payments that are considered to be second-tier/supplementary assistance include:

- Accommodation Supplement
- Working for Families tax credits, such as the Family Tax Credit (FTC) and Best Start Tax Credit (BSTC)
- Disability Allowance (DA)
- Childcare assistance (CCA)
- Winter Energy Payment (WEP).

Third tier

Third-tier assistance is tightly income and cash-asset tested. It is provided generally to people in financial hardship, and is available only for costs considered 'essential'; it is often also known as 'hardship assistance'. Third-tier assistance includes both ongoing payments (such as Temporary Additional Support [TAS]) and one-off payments (e.g. Special Needs Grants [SNGs]). Depending on the nature of the cost, one-off payments can be either interest-free loans that must be repaid, or non-recoverable grants.

The system of payments

This section describes the different types of income support available in New Zealand across the three tiers of assistance. It covers:

- general eligibility settings for income support payments
- first-tier - main benefits
- second-tier - Working for Families payments
- second-tier - supplementary assistance
- third-tier - hardship assistance.

This paper is focused on the income support system for people of working age. For comparative purposes, brief information on the support for retired people (New Zealand Superannuation [NZS]) is provided. NZS replaces main benefits for eligible people aged over 65. Superannuitants may also be eligible for further support from second- and third-tier assistance.

This paper does not include descriptions of payments outside the welfare system, e.g. student loans and allowances, payments and subsidies in the health and education systems, and ACC. It also does not include many of the smaller payments (in the welfare system) for people in particular circumstances, such as those with health conditions and/or disabilities or on low incomes (some of which the Ministry of Social Development [MSD] administers on behalf of the health system, including the Community Services Card).

General eligibility settings

While different types of payments in the income support system often have different requirements, a set of general eligibility requirements applies to many of the payments. These relate to:

- residency in New Zealand
- the nuclear family as the unit of assessment
- income tests and asset tests
- stand-down periods.

Residency in New Zealand

Generally, people must have continually lived in New Zealand for two years or more since becoming New Zealand citizens or permanent residents (and be ordinarily resident in New Zealand) to be eligible for most income support payments (this is one year for Working for Families payments). There are exceptions for some groups such as refugees.[2]

Residency requirements for NZS are different and are described later in this paper.

Nuclear family as unit of assessment

The welfare system is assessed using the nuclear family. This means that adults are considered as single or as a couple, and dependent children[3] are included. For example, rates of payment are generally determined by 'family type', with different rates for a single person, a couple, and single people and couples with dependent children (sometimes varying with the number of children, and sometimes not).

2 New Zealand also has reciprocal agreements with some other countries that allow for residence in these other countries to be recognised as residence in New Zealand for benefit and pension purposes.

3 When this paper refers to people or families with children, it refers to dependent children. If it is referring to adult children, this is stated.

Families with children are based on 'dependency' rather than biological status, with an adult in a family being a principal caregiver of a child if they provide for the child's day-to-day needs and the child is financially dependent on them. This could include grandparents raising grandchildren, for example.

Couples are defined as being married, in civil unions, or in de facto relationships. A de facto relationship is defined as two people living together as a couple in a relationship in the nature of marriage (or a civil union). Factors such as emotional commitment and financial interdependence are also considered.

Any family members outside the nuclear family are generally not considered, even if they live in the same household, for example adult children living with their parents or extended family in the same house.

Income and asset tests (abatement)

Almost all income support in New Zealand is targeted on the basis of family income (and family assets), with the family defined as the nuclear family (i.e. adults and any dependent children).

Income and asset tests are determined by a combination of the abatement settings of payments (how fast they are reduced) and the rates of the benefit payments. Generally, the full rate of a payment will be available to people earning up to a certain amount (known as the abatement threshold). Above this amount, payments reduce (abate) as people's incomes increase. There are different ways that payments can reduce above the threshold. These are:

- gradually: for every dollar earned before tax, the payment is reduced by a portion of that e.g. on JS, for every $1 earned over the abatement threshold of $80 a week, your net payment drops by 70 cents – an abatement rate of 70%
- suddenly: above the income threshold you lose entitlement to the entire payment (a 'cliff-face'), e.g. DA is only available to people earning less than $963.80 a week (for a couple), or
- tiered: there are multiple abatement thresholds and when your income exceeds one of them you lose a portion of your payment, e.g. CCA is paid at an hourly rate that reduces in four tiers (multiple cliff-faces). If you have one child you receive a subsidy of $5.13 per hour if you earn under $800 a week; this reduces to $4.09 if you earn between $800 and $1,200, then to $2.86 if you earn between $1,200 and $1,300, then to $1.59 between $1,300 and $1,400, and then $0 if you earn more than $1,400 a week.

There are pros and cons associated with each of these options.

Gradual abatement means that people are generally better off overall i.e. their increases in income more than out-weigh the loss of their payments (if the abatement rate is not too high). However, gradual abatement means that people's payments need to change with every change in income, including very small changes. This can be difficult for people whose incomes change frequently, and who are required to update Work and Income constantly (which is costly to both recipients and the administrators of the system). It also increases the chances of under- and over-payments, and the risk of debt.

Sudden abatement means that people's incomes can change below the threshold with no impact on their payments. However, when people's incomes exceed the threshold, even if only by a small amount, they lose the entire value of the payments. This can mean that they are worse off overall than they were before their earned incomes increased.

The pros and cons of tiered abatement are similar to those for sudden abatement, with the loss of the payment occurring in more gradual 'steps' as income increases, rather than in one go. As with sudden abatement, tiered abatement can result in people being worse off overall after an increase in earned incomes, particularly if their incomes move to only just above one of the thresholds.

Asset tests are also used to determine eligibility for some forms of income support in New Zealand, including some supplementary assistance and all hardship assistance. These tests operate in the same way as the income tests described above, as they usually have a threshold below which people are entitled to the full payment amount. Above this threshold people either lose all entitlement (sudden abatement) or lose part of the payment (gradual abatement).

The point at which a person's payment is reduced to zero because of their income or assets is known as the 'cut-out point'. Above this point people are no longer entitled to the income support payment at all. The cut-out point can change due to changes in payment amounts, abatement thresholds and/or abatement rates.

Some payments also have other 'tests' such as the In-Work Tax Credit. It has an 'hours' test that means that a sole parent must work for at least 20 hours a week to receive it (and a couple must work for at least 30 hours). This test also creates a 'cliff-face' of entitlement, with the entire payment lost if hours of work do not meet these levels.

Stand-down periods

Most main benefits have initial stand-down periods (or 'non-entitlement periods') where people cannot receive any main benefit payments – usually for one or two weeks depending on their average weekly incomes in the 6 or 12 months before they applied, and the number of dependent children they have.

The rationale for the stand-down is that people are expected to have sufficient savings to cover a short gap in income. The stand-down period is based on average weekly wages, with those earning under the average facing a one-week stand-down and those earning the average or above facing a two-week stand-down.

The stand-down can be 13 weeks if a person voluntarily left their job without a good and sufficient reason or was dismissed for misconduct.

Some people will not face a stand-down period; these include prisoners, refugees, and people with chronic recurring illnesses, in residential care, transferring between benefits and in temporary employment (if they have been employed for less than six months and they were on a main benefit immediately before this employment).

Main benefits

The different main benefits reflect the different circumstances of people needing income support. MSD administers main benefits. There are five main benefit types – these are:

- Jobseeker Support (JS)
- Sole Parent Support (SPS)
- Supported Living Payment (SLP)
- Youth Payment (YP), and Young Parent Payment (YPP)
- Emergency Benefit (EB)
- other.[4]

This section also briefly describes the settings for NZS, which are largely different from main benefits.

4 This paper does not describe some of the less common main benefits such as the Emergency Maintenance Allowance and Jobseeker Support Student Hardship.

Main benefits are all income tested, but are not asset tested. Main benefits are taxed and are paid on a net basis. The 'assessment period' for main benefits is generally one week i.e. people's incomes (and other circumstances) are assessed on a weekly basis to determine their eligibility for, and the payment rate of, main benefits. Recipients of SPS and SLP can choose to have assessments of their annual incomes instead.

The payment rates of all main benefits are annually indexed (increased) to increases in the consumers price index (CPI) (excluding cigarettes and tobacco).[5] These increases occur on 1 April in most years[6] as part of a process known as the Annual General Adjustment, based on annual CPI growth to December the prior year. Adjustments using the CPI are assumed to ensure that people can continue to purchase the same 'basket of goods and services' over time i.e. they maintain the real value of payments.

The abatement thresholds for main benefits are not indexed.

There are currently (as at the end of March 2018) 273,387 working-age people receiving main benefits. This represents 9.3% of the total working-age population. There are currently around 168,275 dependent children in families receiving main benefits.

Each of the main benefit types listed above is described briefly below.

While not usually classified as a main benefit, this section also briefly describes NZS.

Jobseeker Support

JS was previously (pre-2013) known as the Unemployment Benefit and the Sickness Benefit. People are entitled to this benefit if they are unemployed and are seeking employment.

A person must be aged 18 years or over to receive JS.

JS recipients must re-apply for this benefit each year (every 52 weeks).

There are currently (as at the end of March 2018) 118,755 people receiving JS (43% of all working-age main beneficiaries, 4% of the working-age population). Of these:

- 53% are 'work-ready'
- 47% have health conditions or disabilities – with 48% of this group's primary incapacities classed as psychological or psychiatric conditions.

Work obligations

Work obligations can be full-time, part-time or deferred. Part-time and deferred work obligations may apply due to health conditions or disabilities. A current medical certificate must be provided to support an application for Jobseeker Support – Health Condition or Disability (JS–HCD) and there is generally a requirement for a new medical certificate at least every 13 weeks.

A sole parents whose youngest child is aged 14 years or over also receives JS and generally have full-time work expectations (though the abatement of their payment is not the same as for other JS recipients). More detail is provided in the section on SPS.

5 All future references to the CPI in this paper refer to the CPI (excluding cigarettes and tobacco).

6 If the CPI reduces (i.e. negative growth), payments are not adjusted.

Payment rates and cut-out points

Table 1: Weekly (and annualised) payment rates, and income cut-out points, for Jobseeker Support

Rate	Net payment	Gross payment	Gross income cut-out points
Single 18-19 years, at home	$143.55 ($7,465)	$160.39 ($8,340)	$286 ($14,872)
Single 18-24 years	$179.44 ($9,331)	$200.49 ($10,425)	$337 ($17,524)
Single 25+ years	$215.34 ($11,198)	$240.60 ($12,511)	$388 ($20,176)
Couple	$358.88 ($18,662)	$400.98 ($20,851)	$593 ($30,836)
Couple with children	$384.50 ($19,994)	$429.60 ($22,339)	$630 ($32,760)
Sole parent	$334.05 ($17,371)	$382.07 ($19,868)	$635 ($33,020)

In addition to being annually indexed to the CPI, net rates of JS for families with children were increased by $25 a week on 1 April 2016, as part of the Child Material Hardship package announced in Budget 2015.

Abatement

JS has an abatement threshold of $80 a week before tax (so earnings up to this point do not reduce the payment rate). For every dollar earned above this, the net rate of JS reduces by 70 cents (a 70% abatement rate).

The abatement threshold encourages a small amount of paid work (equating to just under five hours of work at the minimum wage[7]), and recognises that there are costs to work. The relatively high abatement rate of 70% (before tax, over 80% after tax) is designed to discourage part-time work and encourage full-time work.

The abatement threshold of $80 a week was last increased in 1996. As inflation and wages have increased substantially since then, the abatement threshold has become relatively less generous. This means that the income test for JS has become relatively more stringent over time.

Sole Parent Support

SPS was previously (pre-2013) known as the Domestic Purposes Benefit. A person is entitled to this benefit if they do not have a partner and have at least one dependent child aged under 14 years. In the case of shared custody, only the parent with the greater parenting responsibilities can be paid SPS.

SPS is only available to people aged 20 years and over.

SPS recipients must re-apply for this benefit each year (every 52 weeks).

7 Assuming a minimum wage of $16.50 an hour.

There are currently (as at the end of March 2018) 58,830 people receiving SPS (22% of all working-age main beneficiaries, 2% of the working-age population). Of these:

- 92% are female (and 8% are male)
- 53% have a youngest dependent child under five years (with 47% having a youngest dependent child aged between 5 and 13 years).

Work obligations

Work obligations are part-time with a youngest child between 3 and 13 years. For sole parents with a youngest child under three, there are work-preparation obligations. However, if a recipient has another child while receiving a main benefit, work-preparation obligations only apply for the first 12 months of the child's life. After that, the recipient's work obligations are based on the age of the next youngest child (the 'subsequent child' policy).

A sole parent whose youngest child is aged 14 years or over receives JS rather than SPS, though the payment rates (and abatement settings) are the same as those of SPS.

Payment rates and cut-out points

Table 2: Weekly (and annualised) payment rate, and income cut-out point, for Sole Parent Support

Rate	Net payment	Gross payment	Gross income cut-out points
Sole parent	$334.05 ($17,371)	$382.07 ($19,868)	$635 ($33,020)

In addition to being annually indexed to the CPI, the net rate of SPS was increased by $25 a week on 1 April 2016, as part of the Child Material Hardship package announced in Budget 2015.

Abatement

SPS has an abatement threshold of $100 a week before tax (so earnings up to this point do not reduce the payment rate). For every dollar earned above $100 and below $200 a week, the net rate of SPS reduces by 30 cents (30% abatement rate). For every dollar earned over $200 a week, net SPS reduces by 70 cents (70% abatement rate).

The abatement thresholds encourage a small amount of paid work (equating to around six hours of work, and 12 hours of work, at the minimum wage[8]), and recognises that there are costs to work. The relatively low abatement rate of 30% is designed to encourage part-time work (combined with a personal earnings exemption of $20 a week for childcare costs).

The abatement threshold of $100 a week was last increased in 2010. However, since at least the early 1990s the abatement threshold has not increased at the same pace as inflation or wages, so has become relatively less generous over time. Again, this means that the income test for SPS has become relatively more stringent over time.

8 Assuming a minimum wage of $16.50 an hour.

Supported Living Payment

SLP was previously (pre-2013) known as the Invalid's Benefit. People are entitled to this benefit if they are both permanently and severely restricted in their capacity for work because of health conditions, injuries or disabilities, or are totally blind. Permanent is defined as 'expected to continue for at least two years'. Severely is defined as 'not being able to regularly work for 15 hours or more per week in open employment'. This is known as 'the 15-hour rule'.

People can also be eligible for SLP if they are caring for people who require full-time care and attention (other than their partners or spouses).[9] This can include caring for a dependent child who has a significant disability.

To receive SLP a person must be aged 16 years or older (if they are permanently and severely restricted in their capacity to work), 18 years or older (as a carer and with no dependent children) or 20 years or older (as a carer and with dependent children).

SLP is granted and re-assessed either:

- in two years, or
- never (if the recipient qualifies for simplified access to SLP e.g. due to their being totally blind, being terminally ill with a life expectancy of less than two years, having a severe intellectual or cognitive impairment or having a severe physical disability).

There are currently (as at the end of March 2018) 92,473 people receiving SLP (34% of all working-age main beneficiaries, 3.1% of the working-age population). Of these:

- 91% are permanently and severely restricted in their capacity to work (with around a third of this group's primary incapacity classed as a psychological or psychiatric condition)
- 9% are carers.

Obligations

There are generally no work obligations for people receiving SLP, although some recipients may have work-preparation obligations if they have been assessed as having the capacity to prepare for work.

9 Note that while the carer is not entitled to SLP in their own right, if their partner is entitled to SLP the couple will be paid the couple rate of SLP (and receive half the payment each).

Payment rates and cut-out points

Table 3: Weekly (and annualised) payment rates, and income cut-out points, for Supported Living Payment

Rate	Net payment	Gross payment	Gross income cut-out points
Single 16-17 years	$217.80 ($11,326)	$243.35 ($12,654)	$469 ($24,351)
Single 18+ years	$269.15 ($13,996)	$303.40 ($15,777)	$542 ($28,166)
Couple	$448.56 ($23,325)	$501.18 ($26,061)	$798 ($41,494)
Couple with children	$474.18 ($24,657)	$529.82 ($27,551)	$835 ($43,397)
Sole parent	$379.19 ($19,718)	$436.78 ($22,713)	$699 ($36,340)

SLP is paid at a significantly higher rate than JS–HCD (by around $45 to $90 a week), to reflect the permanent or longer-term nature of the health condition, injury or disability and its ongoing costs. However, in practice, drawing a line between the eligibility for the two payments can be challenging for both Work and Income staff and medical practitioners.

In addition to being annually indexed to the CPI, the net rate of SLP for families with children was increased by $25 a week on 1 April 2016, as part of the Child Material Hardship package announced in Budget 2015.

Abatement

SLP has the same abatement thresholds and rates as SPS. This reflects the '15-hour rule' associated with SLP and allows recipients to work a small amount without penalty (there is also a $20-a-week personal earning exemption for income earned from personal effort).

The abatement thresholds were last increased in 2010. As inflation and wages have increased substantially since then, the abatement threshold has become relatively less generous.

Youth Payment and Young Parent Payment

YP was previously (pre-2012) known as the Independent Youth Benefit. People are entitled to this benefit if they are aged 16-17 years and are not supported by their parents.

YPP was introduced in 2012. People are entitled to this benefit if they are aged 16-19 years and have dependent children, whether they are single or partnered. People may still be supported by their parents if they are receiving this payment and are under 18; however, there is a parental income test in this case.

All YP and YPP recipients are part of the Youth Service, which provides more intensive case management and support.

There are currently (as at the end of March 2018) 3,080 people receiving YP and YPP.

Obligations

Recipients of YP and YPP do not have work obligations – they have educational and budgeting obligations i.e. they must be attending education or training, and attend a budgeting course. Recipients of YPP also have parenting obligations i.e. they must attend a parenting course. The educational obligations apply for YPP recipients from when their children are six months old (if they are in a Teen Parent Unit) or 12 months old (if they are not).

Recipients of YP and YPP can also receive incentive payments where they meet these obligations, paid at $10 a week for each payment.

Payment rates and cut-out points

The rates for YP and YPP are the same as for JS and SPS.

YP and YPP are annually indexed to the CPI, and the net rate of YPP was increased by $25 a week on 1 April 2016, as part of the Child Material Hardship package announced in Budget 2015.

Abatement

YP and YPP have different abatement settings from the other main benefits, similar to the Student Allowance, to reflect the absence of work obligations and the requirement to be in education. There is an abatement threshold of $217.22 a week, allowing for a reasonable amount of part-time work (around 13 hours at the minimum wage[10]). However, any earnings above this point are abated at 100% ($1 for $1) until they earn $267.22 a week (singles) or $317.22 a week (couples), to discourage work above this level.

The abatement threshold is annually indexed to the CPI to maintain its real value, and to ensure it aligns with the Student Allowance personal income threshold.

Emergency Benefit

EB is available to people in hardship and who are unable to earn enough income for themselves and their families and cannot receive another benefit. EB is income and asset tested.

Reasons for hardship may include:

- a health condition, injury or disability
- their domestic circumstances
- their age (e.g. 16 or 17 years)
- any other reason (e.g. their residence status).

To be eligible, recipients must be 16 years or older and ordinarily resident in New Zealand.

There are currently (as at the end of March 2018) 907 people (of working-age) receiving EB and a total of 4,419 people (of all ages) receiving EB.

Obligations

The obligations for EB are the same as those for the other main benefits. Recipients of EB are assessed to find the 'analogous benefit' that applies to them (i.e. the main benefit type that most closely suits their circumstances). The analogous benefit will determine their obligations e.g. if the analogous benefit is JS the recipient is likely to have an obligation to seek work.

10 Assuming a minimum wage of $16.50 an hour.

Payment rates and cut-out points

EB is generally paid at the maximum rate of the analogous benefit, with the same income test.

Abatement

The abatement is also determined by the analogous benefit.

New Zealand Superannuation

NZS is a universal payment to citizens and permanent residents aged 65 years and over, subject to their meeting residency requirements. The residency requirements are that they have been resident in New Zealand for at least 10 years since the age of 20, five years of which must be after the age of 50, and that they are ordinarily resident in New Zealand on the date of the application.

NZS is indexed to the greater of growth in the CPI or the net (after tax) average wage (rather than just the CPI as other main benefits are).[11] In practice, this means that NZS keeps pace with growth in net average wages over time.

There are currently (as at the end of March 2018) 755,364 people receiving NZS.[12]

There are generally no obligations for, or abatement of, NZS. However, NZS is abated if a 'non-qualified partner' is included in the benefit rate and/or if recipients have an overseas pension that is deemed to be similar to NZS (and subject to the 'direct deduction' policy[13]).

Payment rates

Table 4: Weekly (and annualised) payment rates for New Zealand Superannuation

Rate	Net payment[14]	Gross payment
Single, living alone	$400.87 ($20,845)	$463.04 ($24,078)
Single, sharing	$370.03 ($19,242)	$425.55 ($22,129)
Couple	$616.72 ($32,069)	$701.52 ($36,479)

As NZS is indexed to wage growth, and wages tend to grow faster than inflation over time, this means that NZS payment rates have increased more than benefits, and there is now a substantial gap between the payment rates.

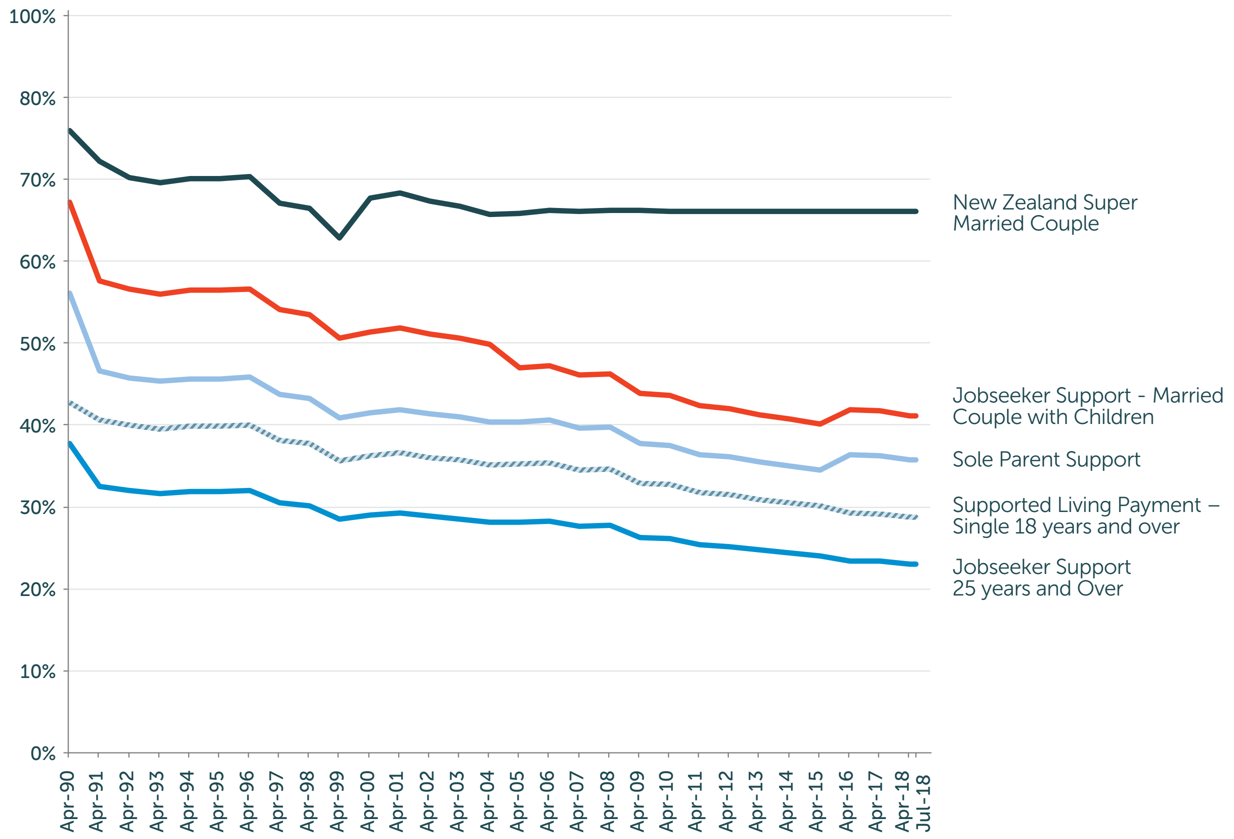
11 As long as the married rate of NZS is between 66% and 72.5% of the net average wage.

12 This number also includes 7,750 people receiving Veteran's Pension, which MSD also administers.

13 The Social Security Act (sections 187-191) sets the criteria that decide whether an overseas pension should affect a recipient's NZS (or other benefits). If an overseas pension meets this criteria, the recipient's NZS is reduced by one dollar for every one dollar received from this overseas pension – known as direct deduction.

14 Assuming tax rate 'M'.

Figure 1: Net payment rates of New Zealand Superannuation and selected main benefits as a proportion of the net average wage, 1990-2018



Note: the figure above only shows NZS and main benefit rates; it is not representative of the overall levels of support that families would receive once supplementary (and hardship) assistance is taken into account.

Working for Families

Working for Families is a suite of payments provided to support families with the costs of children. Inland Revenue (IR) administers Working for Families, although MSD administers some of the payments, on IR's behalf, for people receiving main benefits. The payments available are:

- Family Tax Credit (FTC)
- In-Work Tax Credit (IWTC)
- Minimum Family Tax Credit (MFTC)
- Parental Tax Credit (PTC) and Best Start Tax Credit (BSTC).

Working for Families payments are non-taxable, and are paid to the primary caregivers of children. If children are in a shared-care arrangement, FTC and BSTC can be paid proportionately to both parents (with a minimum amount of care required of one-third of the child's time).

The 'assessment period' for Working for Families payments is annual i.e. people's incomes are assessed on an annual basis to determine their eligibility for, and the payment rates of, Working for Families payments. If people wish to receive their payments fortnightly, they need to provide estimates of their annual incomes as the basis for these payments. These estimates are re-assessed at the end of the tax year.

Some Working for Families payment rates are indexed to inflation, and some are not. These settings are described under each payment below.

The abatement thresholds for Working for Families payments are not indexed. The abatement threshold for FTC (and IWTC) was increased to $35,000 in 2006. This significantly increased the eligibility for, and amount paid to, low- and middle-income working families. This threshold was indexed to inflation and was increased to $36,827 in 2008. In Budget 2011 the next Government began to reduce these abatement thresholds gradually (to a planned final amount of $35,000 a year) to increase the targeting of these payments to lower-income families.

As part of the Families Package on 1 July 2018, the abatement threshold for FTC (and IWTC) will increase to $42,700 a year (from the current amount of $36,350). The payments are abated in a set order (one after the other), starting with FTC, then IWTC (and the previous PTC last).

BSTC has a separate abatement threshold of $79,000 a year, and is not indexed.

People must be over the age of 16 to receive Working for Families payments.

These payments are described in more detail below. More information on Working for Families tax credits (by income) can be found here: http://www.ird.govt.New Zealand/resources/9/7/97ef650f-e6ff-4d25-9930-4a3167aecd3c/ir271-may-2018.pdf

Family Tax Credit

FTC is an income-tested payment that goes to families with children, including those receiving main benefits. People receiving main benefits can choose to receive their FTC through MSD (along with their benefits and any other payments) or from IR.

It is not available to carers of children receiving Orphan's Benefit (OB), Unsupported Child's Benefit (UCB) or Foster Care Allowance (FCA), for those children.

FTC was introduced as part of the introduction of Working for Families in Budget 2004, replacing an existing payment (Family Assistance) and increasing eligibility for low- and middle-income working families in particular.

In the 2016 tax year 297,900 families received FTC.

Payment rates and cut-out points

FTC will be increased as part of the Families Package on 1 July 2018 – the table below shows the current and future weekly (annual) payment rates.

Table 5: Weekly (and annual) payment rates for Family Tax Credit

Eldest child			
Age of child	**Current**	**From 1 July 2018**	**Increase**
0-15 years	$92.73 ($4,822)	$113.04 ($5,878)	+$20.31 ($1,056)
16-18 years	$101.98 ($5,303)		+$11.06 ($575)
Second or subsequent child			
Age of child	**Current**	**From 1 July 2018**	**Increase**
0-12 years	$64.44 ($3,351)	$91.25 ($4,745)	+$26.81 ($1,394)
13-15 years	$73.50 ($3,822)		+$17.75 ($923)
16-18 years	$91.25 ($4,745)		Nil

Given that payment rates of FTC depend on the number of dependent children in a family (and before 1 July 2018 also on the ages of the children), the cut-out points (the points at which families earn too much to receive FTC) are different for different families. Some examples of income cut-out points for FTC, for families with children under 12, are provided below (annual gross [before tax] family income):

- Current rates:
  - One child – around $58,000.
  - Two children – around $72,000.
  - Three children – around $87,000.
- From 1 July 2018:
  - One child – around $66,000.
  - Two children - around $85,000.
  - Three children – around $104,000.

FTC is indexed to the CPI after cumulative changes in the CPI reach 5% (not annually). FTC was last increased due to the CPI in 2012, and will be increased on 1 July 2018 as part of the Families Package (this will 'restart' the calculation of the next inflation adjustment).

Abatement

FTC will be abated at 25% (25 cents in the dollar) on taxable family income over $42,700 a year (gross, meaning before tax) from 1 July 2018. This abatement threshold is not indexed.

In-Work Tax Credit

IWTC is an income- and work-tested payment for families with children who do not receive main benefits and who work a minimum number of hours a week (20 hours for sole parents and 30 hours for couples). The work-hours test is assessed on a week-by-week basis.

IWTC was introduced as part of Working for Families in Budget 2006, replacing an existing payment (Child Tax Credit) and increasing financial assistance for low- and middle-income working families in particular.

It is also available to carers of children receiving OB, UCB or FCA (who cannot receive FTC).

In the 2016 tax year 210,900 families received IWTC.

Payment rates and cut-out points

Table 6: Weekly (and annual) payment rates for In-Work Tax Credit

For families with 1-3 children	For families with 4+ children
$72.50 ($3,770)	+$15 per child ($780 per child)

Again, because the payment rates differ for different families, the cut-out points for IWTC depend on the number of children and the rate of FTC. Some examples of cut-out points for IWTC, for families with children under 12, are provided below:

- Current rates:
  - One child – around $75,000.
  - Two children – around $90,000.
  - Three children – around $105,000.
- From 1 July 2018 (children under 12):
  - One child - around $81,000.
  - Two children - around $100,000.
  - Three children – around $120,000.

The IWTC payment rate is not indexed to the CPI and was last increased (from $60 a week to $72.50 a week) in Budget 2015 as part of the Child Material Hardship package.

Abatement

IWTC is abated at 25% (25 cents in the dollar) once FTC has been fully abated away (so above the FTC income cut-out point).

Minimum Family Tax Credit

Minimum Family Tax Credit (MFTC) is an income- and work-tested payment for families with children who do not receive main benefits and who work a minimum number of hours a week (20 hours for sole parents and 30 hours for couples). It 'tops up' the incomes of low-income families to ensure that they are better off in work than receiving main benefits.

MFTC was introduced in 1989, but was modified as part of the Working for Families reforms of 2004-2006.

In the 2016 tax year 4,100 families received MFTC. Around 80% of MFTC recipients are sole parents.

Payment rates, abatement and cut-out points

MFTC guarantees a net (after-tax) minimum income of $503 a week ($26,156 a year) – the gross (before tax) figures are $587 and $30,508, respectively.

MFTC is designed differently from the other Working for Families payments as it is a guaranteed minimum income tax credit. This means that it tops up a family's income to a set amount. Once a family's income exceeds this amount, MFTC is longer paid. This means that it has an effective abatement rate of 100%.

For example, a sole parent working 20 hours a week on the minimum wage ($16.50 per hour) would be entitled to around $212 a week of MFTC. They would also be entitled to a further $72.50 a week from IWTC (if they have between one and three children). The combination of these payments means that they are better off than they would be if they remained on a main benefit while working (as they would still be entitled to an abated [reduced] main benefit payment working 20 hours on the minimum wage).

However, if they work more than 20 hours, their overall income will not increase as their MFTC will decrease by $1 for each extra $1 of income earned from their job. They would not gain from increasing their hours of work until they were working more than around 35 hours a week while earning the minimum wage.

The MFTC payment rate is not explicitly indexed, but the formula that calculates the payment rate means that MFTC must maintain a certain gap between main benefits and work – this means that it tends to increase as benefits are indexed to inflation. The MFTC payment rate was also increased as part of the Families Package on 1 April 2018, to take account of WEP (and ensure that families with children remained better off in work despite losing WEP when they move off a main benefit).

Parental Tax Credit

PTC is an income-tested payment for 10 weeks after a newborn arrives, for families not receiving main benefits or paid parental leave.

It is paid at $220 a week, and abated after both FTC and IWTC have fully abated (i.e. above the cut-out point of IWTC).

PTC was introduced in 1999, before paid parental leave was introduced in 2001, and will cease to exist for children born on or after 1 July 2018 as it is being replaced by BSTC as part of the Families Package.

Best Start

BSTC is a universal payment to support families with children in the first year of children's lives. For the second and third years of children's lives the payment is targeted to low- and middle-income families. BSTC starts after any paid parental leave payments from IR, and is also available to carers of children receiving OB, UCB or FCA.

People receiving main benefits can choose to receive their BSTC through MSD (along with their benefits and any other payments) or from IR. All new recipients can also apply for BSTC through the Government's SmartStart online service for expecting and new parents.

BSTC will be introduced on 1 July 2018 as part of the Families Package.

BSTC will be received by the families of the around 60,000 to 65,000 babies born each year in New Zealand (after 1 July 2018).

Payment rates and cut-out points

BSTC is $60 a week ($3,120 a year).

The cut-out point for BSTC depends on the number of children in a family aged between one and two years. Two examples of cut-out points for BSTC, for families with children under three, are provided below:

- One child between one and two years of age – around $93,000.
- Two children between one and two years of age – around $108,000.

The BSTC payment rate will have the same indexation settings as FTC (indexed after a cumulative increase in the CPI of more than 5%).

Abatement

BSTC is only abated during the second and third years of a child's life, and is abated at 21% above an annual gross taxable family income of $79,000. This abatement threshold is not indexed.

Supplementary assistance

Supplementary assistance is designed to help low-income people to meet particular costs, such as those of housing, childcare and heating, and those arising from health conditions or disabilities. Almost all supplementary assistance is income tested, and some is also asset tested, to ensure that it is targeted to people with few additional resources.

Supplementary assistance is non-taxable and available to both people receiving main benefits and those working on low (and sometime middle) incomes.

This section covers most of the main supplementary assistance payments administered by MSD[15], including:

- housing assistance – Accommodation Supplement (AS) and Income-Related Rent Subsidy (IRRS)
- childcare assistance (CCA) – Childcare Subsidy and Out of School Care and Recreation (OSCAR) Subsidy
- Winter Energy Payment (WEP)
- Disability Assistance – the Disability Allowance (DA) and Child Disability Allowance (CDA), and
- Orphan's Benefit (OB) and Unsupported Child's Benefit (UCB).

These are described below.

Housing assistance

Accommodation Supplement

AS is an income- and asset-tested payment to help with the cost of housing. It is available to both people receiving main benefits and those working on low and middle incomes, to help with costs from the private housing market.

It is calculated as a partial contribution to families' housing costs. A certain amount of housing costs needing to be paid by families before the AS is available (known as the 'entry threshold'). Above the entry threshold housing costs are subsidised by the AS by 70 cents for every dollar of housing costs (known as the 70% co-payment). This co-payment is available up to a maximum amount of AS payment. Any further housing costs above the maximum amount need to be met by families.

AS was introduced in 1993 (replacing the more limited Accommodation Benefit). It increased substantially as part of the Working for Families changes in 2004-2006 and then again as part of the Families Package from 1 April 2018.

There are currently (as at the end of March 2018) 279,283 people receiving AS. Of these:

- around 67% also receive main benefits
- around 14% also receive NZS or Veteran's Pension
- around 19% are non-beneficiaries.

Of all main benefit recipients, around 66% also receive AS.

15 MSD administers a significant number of other supplementary payments such as Funeral Grants and House Modification Funding. More information can be found on Work and Income's Manuals and Procedures (MAP) website.

Payment rates and cut-out points

AS payment rates depend on:

- where people live (with all of New Zealand split into four areas, with Area 1 containing the places with the highest housing costs and Area 4 containing those places with the lowest housing costs)[16]
- the family type
- the housing cost type – rent, mortgage or board[17]
- the benefit type
- the incomes and assets of recipients.

Table 7: Weekly entry thresholds and maximum payment rates for Accommodation Supplement[18]

Family type	Entry threshold - rent	Entry threshold - mortgage	Area 1 max	Area 2 max	Area 3 max	Area 4 max
Single	$54	$65	$165	$105	$80	$70
Couple	$90	$108	$235	$155	$105	$80
Couple, 1+ child	$119	$143	$305	$220	$160	$120
Sole parent, 1 child	$107	$128	$235	$155	$105	$80
Sole parent, 2+children	$107	$128	$305	$220	$160	$120

The maximum payment rates of AS are not indexed. The entry thresholds for AS are linked to main benefit payments and FTC, so generally increase with inflation.

The maximum payments were last increased on 1 April 2018 as part of the Families Package, and had not been increased for 12 years before this. The maximum payments reflect the 40th percentile of rents in each AS Area. The previous increase reflected the median (50th percentile) rent in each AS Area.

16 For example, Area 1 includes Auckland, Tauranga and Queenstown. Area 2 includes Hamilton, Wellington and Christchurch. Area 3 includes most smaller centres in New Zealand, and Area 4 is mostly rural areas. Full lists are available at: https://www.msd.govt.New Zealand/about-msd-and-our-work/newsroom/2017/budget-2017.html

17 It is assumed that 62% of board payments comprise rent, and AS is available for this portion of board costs.

18 These entry thresholds reflect the amounts for people receiving JS and SPS and for non-beneficiaries. The entry thresholds for recipients of NZS and SLP are higher.

Table 8: Weekly (annual) income cut-out points for families receiving the maximum payment rates for Accommodation Supplement

Family type	Area 1	Area 2	Area 3	Area 4
Single	$1,048 ($54,496)	$808 ($42,016)	$708 ($36,816)	$668 ($34,736)
Couple	$1,553 ($79,716)	$1,213 ($63,076)	$1,013 ($52,676)	$913 ($47,476)
Couple, 1+ child	$1,850 ($96,200)	$1,510 ($78,520)	$1,270 ($66,040)	$1,110 ($57,720)
Sole parent, 1 child	$1,498 ($77,896)	$1,178 ($61,256)	$978 ($50,856)	$878 ($45,656)
Sole parent, 2+children	$1,778 ($92,456)	$1,438 ($74,776)	$1,198 ($62,296)	$1,038 ($53,976)

Abatement

AS is abated at 25% (25 cents in the dollar) for income above a family's relevant benefit cut-out point. As benefits are indexed annually to inflation, the abatement threshold for AS rises with inflation too.

AS is also abated for non-beneficiaries if their cash assets exceed a threshold. The full rate of AS can be received if a single person has less than $2,700 in cash assets, or a couple has less than $5,400 in cash assets. Above this, for every $100 of cash assets, they lose $1 per week of AS.

For both benefit recipients and non-beneficiaries, if a single person has more than $8,100 in cash assets, or a couple has more than $16,200 in cash assets, they are not eligible for AS (cash asset cut-out point). The cash asset limits were set in 1989, are not indexed, and have not been increased since then.

Income-Related Rent Subsidy

IRRS is an income- and asset-tested subsidy available to people in public housing (which includes properties provided by both Housing New Zealand and community housing providers). The subsidy (paid to housing providers) means that these tenants pay an Income-Related Rent, which limits the amount of rent they pay to generally no more than 25% of their net (after-tax) income.

In practice, this means that families in public housing receive a significantly higher level of support for their housing costs (through IRRS) than those in the private market (through AS).

IRRS was re-introduced in 2000.

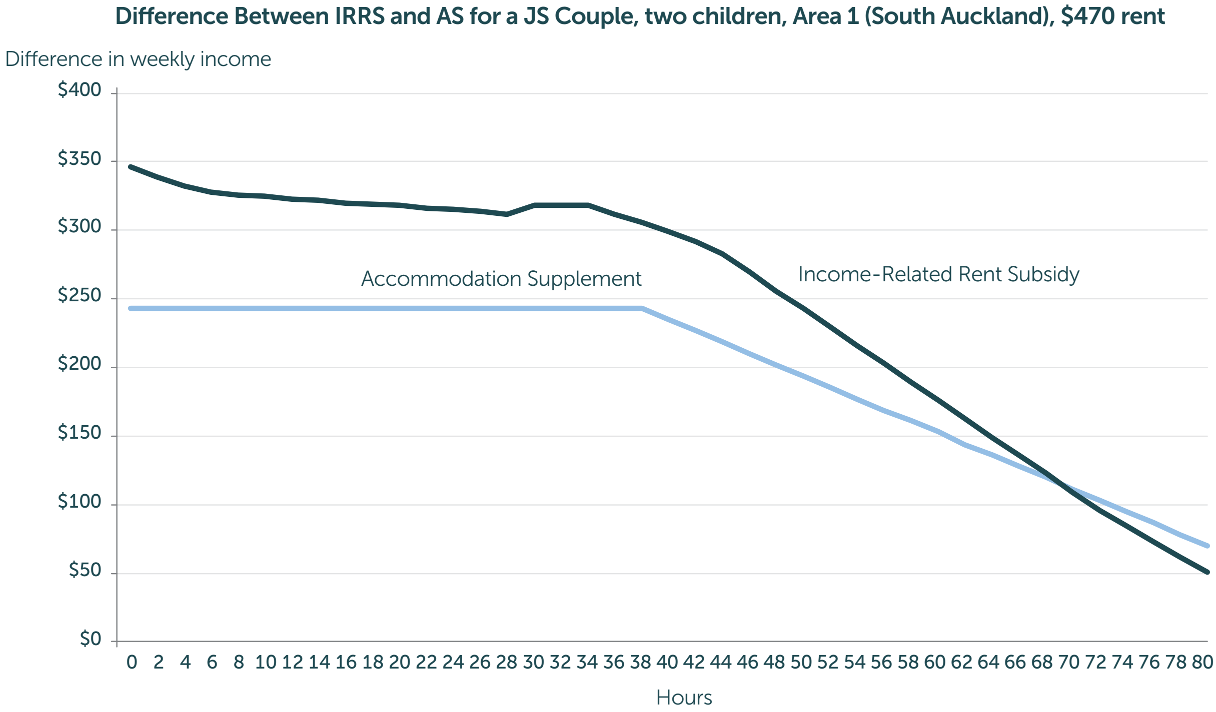
There are currently (as at the end of March 2018) 63,970 families receiving IRRS.

Payment rates and cut-out points

The payment rates (and cut-out points) of IRRS depend on a family's income and housing costs. The rate of IRRS is calculated based on people's housing costs and incomes, so while it is not indexed, the payments naturally increase if costs do.

Figure 2 illustrates the differences in support received (and therefore incomes after housing costs have been taken out) between IRRS and AS for one family – a couple with two children (under 12) - receiving JS, living in South Auckland and paying lower-quartile rent.

Figure 2: Difference in weekly income between Income-Related Rent Subsidy and Accommodation Supplement for example family



The general picture in Figure 2 - of a significant gap while a family has no income from work which gradually declines as the family earns more - generally holds for different family types and locations. The graph is based on earnings at the minimum wage; if hourly earnings are higher, the graph becomes more compressed (i.e. the gap between the payments declines more quickly, and the crossover point, when AS becomes more generous than IRRS, happens at a lower number of hours).

In this example, the difference in support results in a family, in the same circumstances, receiving between $60 and $100 more a week in support if they are receiving IRRS compared to AS and working up to 40 hours a week on the minimum wage.

Abatement

IRRS is abated at 50% (50 cents in the dollar) for income above the single or couple rate of NZS. Since NZS payment rates increase annually with growth in the net average wage, so do IRRS abatement thresholds.

IRRS is only available to people with cash assets below $42,700. This asset limit is based on 10% of the national median house sale price, but is not indexed and has not been updated for some time.

Childcare assistance

CCA includes income-tested payments to help families to meet the costs of childcare. There are two payments available:

- Childcare Subsidy: For families with children generally aged under five:
  - Available for up to 50 hours a week for working families (excluding any hours where the '20 Hours ECE' subsidy[19] is available).
- Out of School Care and Recreation (OSCAR) subsidy: For families with children aged 5-13:
  - Available for up to 20 hours a week (in the school term) and up to 50 hours a week (during school holidays) for working families.

Both working families and those receiving main benefits are eligible for CCA.[20] These subsidies are paid directly to childcare providers, with families paying any residual amounts. Childcare Subsidy cannot be paid for any hours already covered by the '20 Hours ECE' subsidy, which is provided by the Ministry of Education for three to five-year olds.

CCA was increased substantially in the Working for Families changes in Budgets 2004-2006. A higher rate of subsidy for low-income families was introduced as part of the Child Material Hardship package in Budget 2015.

CCA is only able to be paid for the childcare costs of a primary caregiver, and is not able to be split if a child is in a shared-care arrangement.

There are currently (as at the end of March 2018) 38,239 children being subsidised by CCA.

Payment rates, abatement and cut-out points

The hourly rate of subsidy for CCA is determined by the income of the family and the number of children. There are four rates of subsidy.

Table 9: Hourly rates of subsidy of Childcare assistance

Number of children	Gross weekly income				
1	Less than $800	$800 - $1,199.99	$1,200 - $1,299.99	$1,300 - $1,399.99	$1,400 +
2	Less than $920	$920 - $1,379.99	$1,380 - $1,489.99	$1,490 - $1,599.99	$1,600 +
3	Less than $1,030	$1,030 - $1,539.99	$1,540 - $1,669.99	$1,670 - $1,799.99	$1,800 +
Hourly rate	$5.13	$4.09	$2.86	$1.59	$0

The hourly subsidy rates for CCA are indexed annually to the CPI, while the abatement thresholds are not indexed.

19 The government subsidises all children who attend early childhood education (ECE). 20 Hours ECE is a higher funding subsidy for children aged three, four or five years. This subsidy means that the cost of ECE can be fully subsidised for up to six hours a days and up to 20 hours a week.

20 Families not working are currently entitled to up to nine hours of Childcare subsidy. Entitlement for working families is based on their hours of work.

Unlike other supplementary assistance payments, the income assessed for CCA includes that from AS, DA, TAS and any child support. Most other supplementary assistance only includes taxable income (e.g. main benefits, income from wages) in its assessments of income tests. Any income from other supplementary payments is generally not included, as the payments are granted for other discrete costs. This means that, for example, if a person receives more AS, DA, TAS or child support, their CCA may reduce.

Winter Energy Payment

WEP is a payment to help superannuitants, and those receiving main benefits, to heat their homes over winter. It is not income- or asset-tested; its eligibility is based on the receipt of either NZS[21] or a main benefit payment.

WEP will be introduced as part of the Families Package on 1 July 2018. The winter period in 2018 is defined as 13 weeks from 1 July. From 2019 onwards the winter period will be defined as 22 weeks from 1 May.

On 1 July 2018 around one million superannuitants and beneficiaries will receive WEP.

Payment rates and cut-out points

WEP is $20.46 a week for single people without children, and $31.82 a week for couples and those with children, and paid for the winter period.

As eligibility is linked to receipt of NZS or a main benefit, people lose the full WEP payments once they are no longer entitled to these payments. This effectively means, for people receiving main benefits, that the abatement rate of WEP is greater than 100% at the benefit cut-out point.

Disability assistance

There are two main forms of income support for costs associated with health conditions and disabilities in the welfare system. They are:

- Disability Allowance (DA)
- Child Disability Allowance (CDA).

These are separate from any payments made as part of the health system.

Disability Allowance

DA is an income-tested payment to meet the ongoing costs of a health condition or disability. Costs are calculated on an individual basis and the payment is for an individual, although it still has a family-based income test. The health condition or disability must be likely to last at least six months, and payment is based on actual costs and verification of those costs is required.

There are currently (at the end of March 2018) 232,243 people receiving DA. Of these, around 55% are also receiving NZS.

Payment rate, abatement and cut-out points

DA is only available to those below the following income limits ('cliff-face' or 100% abatement at these points):

21 Also Veteran's Pension.

Table 10: Weekly income limits for Disability Allowance

Family type	Gross income
Single, 16-17 years	$531.61
Single, 18+ years	$648.92
Couple (with or without children)	$963.80
Sole parent, 1 child	$741.41
Sole parent, 2+ children	$781.14

These income limits are annually indexed to the CPI. The limits are also often increased by more than the CPI to ensure that recipients of New ZealandS do not lose entitlement. This may occur when the wage-based increase to New ZealandS exceeds the CPI-based increase to the DA income limits.

The DA maximum payment is $63.22 a week.

Child Disability Allowance

CDA is not income- or asset-tested. It is paid to the main caregiver of a dependent child with a serious disability who needs constant care and attention, and who is likely to need care either permanently or for more than 12 months.

There are currently (as at the end of March 2018) 36,847 children in families receiving CDA.

Payment rate

The CDA payment is $47.64 a week.

Orphan's Benefit and Unsupported Child's Benefit

OB and UCB provide income support to the caregiver of a child whose parents can't support them. Oranga Tamariki also administers another payment, the Foster Care Allowance (FCA), which is paid at the same rate as OB/UCB to caregivers of children in foster care.

For OB/UCB the caregiver must be the principal caregiver of the child, be likely to have the child for at least one year, and be aged 18 or over.

For OB, the caregiver must not be the child's natural or adoptive parent. The child's parents must be deceased, unable to be found, or suffering from serious long-term illnesses or incapacity that make them unable to care for the child.

For UCB, the caregiver must not be the child's natural parent, adoptive parent or step-parent. There must be no natural parent, adoptive parent or step-parent able to care for or fully provide for the child because of a breakdown in the child's family.

The income and assets of the caregiver do not affect the payment of OB/UCB. However, any income received by the child (excluding personal income) is included.

Carers receiving OB/UCB and FCA cannot receive FTC for these children.

There are currently (as at the end of March 2018) 10,550 families receiving OB/UCB.

Payment rates and abatement

The payment rates of OB/UCB vary by the age of the child.

Table 11: Weekly (and annualised) payment rates for Orphan's Benefit and Unsupported Child's Benefit

Rate	From 1 April 2018	From 1 July 2018	Increase
Under 5 years	$149.66 ($7,782)	$169.97 ($8,838)	+$20.31 ($1,056)
5-9 years	$173.68 ($9,031)	$193.99 ($10,087)	
10-13 years	$191.64 ($9,965)	$211.95 ($11,021)	
14+ years	$209.52 ($10,895)	$229.83 ($11,951)	

In addition to being annually indexed to the CPI, rates of OB/UCB will be increased by $20.31 a week as part of the Families Package. This increase will also flow through to the Foster Care Allowance, and is based on the increase in FTC (as families receiving OB/UCB and the Foster Care Allowance receive these payments instead of FTC).

Any income received by the child (excluding personal income i.e. from part-time work) that exceeds 50% of the basic annual benefit rate reduces the OB/UCB by $1 for every $1 of income (i.e. a 100% abatement rate above the income threshold). Other income may include, for example, interest from bank accounts, trust income and ACC child weekly compensation.

Hardship assistance

Hardship assistance is available to help people with immediate needs and essential costs that cannot be met from any other income or assets. Hardship payments are income- and asset-tested to ensure that they are targeted to people with no or few additional resources. Some are non-recoverable (do not need to be paid back) and some are recoverable (need to be paid back).

Hardship assistance is non-taxable and available to both people receiving main benefits and those working on very low incomes.

People must meet hardship obligations to receive hardship assistance. These obligations include taking reasonable steps to increase their incomes or decrease their costs, and sometimes undertaking a budgeting course.

Food is the main reason for people needing hardship assistance, and the demand for food assistance has increased significantly in the past two years. By value of payments (rather than number of grants), the main reason for hardship assistance is accommodation costs.

All the hardship assistance described below is administered by MSD.

For people with ongoing deficits in their income to meet essential needs, TAS is available.

For one-off costs, the most common hardship payments are:

- Special Needs Grants (SNGs)
- Benefit Advance Payments
- Recoverable Assistance Payments (RAPs).

These are described in more detail below.

Temporary Additional Support

TAS is a payment of last resort to help people with regular essential living costs that cannot be met from their income or assets. TAS can only last 13 weeks but may be re-applied for every 13 weeks, if still needed. It is available for people receiving main benefits and for non-beneficiaries on very low incomes.

TAS was introduced in 2006, and replaced an existing hardship payment called Special Benefit. TAS is generally less generous, and has less discretion, than Special Benefit.

There are currently (as at the end of March 2018) 63,067 people receiving TAS.[22] The vast majority of people receiving TAS also receive AS, and the most common reason for needing TAS is high accommodation costs.

Payment rates, abatement and cut-out points

TAS is calculated as the difference between people's essential costs and their incomes (a 'deficiency'), up to an 'upper limit' of 30% of the net rate of their main benefits (or of JS if they are non-beneficiaries).

TAS is not abated, but because the calculation is based on a deficiency, any increase in income is automatically off-set by a decrease in TAS, giving the payment an effective abatement rate of 100%.

There are cash asset limits for entitlement to TAS, above which there is no entitlement. These are:

- $1,076.96 for a single person
- $1,794.51 for a couple.

These cash asset limits are annually indexed to the CPI.

One-off payments

Special Needs Grants

SNGs provide one-off recoverable or non-recoverable payments to people to meet immediate needs. They are available for people receiving main benefits and for non-beneficiaries on very low incomes.

SNGs are often paid directly to the providers of the goods and services required, or through payment cards.

In the last quarter year (to 31 March 2018) there were 186,119 SNG payments granted.

22 This includes some people still receiving Special Benefit.

Payment rates, abatement and cut-out points

Payments generally have maximum amounts depending on the costs. Some examples are provided below.

- Food (amount not to be exceeded over six months):
  - $200 for a single person.
  - $300 for a couple.
  - $450 for people with one or two children.
  - $550 for people with three or more children.
- Bedding: $200 per 12 months.
- Emergency dental treatment: $300 per 12 months.

These maximum amounts are not indexed, and have not been increased for some time.

There are income and asset limits for eligibility for SNGs, over which there is no entitlement.

Table 12: Weekly gross income limits for Special Needs Grants

Family type	Gross income
Single, 16-17 years	$491.92
Single, 18+ years	$565.36
Couple (with or without children)	$821.16
Sole parent, 1 child	$686.04
Sole parent, 2+ children	$722.78

These income limits are annually indexed to the CPI.

The asset limits are the same as for TAS, and are annually indexed to the CPI.

Benefit Advance Payments

Benefit Advance Payments are recoverable, and are available to people on main benefits to meet particular immediate needs for essential items.

Benefit Advance Payments are often paid directly to the providers of the goods and services required.

In the last quarter year (to 31 March 2018) there were 118,528 Benefit Advance Payments granted.

Payment rates, abatement and cut-out points

The amount of a Benefit Advance Payment should be the least amount required to meet the immediate need, and be for up to the value of six weeks of the person's full benefit rate.

The income and asset limits for eligibility are the same as those for SNGs.

Recoverable Assistance Payments

RAPs provide interest-free recoverable payments to help non-beneficiaries meet essential immediate needs for specific items.

In the last quarter year (to 31 March 2018) there were 15,110 RAPs granted.

Payment rates, abatement and cut-out points

The maximum amount of a RAP can be the value of six weeks of the rate of SLP.

There are income and asset limits for eligibility for RAPs, over which there is no entitlement. The income limits are the same as those for SNGs, but apply to annual income (shown below). The asset limits are the same as TAS, SNGs and Benefit Advance Payments.

Table 13: Annual gross income limits for Recoverable Assistance Payments

Family type	Gross income
Single, 16-17 years	$25,580
Single, 18+ years	$29,399
Couple (with or without children)	$42,700
Sole parent, 1 child	$35,674
Sole parent, 2+ children	$37,585

These income limits are annually indexed to the CPI.

Obligations and Sanctions

This section briefly outlines the general obligations that recipients of income support have, and the sanctions they may face if they do not meet them.

Obligations

Other than the particular obligations required for different benefit types outlined in the sections above (e.g. work obligations relating to each benefit type, hardship assistance obligations to increase incomes if possible), there is a set of general obligations that apply to all people receiving main benefits. People receiving supplementary and hardship assistance and/or Working for Families payments are different, with only the first of the obligations listed below applying.

It is important to note that these obligations, combined with other settings such as the need to re-apply for support (e.g. every 13 weeks for TAS, and every year for JS and SPS), impose a cost on clients to access, and maintain access to, the system.

Recipients must:

- advise Work and Income (or IR) of any changes in circumstances that affect their entitlements or rates of payment
- if they have dependent children, take all reasonable steps to meet social obligations that apply
- if required, undertake and pass pre-employment or pre-course drug tests
- if required, participate in Work Ability Assessments
- if required, work with contracted service providers
- advise Work and Income if they are intending to travel overseas, before they depart
- if they are sole parents, apply for child support.

Social obligations

Social obligations apply to people receiving main benefits with children.

The children must be:

- enrolled with GPs, or enrolled with medical practices that are part of Primary Health Organisations
- up to date with their core Well Child/Tamariki Ora checks (for children under five)
- enrolled in and attending (from age agree) approved early childhood education (including parenting and home-based) programmes
- enrolled in and attending school (from age five or six).

Recipients (and their partners) must:

- attend and participate in interviews with Work and Income to discuss meeting their social obligations
- advise on progress where they have not been able to meet their social obligations.

Work Ability Assessment

Recipients of JS may be required to attend and participate in Work Ability Assessments. These help to determine what work people are capable of doing and what Work and Income can do to help people find and stay in work. As a result of a Work Ability Assessment a recipient's work obligations or benefit entitlement may change.

Sanctions

Sanctions for failure to apply for child support

Sole-parent recipients of main benefits are required to apply for child support, if applicable. If they do not identify the paying parent(s) for each dependent child and apply for child support they are subject to a reduction (sanction) in their benefit. This is required in section 70A of the Social Security Act 1964 and the Child Support Act 1991.

Their benefits are reduced by $22 a week for each child for whom they do not meet their child support obligation. If this reduction has been in place for at least 13 weeks, their benefits are further reduced by another $6 a week (this can only be applied once per person, regardless of the number of children they have).

Some people are not required to apply for child support. This exemption applies when:

- a person or their children would be at risk of violence if they met their child support obligations
- the paying parent is deceased, or
- the child was conceived as a result of incest or sexual violation.

At the end of March 2018 there were 12,759 section 70A sanctions in place.

Sanctions for failing to meet other obligations

Recipients of main benefits can be sanctioned (including having their benefits reduced or stopped entirely) if they fail to meet their work obligations. They must have no good and sufficient reasons for these failures, and are given at least five working days to dispute or re-comply before any sanctions are imposed.

There are three grades of sanctions, and the consequences for financial support are different depending on whether the people are single or in a couple, and whether they have children.

For single people without children:

- Grade 1 sanction: 50% reduction in main benefit, no effect on supplementary assistance.
- Grade 2 sanction: 100% reduction in main benefit (suspended), 100% reduction in supplementary assistance (suspended).
- Grade 3 sanction: Both main benefit and supplementary assistance are cancelled.

For sole parents:

- Grade 1 sanction: 50% reduction in main benefit, no effect on supplementary assistance.
- Grade 2 sanction: 50% reduction in main benefit, no effect on supplementary assistance.
- Grade 3 sanction: 50% cancellation of main benefit, no effect on supplementary assistance.

For couples, only the person who fails their obligations faces a sanction. Their partner continues to receive their half of the assistance as long as they are meeting their obligations.

In the March 2018 quarter there were 14,705 sanctions applied, with 9,747 of these as a result of failure to attend appointments. As at the end of March 2018 there were 2,204 active sanctions.

Financial incentives

This section:

- describes some key concepts for considering financial incentives
- describes the overall picture of income support
- provides some example families and shows how their income increases with employment, and how their income support payments change
- highlights some key issues with the income support system.

Key concepts in financial incentives

Why financial incentives matter

Financial incentives describe the ways in which money influences people's decisions. In this context we are focused on decisions to seek work, or to work more. These incentives matter for several reasons. The first is an argument on fairness. It takes effort to work, and many people believe that this effort should be rewarded. There are also costs associated with working (such as transport). For these reasons there is a general desire for people to be 'better-off' in work. Work is also considered to be a good outcome for the majority of people – most people want to work and work is an important part of people's wellbeing.

Making people 'better-off' in work also helps to incentivise people to work. But it is important to recognise that people's decisions about whether to seek work, or how much to work, reflect a wide range of considerations, of which financial incentives are only a part. Even with financial incentives, to influence behaviour people must understand how their income support will change as their incomes increase, and this is not always straightforward or something of which many people would have high levels of awareness. Beyond financial incentives, other important considerations include:

- the availability of suitable employment (due to the economic cycle, fit with any caring responsibilities or limitations of health conditions or disabilites, the reliability of hours and income etc)
- the availability of suitable childcare
- values and norms around employment
- attitudes to risk.

Empirical evidence suggests that changes in financial incentives to work do influence behaviour in small but significant ways, particularly around the decisions on whether to work at all. Primary income earners are less likely to respond to changes in financial incentives than secondary income earners.

Key definitions

This section defines:

- New Zealand's personal income tax rates
- effective marginal tax rates
- replacement rates.

Personal income tax

It is important to be aware of the personal income tax system to understand how people's overall incomes change as their wages increase. New Zealand has a progressive personal income tax system, with the rates being:

- 10.5% on income below $14,000 a year
- 17.5% on income between $14,000 and $48,000 a year
- 30% on income between $48,000 and $70,000 a year
- 33% on income over $70,000 a year.

The above income tax rates apply to all benefit rates. For wages and salaries the above rates include an additional 1.39% ACC earners' levy for each dollar of income.

The important difference to note with the personal income tax system is that it is based on individual income, rather than family income (as in the welfare system).

The marginal tax rate is the tax paid on an additional $1 of income. The average tax rate is the average tax you pay over all your income.

There is one tax credit that can affect the amount of tax paid – the Independent Earner Tax Credit (IETC). This provides a $520 tax credit for people with incomes between $24,000 and $44,000 (and declining between $44,000 and $48,000) but is not available for a person receiving a main benefit, NZS or Working for Families. It is also assessed on an individual, rather than family, basis.

Effective marginal tax rates

The effective marginal tax rate is the effective tax rate that you pay on an additional $1 of income, combining the impact of any taxes and the reduction in any income support payments. Effective marginal tax rates influence people's decisions on whether to increase the amounts they work or earn, as they determine how much 'cash in the hand' a person receives from additional work or pay.

For example, if a person is working a small amount and receiving JS, for each dollar they earn over $80 a week they will:

- lose 70% of that dollar to a reduced JS payment
- lose a further 17.5% of that dollar to tax, plus the ACC levy of 1.39%
- giving a total effective marginal tax rate of 88.89%.

This means that earning $1 more will result in their actually receiving around 11c. People don't often receive pay rises of $1, but any increase will result in them actually keeping around 11% of it.

Very high effective marginal tax rates (e.g. 80-100% or more) discourage people from increasing their incomes and create 'poverty traps' – especially as they don't account for all the costs of working, such as transport. The impact of very high effective marginal tax rates can also depend on the range of income they apply to – they would have a greater impact if they applied over the next $100 a week and a lesser impact if they applied over the next $5 per week. The impacts also depend on people's awareness of these rates.

Effective marginal tax rates are the downside of targeting income support. Targeting payments to those on low incomes requires that they abate (reduce) relatively quickly. If abatement rates are low, this reduces effective marginal tax rates, but means that income support goes to a larger group of better-off people and is expensive. These trade-offs are reflected in the 'iron triangle' framework.

Replacement rates

The replacement rate measures the extent to which out-of-work income support payments 'replace' a person's in-work income. Replacement rates influence people's decisions about whether to work at all.[23]

For example, a sole parent with one child, living in Wellington, could receive:

- around $602 a week on a main benefit (including SPS, FTC and AS), or
- around $883 a week working for 20 hours at minimum wage (including wages, MFTC, FTC, IWTC and AS)

In this example, out-of-work payments would replace 68% of their in-work income (in this example) – this is a 68% replacement rate.

The lower the replacement rate, the stronger the financial incentive to enter work. Very high replacement rates meant that there is little financial reward for working, creating an 'unemployment trap'. However, very low replacement rates can suggest that out-of-work benefits are low and may be inadequate.

Effective marginal tax rates determine replacement rates – if effective marginal tax rates are high over a large income range, this implies that the replacement rate will be high (i.e. out-of-work benefits will replace a high proportion of people's in-work incomes because their support has reduced so quickly).

The concepts of effective marginal tax rates and replacement rates are useful when considering the overall picture of income support payments in New Zealand.

Overall picture of income support

New Zealand's income support system provides substantially more support to families with children than it does to people without children. This means that the overall picture of income support is quite different between these two groups.

Families with children

If families with children are receiving main benefits they are also entitled to the full amounts of:

- FTC, and
- AS.

If they have particularly high costs (e.g. accommodation) they may also receive hardship assistance such as TAS or other grants or payments.

They will be entitled to a little bit of Childcare Subsidy, and the number of hours they are eligible for will increase as their hours of work increase.

Once these families start working more, they are financially incentivised to stop receiving main benefits at 20 hours of work a week (sole parents) and 30 hours of work a week (couples). If they are on a relatively low hourly wage (e.g. minimum wage) they will still be entitled to the full amounts of:

- FTC
- AS.

23 Another related measure of financial incentives to work full-time or part-time is the Participation Tax Rate (PTR). The PTR is defined as 1 minus the financial gain to work, as a proportion of gross earnings. For more information see page 97 of: https://www.ifs.org.uk/docs/mirrlees_dimensions.pdf

And they will become entitled to:

- MFTC (if their hourly wages are low)
- IWTC.

If they have childcare costs, they will be entitled to increasing hours of CCA.

The combination of these in-work payments will generally mean that they are better off in work (i.e. replacement rates are not too high), although if they are receiving MFTC (with its 100% abatement rate) their income will not increase while they work between 20 and 35 hours on the minimum wage (so they are not incentivised to increase their hours of work at low hourly wages).

Also, if they are receiving significant support from hardship assistance they may face reductions in income when moving from benefit into work.

As these families earn more (and move closer to average incomes) they will begin to face abatement of both:

- AS (abated at 25% above around $630 a week [around $32,000 a year])
- Working for Families payments (FTC and/or IWTC – also abated at 25%), once their annual family income exceeds $42,700.

This adds 50% to their marginal tax rates.

- If they earn over $48,000 a year, their combined personal income tax rate and loss of their payments will mean they face an effective marginal tax rate of 80%.
- This means that if they earn another $1 of income, they will only gain 20 cents.

The relatively small group of families also receiving CCA will also face reductions in these payments over income ranges similar to those of AS and Working for Families payments, and may face overall reductions in income if their wages increase but their income support payments fall by more than this (i.e. an effective marginal tax rate of more than 100%).

Some families may also have additional income-related costs associated with repayments of student loans (12%) or child support liabilities that are compulsorily deducted from wages.

Families earning over $100,000 a year, and with children, are not able to receive AS, although some families will still be entitled to small amounts of IWTC, depending on the number of children they have. Most families above this income that have children will face effective marginal tax rates equal to their personal income tax rates i.e. 33% (plus the ACC earners' levy of 1.39%) at most.

Families without children

Most recipients of main benefits also receive AS. As these people's incomes from work increase, their main benefits are fully abated (or reduced) before they begin to lose their AS. However, their main benefits are abated at higher rates than main benefits for families with children. This means that, even though they continue to receive AS, if they earn only just above the income cut-out points for their benefits (in what is likely to be part-time work), the replacement rates of out-of-work benefits are likely to be high, discouraging entry to part-time work.

If they are also receiving hardship assistance, there can be quite a 'cliff-face' of lost support when they move off benefits or if they are off benefits and on very low incomes close to the benefit cut-out points. However, as they are not entitled to any supplementary assistance other than AS, their effective marginal tax rates are relatively low as their incomes increase further, so there are generally strong incentives to increase incomes and hours of work (i.e. to full-time) above this point.

Some families may also have additional income-related costs associated with, for example, repayments of student loans (12%) or child support liabilities that are compulsorily deducted from wages.

Example families

This section presents graphs demonstrating how the amount and composition of people's incomes change as they work more, in several sets of circumstances.

The graphs show families living in South Auckland, all paying lower-quartile rents, and earning the minimum wage (and for some, a further variation showing them earning the average wage):

- Scenario 1: A sole parent with one child under 12 years of ages
- Scenario 2: A couple with two children, both under 12 years of ages
- Scenario 3: A single person on JS.
- Scenario 4: A single person on SLP.

There are several important caveats associated with these graphs:

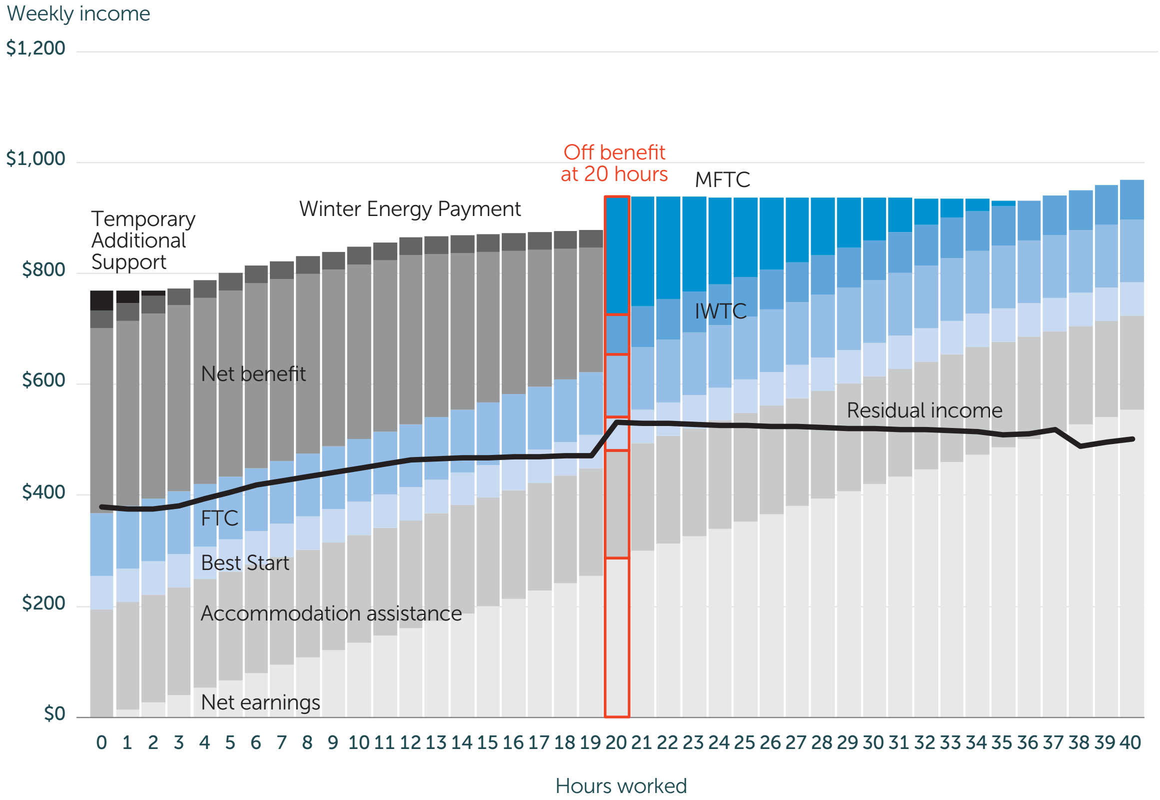
- They do not include hardship assistance except TAS.
- They do not include student loan repayments, child support payments or KiwiSaver contributions.
- They assume that people have taken up all the financial assistance they are entitled to.
- They assume couples work the same hours on the same wages.
- They reflect rates of payment as at 1 July 2018.
- They assume no secondary tax is paid.
- They assume that people remain on benefits until it is more financially advantageous to be off benefits.
- They do not account for work-related costs such as transport.

These scenarios are intended to be illustrative, but they do not show how common these situations are.

Scenario 1: A sole parent with one child

Figure 3: Weekly income, and source of income, as hours of work increase for a sole parent earning the minimum wage with one child

Sole parent | 1 child under 14 | Area 1 (South Auckland) | AS | $16.50 per hour



The columns show the income (vertical axis) of the sole parent at different hours of work (horizontal axis). The different components of their income are shown, with different-coloured components in each column including income from a main benefit, accommodation assistance (AS), WEP, TAS, Working for Families (FTC, BSTC, MFTC, WTC) and net earnings (after tax).

The black line shows the income the sole parent has remaining after their housing and childcare costs (and taking into account CCA), called their 'residual income'. Note that 'kinks' in the residual income line represent movements over the income thresholds for CCA (where the hourly subsidy rate drops).

The top of the columns shows the total income of the sole parent. The gradient of the lines at the top of the columns demonstrates the effective marginal tax rate they are facing as their income increases, with a high (or close to 100%) effective marginal tax rate shown by a flat, horizontal line, demonstrating that as hours of work increase (along the horizontal axis), income does not increase much or at all (up the vertical axis).

This is clearly demonstrated by the flat line of total income from 20 hours of work a week to around 35 hours of work a week for this sole parent. As earlier mentioned, this is due to the (at least) 100% abatement rate of MFTC.

This graph also clearly demonstrates the strong financial incentive for sole parents (on low wages) to leave the benefit system at 20 hours of work a week (this column is shown in red). The combined income from tax credits and earnings, and the continuation of AS, mean that they experience a big jump in total income at this point.

However, there is little financial incentive for them to work between 0 and 19 hours a week on low wages (with their gaining less than $100 a week between these two points), demonstrated by the relatively flat residual income line. This is driven by the relatively high abatement rate of their main benefit payment (70% above $200 a week, plus tax), and their entitlement to TAS if they are not earning.

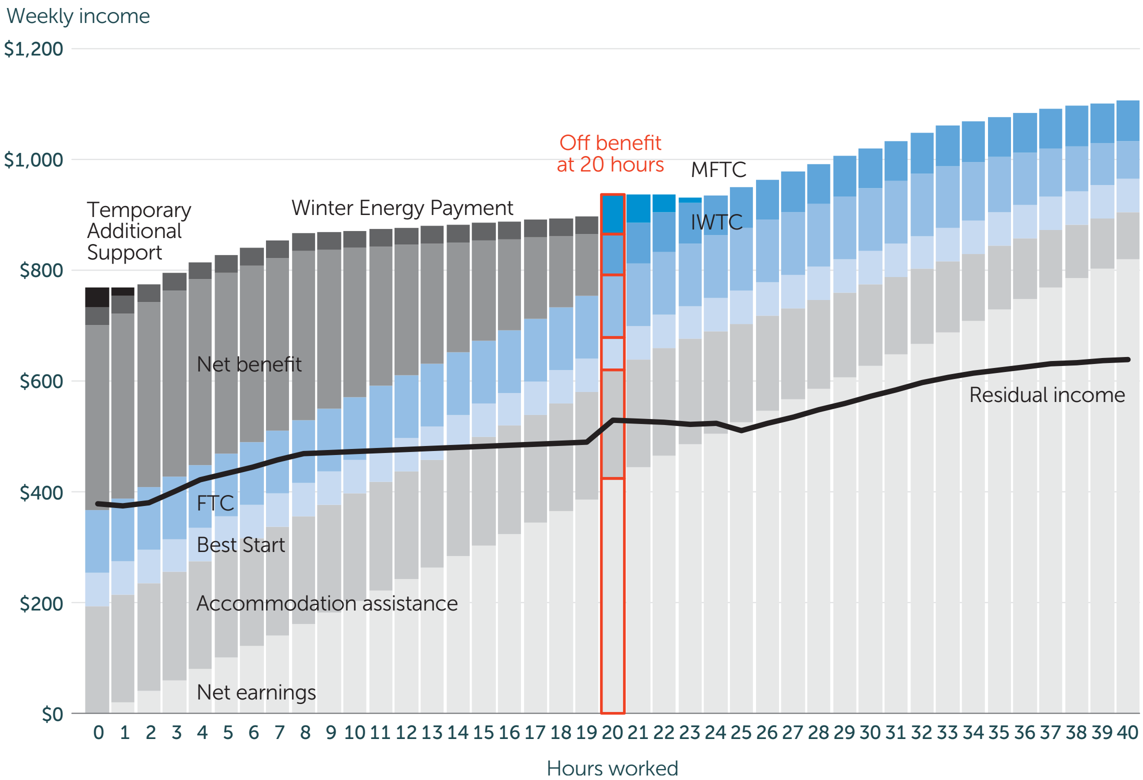
The residual income line also clearly shows that current financial incentives to work full-time for sole parents (in these circumstances, particularly those earning low wages) are relatively poor as there is little gain in income between working part-time and working full-time once these costs have been taken into account.

Another point to consider when interpreting these graphs is that people are unlikely to move up or down the graphs gradually. People tend to make 'lumpy' labour market decisions i.e. can I find part-time work (i.e. 20 hours) or full-time work (i.e. 40 hours)?

If this sole parent earned a higher hourly wage the graph would compress horizontally, with a shorter period of entitlement to MFTC. Both AS and Working for Families tax credits would also begin to reduce as their income increased further. This is demonstrated in Figure 4.

Figure 4: Weekly income, and source of income, as hours of work increase for a sole parent earning the average wage with one child

Sole parent | 1 child under 14 | Area 1 (South Auckland) | AS | $25 per hour

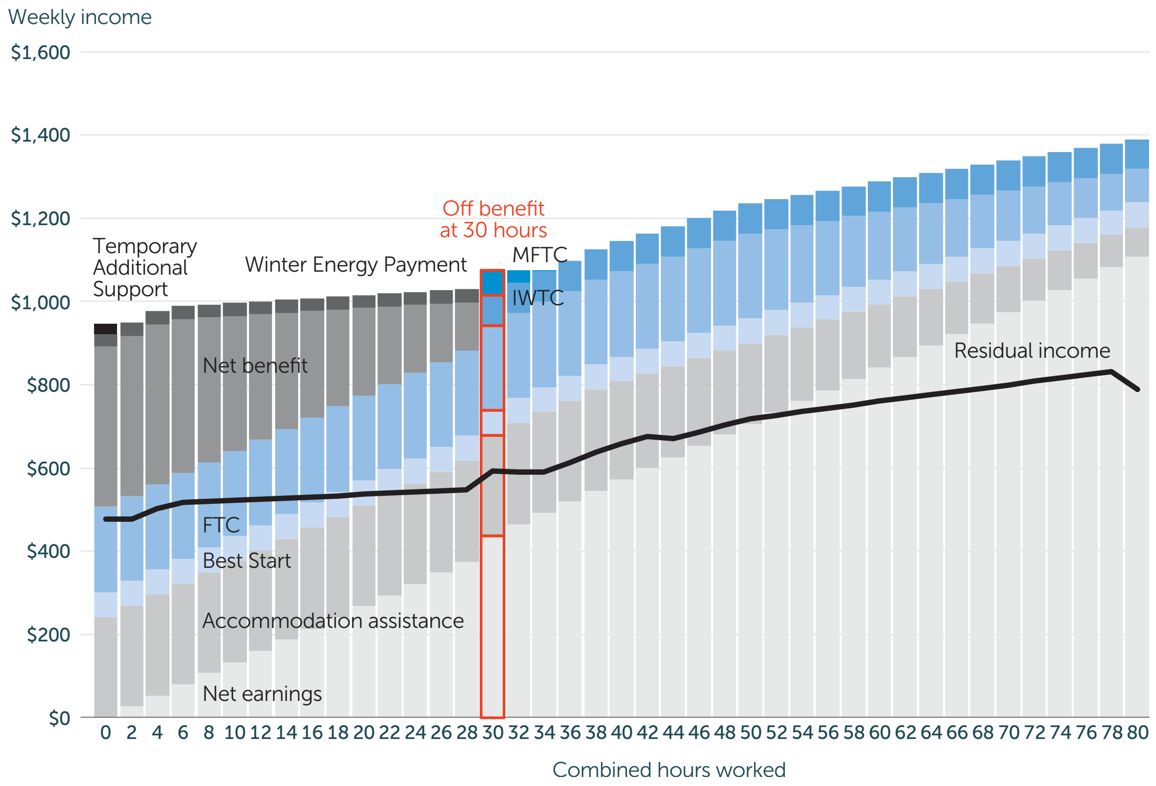


For sole parents who are able to earn higher wages, there are stronger financial incentives to move from part-time to full-time work.

Scenario 2: A couple with two children

Figure 5: Weekly income, and source of income, as hours of work increase for a couple earning the minimum wage with two children

JS Couple | two children | Area 1 (South Auckland) | AS | $16.50 per hour



In this graph the hours of work represent hours of work for a couple and assumes that both partners work the same number of hours and earn the minimum wage.

The top line of the columns shows the total income of the couple. Again, the gradient of the top lines of the columns shows the effective marginal tax rate the couple is facing, with a high (or close to 100%) effective marginal tax rate shown by a flat, horizontal line, demonstrating that as hours of work increase (along the horizontal axis), income does not increase much or at all (along the vertical axis). Alternatively, a steep line reflects a relatively low effective marginal tax rate.

Again, the black line shows the income the couple has remaining after their housing and childcare costs (and taking into account CCA), called their 'residual income'. Again, note that 'kinks' in the residual income line represent movements over the income thresholds for CCA (where the hourly subsidy rate drops).

Compared to the previous graph, the flat line representing the impact of the 100% abatement of MFTC applies to a much smaller number of hours – from 30 hours to around 35 hours of work.

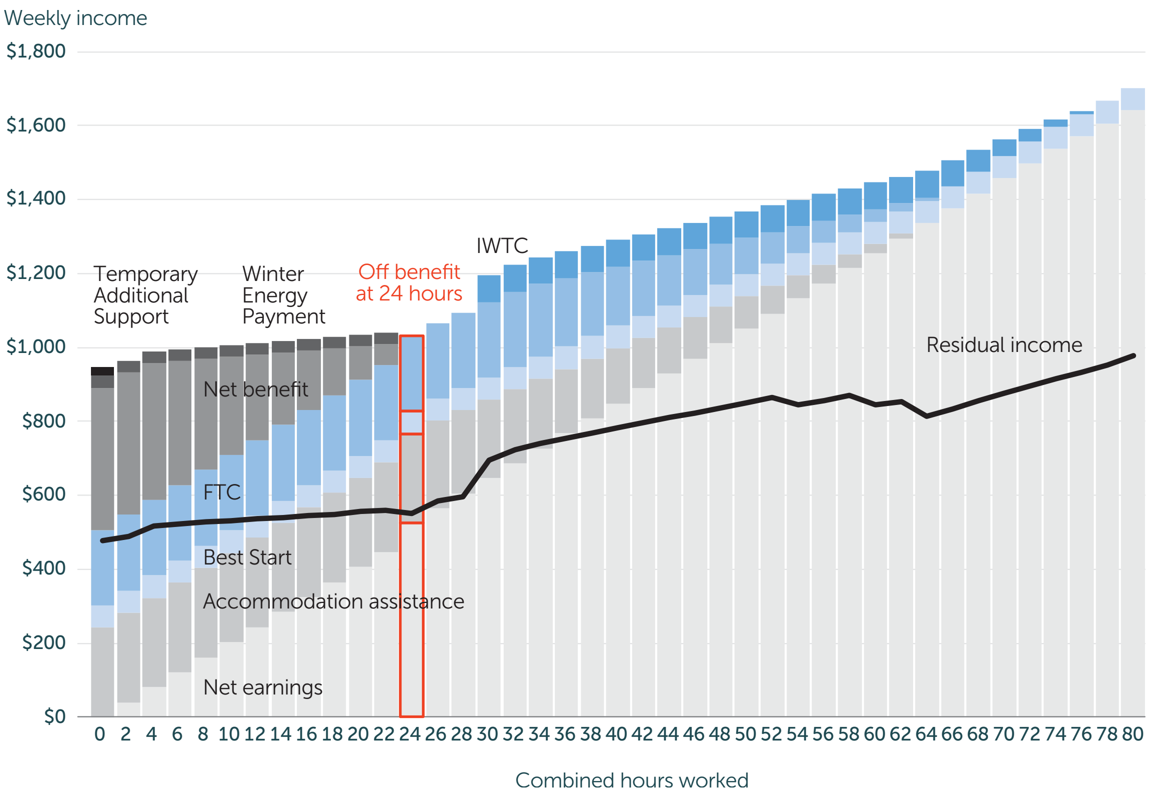
However, as with the sole parent, there is little financial incentive for the couple to work between 0 and 29 hours a week on low wages (with their gaining less than $100 a week between these two points). This is primarily driven by the relatively high abatement rate of their main benefit payment (70% above $80 a week, plus tax).

This graph also clearly demonstrates that couples (on low wages) have a weaker financial incentive than sole parents to leave the benefit system at 30 hours of work a week (this column is shown in red). However, they do not face such a high effective marginal tax rate over such a significant range of income, so the incentive to increase hours of work above 30 (on low wages) is greater.

Again, as with the previous graph, if this family earned a higher hourly wage the graph would compress horizontally, with no entitlement to MFTC. AS and Working for Families tax credits would also continue to reduce gradually. This is shown in Figure 6.

Figure 6: Weekly income, and source of income, as hours of work increase for a couple earning the average wage with two children

JS Couple | two children | Area 1 (South Auckland) | AS | $25 per hour

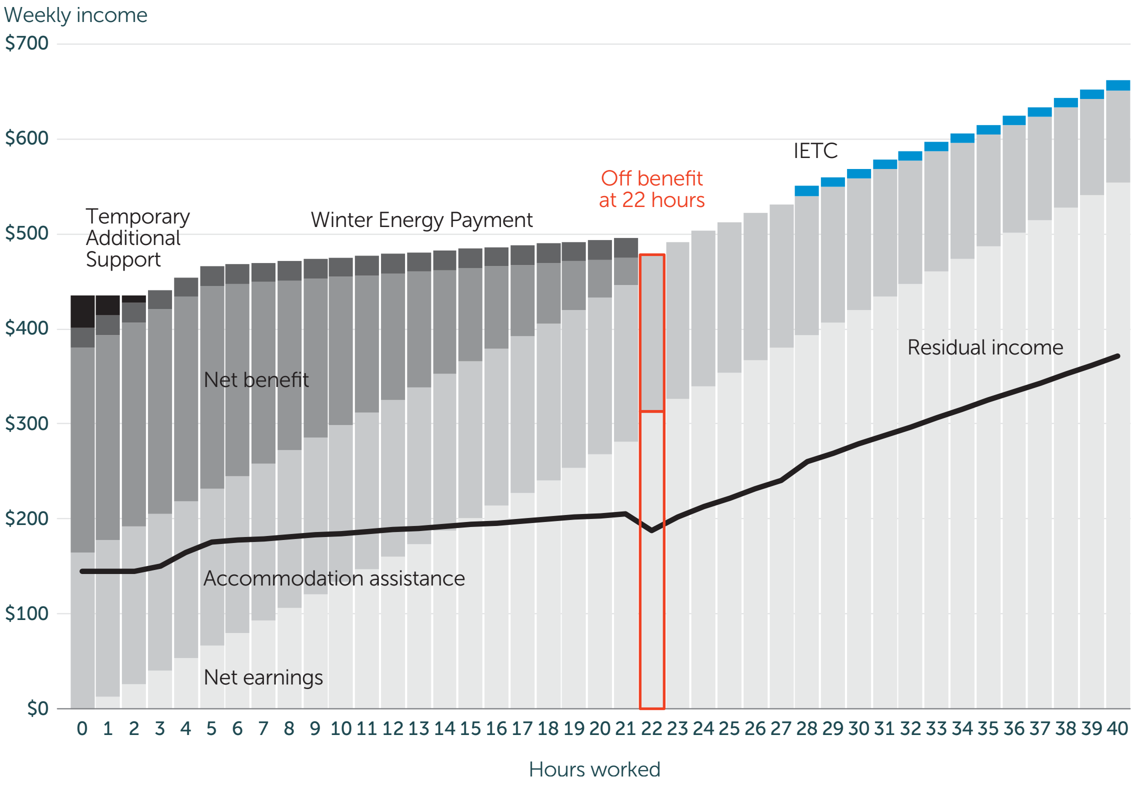


Couples earning average wages generally have even stronger financial incentives to move towards full-time work. However, this figure also clearly shows that a reduction in CCA can mean that people's residual incomes fall as they work more – in this graph the drop occurs between around 52 hours and 64 hours a week (on the average wage).

Scenario 3: A single person on Jobseeker Support

Figure 7: Weekly income, and source of income, as hours of work increase for a single person on Jobseeker Support earning minimum wage

Single JS | no children | Area 1 (South Auckland) | AS | $16.5 per hour



The top of the columns shows the total income of the person. Again, the gradient of the top of the columns shows the effective marginal tax rate the person is facing, with a high (or close to 100%) effective marginal tax rate shown by a flat, horizontal line along the tops of the columns, demonstrating that as hours of work increase (along the horizontal axis), income does not increase much or at all (along the vertical axis). Alternatively, a steep line reflects a relatively low effective marginal tax rate.

Again, the black line shows the income the person has remaining after their housing costs, called their 'residual income'.

The relatively flat line from around six hours to around 21 hours of work a week reflects the relatively high abatement rate of their main benefit (70% above $80 a week, plus tax). This demonstrates that there is little financial incentive to enter work between one and 24 hours of work, given that less than $100 a week is gained by this. This is also partly driven by their entitlement to TAS while they earn nothing or very little.

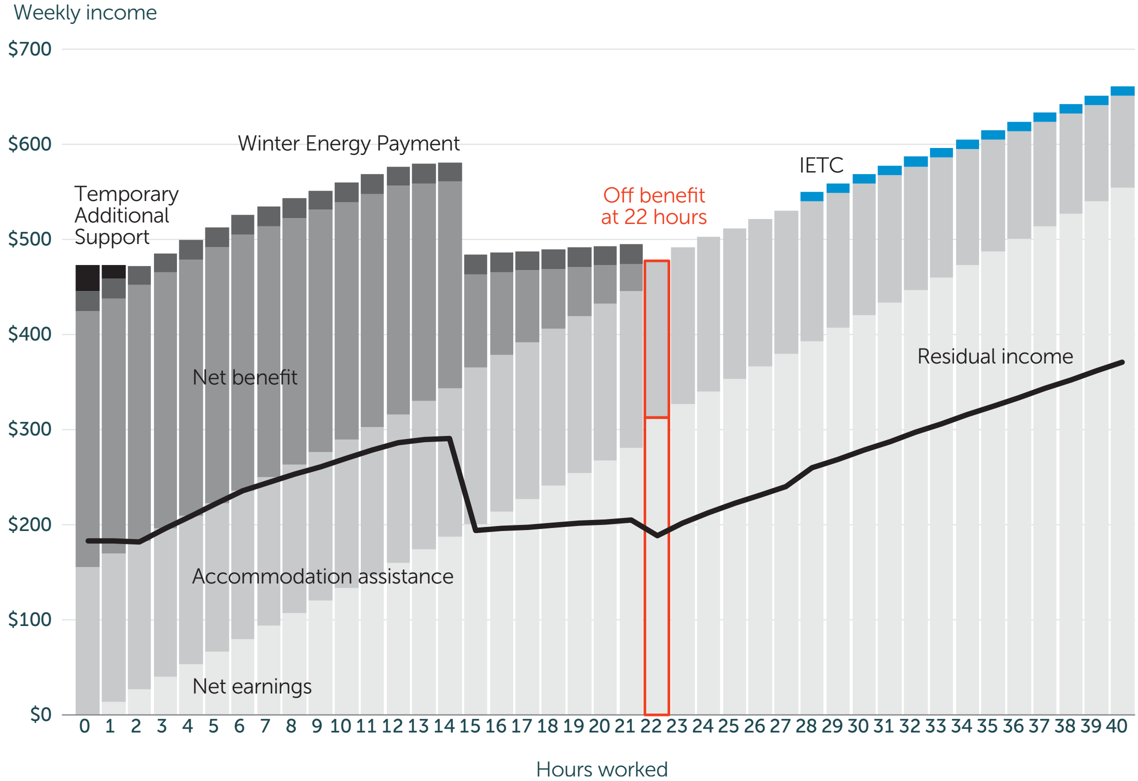
However, once they start working more than 28 hours a week they become entitled to IETC and receive a small income boost from that. They are also only entitled to Accommodation Supplement at this point, and this reduces at the relatively gentle rate of 25%, so gains from working more are not greatly eroded after that.

Again, as with the previous graphs, if this person earned a higher hourly wage the graph would compress horizontally, with a shorter range of hours over which their main benefit payment would be reduced. Both AS and IETC would also begin to reduce as their income increased further.

Scenario 4: A single person on Supported Living Payment

Figure 8: Weekly income, and source of income, as hours of work increase for a single person on Supported Living Payment earning the minimum wage

Single SLP | no children | Area 1 (South Auckland) | AS | $16.5 per hour



The top of the columns shows the total income of the person. Again, the gradient of the top of the columns shows the effective marginal tax rate, with a high (or close to 100%) effective marginal tax rate shown by a flat, horizontal line, demonstrating that as hours of work increase (along the horizontal axis), income does not increase much or at all (along the vertical axis). Alternatively, a steep line reflects a relatively low effective marginal tax rate.

The significant income drop shown on this graph is a result of the '15-hour rule' for SLP. If a person is able to work regularly for more than 15 hours a week, they lose eligibility for SLP and shift to JS–HCD.[24] This results in a significant drop in income.

Compared to the previous graphs, recipients of SLP have a strong financial incentive to work less than 15 hours a week. This is driven by the gentler abatement of their main benefit compared to JS, and the lack of a financial incentive to increase hours further.

24 Unless they are eligible for an exemption for severe disablement or are legally blind.

Key issues in the income support system

This paper describes the income support system in New Zealand, and the main payments available. Through this description of the payments and the ways in which they interact as people's incomes increase, it implicitly demonstrates some of the issues or problems present in the system. These are described briefly below.

The key issues or problems with income support are:

- complexity
- inconsistent and potentially inappropriate indexation
- low take-up of some payments, particularly in-work assistance
- increasing pressure on housing assistance and hardship assistance
- pockets of high effective marginal tax rates.

The combination of these issues suggests three main themes in the issues. These are:

- the adequacy of the income support system
- the compliance costs and user experience associated with accessing the system
- the incentives the system creates for people to seek work, or work more.

Complexity

As the description of the income support payments in this paper attests, the system is highly complex. This means, on the plus side, that it offers support for people in a multitude of circumstances, and targets this support to only those who need it, minimising the cost to government. However, the trade-off for this is a highly complex system that can be difficult for people to understand and navigate and is expensive to administer.

People may not be aware of what support they are entitled to, and they may not be aware of how their incomes will change if they work more or get pay rises. The burden of this complexity also disproportionately falls on people on the lowest incomes, who often have few resources to support them to navigate this complexity.

This complexity also creates particular problems for people whose circumstances change frequently, either by their moving in and out of the benefit system, or if their incomes change frequently.

There have been multiple previous attempts to simplify the system, e.g. the planned Working New Zealand (Single Core Benefit) Reform under the previous Labour Government. However, no substantial simplification has occurred, and supplementary assistance has generally become more complex and also become a more significant part of people's incomes over time.

While this paper is not focused on operational settings, it is worth noting that it is possible to simplify the underlying settings in a system (which this paper explores) and/or the user interface. It would likely be possible to improve the ease of navigating the system for users, without necessarily simplifying the underlying settings.

Indexation

While most payments are automatically indexed to either increases in inflation (measured by the CPI) or the net average wage, some payments are not indexed at all. Income and asset thresholds are also usually not indexed, and can only be increased through decisions by the Government.

There are obvious problems associated with not regularly indexing payments and thresholds – they lose value over time and mean that income support payments are relatively less generous over time, potentially increasing poverty and hardship, or reducing people's financial incentives to work as originally intended.

While governments may decide occasionally to increase payments or thresholds that are not regularly indexed, this is often very expensive (particularly if there have been no changes for a long time) and is not necessarily comprehensive. Key examples of payments that are not regularly indexed are:

- abatement thresholds for main benefits
- AS maximum payments and cash-asset test thresholds
- hardship assistance maximum one-off payments for particular costs.

This lack of indexation can have a variety of consequences; for example, the non-indexation of the AS cash-asset test (which has not been increased since 1989) means that people saving for house deposits – to shift from renting to home ownership – lose AS the more they save.

Even indexation to the CPI can mean that payments become relatively less generous, as wages tend to grow faster than inflation, so income thresholds that are indexed to inflation will not keep pace with wage growth. The minimum wage is currently planned to increase substantially in the next few years, from $16.50 per hour now to $20 in 2021, much faster than forecast inflation.

Indexation to the CPI also does not necessarily ensure that payments remain adequate over time. There are criticisms of the CPI as a measure of costs for families, particularly for low- and middle-income families accessing income support payments, as the 'basket of goods and services' used may not be representative of the costs that these families actually face (i.e. spending more of their incomes on food and rent).

Stats NZ has recently developed and released some new measures of costs for households called the household living-costs price indexes (HLPIs). These have been designed to more accurately measure costs for households, and are available for sub-groups in the population such as beneficiaries and by income quintiles.

MSD is currently exploring the potential use of HLPIs in the indexation of income support payments.

The overall impact of these issues on the adequacy of payments (i.e. the extent to which the overall package of income support payments is adequately meeting the living costs of the families receiving them) has not been comprehensively assessed recently.

Low take-up

It is difficult to measure whether income support payments are being received by everyone who is eligible for them i.e. if they have low take-up, particularly if these people are not in contact with Work and Income or IR. There are particular concerns about the take-up of some of MSD's assistance such as TAS, and some of the key in-work assistance payments such as AS and CCA. More information can be found in another paper prepared for the Welfare Expert Advisory Group on the take-up of income support.[25]

For TAS, indicative estimates suggest that around 33,000 to 53,000 people are potentially eligible for TAS and not receiving it. For AS, a rough estimate is that there may be up to around 100,000 people not receiving it who may be eligible. Most of the people not receiving AS are likely to be non-beneficiaries, with only around 10% of people leaving main benefits going on to continue receiving AS.

25 WEAG (2019e). The take-up of income support - analysis and options. Paper prepared for the Welfare Expert Advisory Group (WEAG), Wellington, NEW ZEALAND.

A lack of administrative data for CCA makes it too difficult to put a figure on the scale of low take-up. However, the income thresholds for assistance, the average incomes of families with children, and the relatively small number of families receiving CCA, suggests that there is likely to be low take-up. Again, CCA primarily gives support to non-beneficiaries.

Low take-up means that people are not receiving all of their entitlements. This may create higher levels of hardship, and, if affecting in-work assistance, may create poorer incentives to work (particularly if people are more likely to receive this assistance if they receive main benefits).

MSD has an active programme of work aimed at improving take-up, and plans to undertake further research to better understand current rates of take-up and how to best improve them.

Increasing pressure on housing assistance and hardship assistance

Recent trends indicate that there is considerable pressure on housing assistance and hardship assistance. The recent increases to AS maximum payments (1 April 2018) and other payments in the Families Package (1 July 2018) are likely to reduce this pressure in the short term.

In terms of housing assistance, the increasing differential between AS and IRRS, in the context of rapidly rising rents, has put considerable pressure on the Social Housing Register (people waiting for public housing) and transitional housing support. The number of people eligible for housing support on the Social Housing Register increased by 28% in the quarter to March 2018, and has increased by 62% since March 2017. Prior to the Families Package, recipient numbers for TAS were also continually growing, largely driven by accommodation costs.

The number of grants of hardship assistance has also increased significantly in the past two years. Most of the growth in grants has come from increased demand for food grants, with this rising by over 50% from March 2016 to March 2018.[26]

While the full impact of the Families Package has yet to be seen, these trends imply that there may be increasing problems with the adequacy of some income support payments.

High effective marginal tax rates

There are pockets of high effective marginal tax rates in the income support system. This is the trade-off associated with targeting payments, and they are likely to affect a relatively small number of people in certain circumstances.

Particular examples include:

- people receiving TAS – an effective marginal tax rate of 100%
- families with children receiving MFTC - an effective marginal tax rate of over 100% over a considerable amount of income if earning a low wage (between 20 hours and 35 hours of work at the minimum wage)
- people working part-time and receiving main benefits (mostly single people without children) - most facing effective marginal tax rates of around 90%
- families with children earning around average incomes – potentially facing effective marginal tax rates over 100% (the combined impact of the 30% income tax rate, the withdrawal of Working for Families payments [25%], AS [25%], CCA [four 'cliff-faces' of abatement] and student loan repayments [12%]).

These examples are illustrative and do not show the scale of any potential problems.

26 Though it is important to note that other factors may also be contributing to higher numbers of grants of hardship assistance.

Recipients of income support

This section first shows the how recipient numbers have changed in the past five years for[27]:

- main benefits
- selected supplementary assistance
- selected hardship assistance
- numbers of non-beneficiaries.

It then provides a summary table showing the key characteristics of recipients of main benefits, including their[28]:

- gender
- ethnicity
- age
- duration on main benefits
- family type.

This is followed by summary tables showing key characteristics of Working for Families recipients, including[29]:

- family type
- income
- number of children
- age.

27 All figures are based on the March 2018 benefit fact sheet: http://www.msd.govt.New Zealand/about-msd-and-our-work/publications-resources/statistics/benefit/index.html.

28 Ibid.

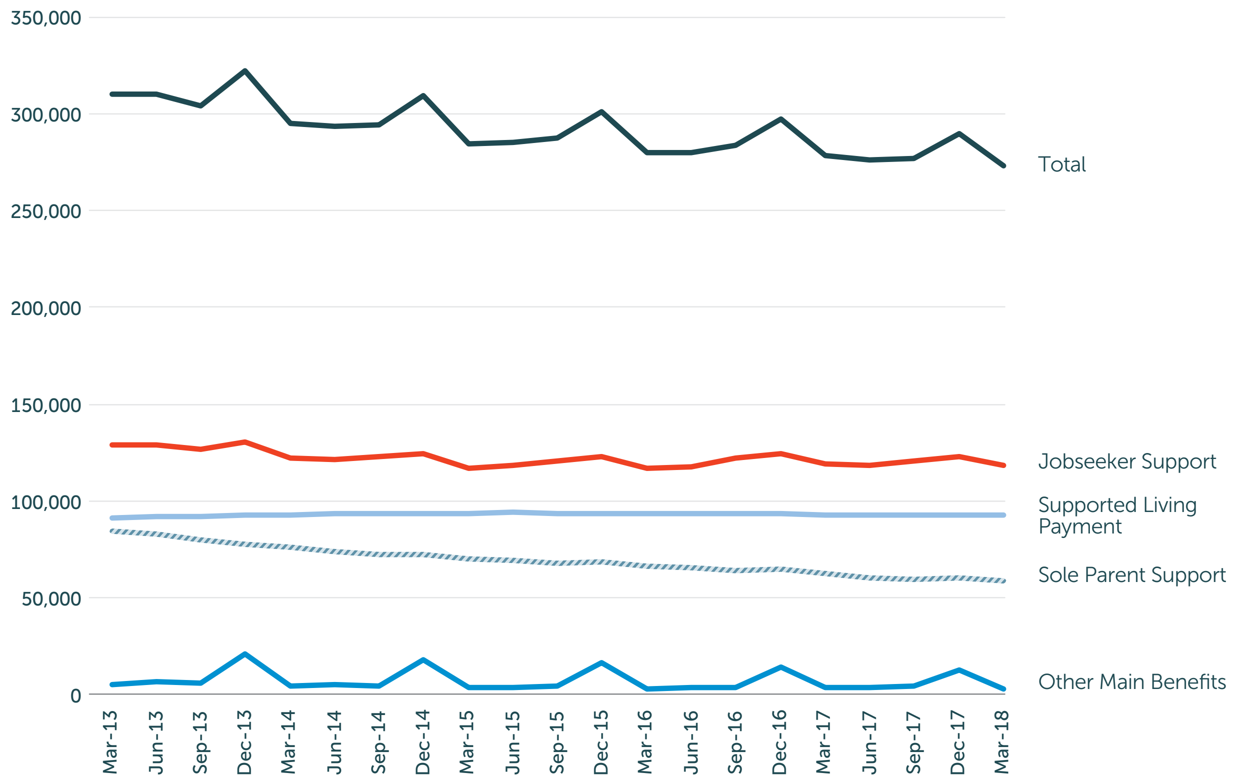
29 Figures provided by Inland Revenue.

Recipients in the past five years

Main benefits

Figure 9: Main benefit recipients from 2013 to 2018

Main benefit recipients 2013–2018



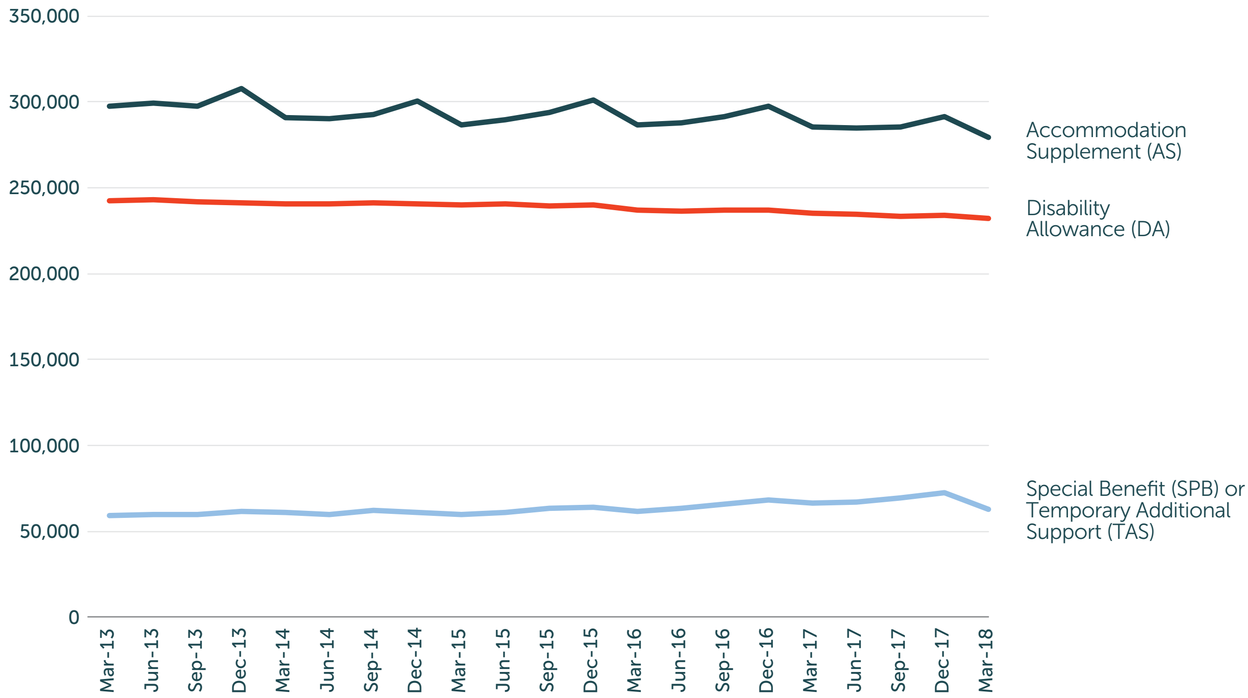
Main benefit recipient numbers have reduced by around 12% in the five years from March 2013 to March 2018.

- around 70% of the decrease is from fewer SPS recipients
- around 27% of the decrease is from fewer JS recipients
- SLP recipient numbers have increased slightly.

Supplementary assistance and Temporary Additional Support

Figure 10: Recipients of Accommodation Supplement, Disability Allowance and Temporary Additional Support from 2013 to 2018

Accommodation Supplement, Disability Allowance and TAS recipients 2013–2018

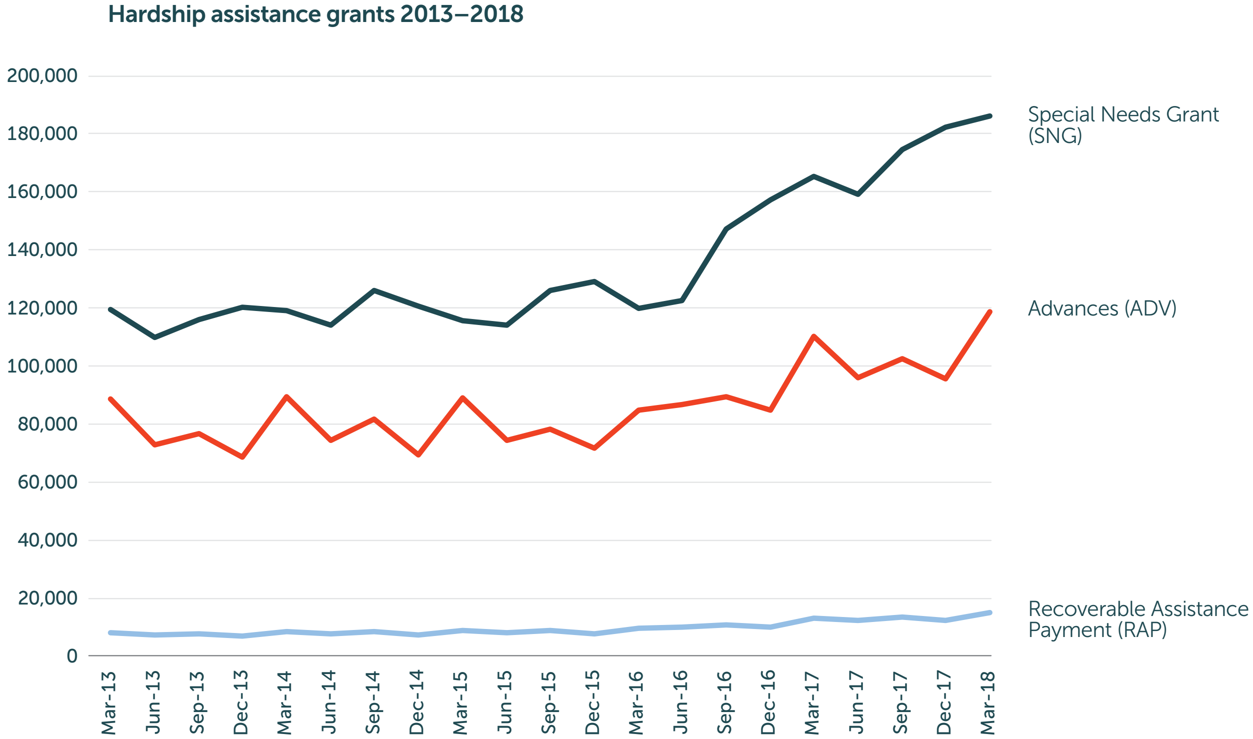


AS recipient numbers have fallen by around 6% in the last 5 years, and DA recipient numbers have also fallen slightly, by around 4%.

TAS recipient numbers have generally increased steadily in the past four years, and increased by 17% between December 2013 and December 2017. The Families Package (largely due to increases in AS) decreased the number of TAS recipients by just over 9,000 on 1 April 2018 (which is included in this data). However, TAS recipient numbers are still higher than they were four years ago, by around 7%.

Hardship assistance

Figure 11: Grants of Hardship assistance from 2013 to 2018



Hardship assistance grants have been increasing significantly in the past two years. Since 2013, grants of SNGs have increased by 56%, Benefit Advance Payments have increased by 34% and RAPs have increased by 87%. The recent increases have been surprising in the context of strong economic and employment growth and declines in the number of main benefit recipients.

Non-beneficiaries

Non-beneficiaries are people who do not receive main benefits, but who receive other payments such as supplementary assistance or hardship assistance.

There are currently (as at the end of March 2018) 58,511 non-beneficiary recipients. This number has been similar for the past five years.

Key characteristics of working-age recipients of main benefits

Table 14: Key characteristics of working-age recipients of main benefits

Mar-18	JS	SPS	SLP	YP & YPP	Other	Total
	%	%	%	%	%	%
Gender						
Male	54.1	8.2	50.3	8.8	43.8	42.6
Female	45.9	91.8	49.7	91.2	56.2	57.4
Ethnic group						
New Zealand European	37.1	29.4	49.4	21.2	11.5	39.4
Māori	37.3	47.7	25.5	54.1	36.8	35.7
Pacific peoples	7.6	10.7	6.7	9.6	14.0	8.0
All other ethnicities	14.7	10.0	15.1	2.9	25.7	13.8
Unspecified	3.3	2.1	3.3	12.2	12.0	3.1
Age group						
18-24 years	19.1	17.1	7.4	100.0	11.2	15.1
25-39 years	28.8	59.5	18.9	N/A	48.3	32.0
40-54 years	30.2	21.9	35.7	N/A	24.8	30.1
55-64 years	21.9	1.5	38.0	N/A	15.7	22.8
Continuous duration						
One year or less	43.4	25.9	4.9	45.0	44.2	26.6
More than one year	56.6	74.1	95.1	55.0	55.8	73.4
Family composition (Dec-17)						
Single - no children	80.4	0.1	82.9	*	68.8	63.7
Single - with children	10.1	99.9	9.2	*	26.5	29.6
couple - no children	3.8	0.0	5.2	*	1.7	3.3
couple - with children	5.8	0.0	2.7	*	2.9	3.4

Key characteristics of Working for Families recipients

Table 15: Family type of Working for Families recipients by tax credit

% of total	Family tax credit	Minimum family tax credit	Parental tax credit	In-Work tax credit	Total
Family composition - numbers					
Sole parent	56.1	91.3	7.6	37.4	47.6
Couple	41.0	8.7	92.4	62.6	50.7
Unknown	2.9	*	*	*	1.6

Table 16: Key characteristics of Working for Families recipients

Income range	Total	Single	Couple
2015 tax year		%	
Nil	2.2	3.1	1.4
$0-$20k	28	43.4	7.6
$20k-$35k	21.1	26.7	15.1
$35k-$55k	20.3	17.4	24.7
$55k-$70k	8.3	6.1	20.5
$70k-$100k	13.4	3	25.6
$100k+	2.4	0.2	5.2

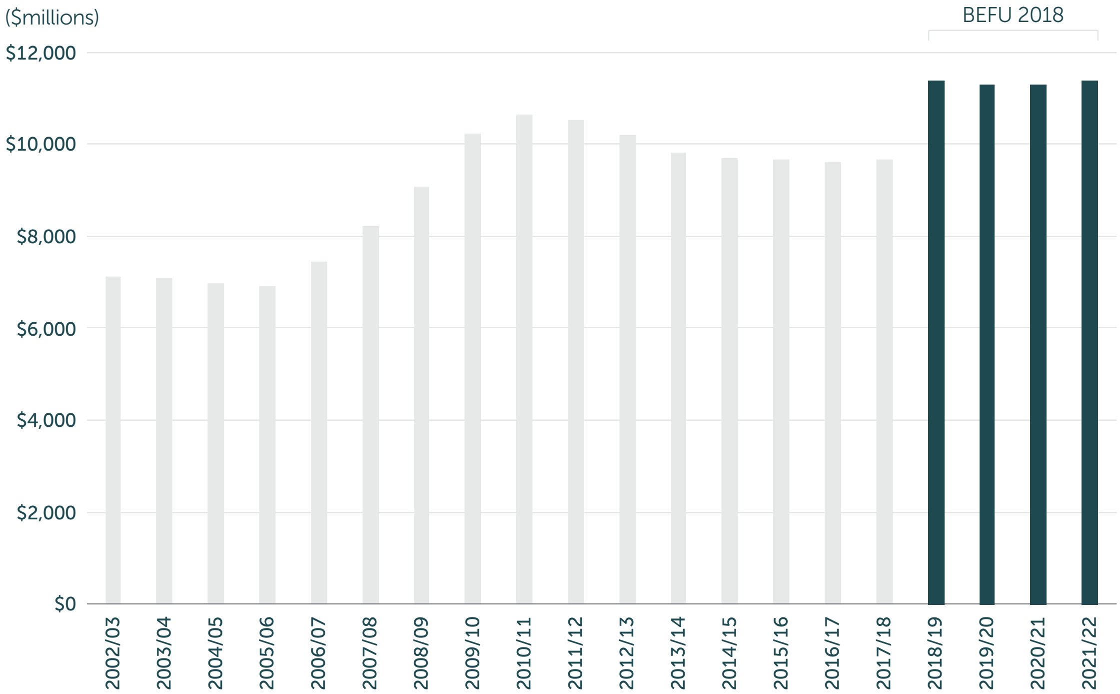
Number of kids	Of families	Of children
	%	
1	39.5	20.1
2	34.2	34.8
3	15.8	24.1
4	5.9	12.0
5	2.0	5.1
6+	1.2	3.9

Age group	Total	Single	Couple
		%	
16-19	1.0	1.2	0.5
20-29	21.3	23.2	18.3
30-39	33.6	29.3	39.1
40-49	31.8	31.8	32.5
50-64	11.7	13.7	9.1
65+	0.7	0.8	0.5
Overall		**53.0**	**47.0**

Government spending

Figure 12: Total working-age welfare spending ($ million), 2002-2021

Total Benefit Expenditure and Tax Credits less NZS



The grey columns show historical spending, and the dark blue columns show forecast spending.

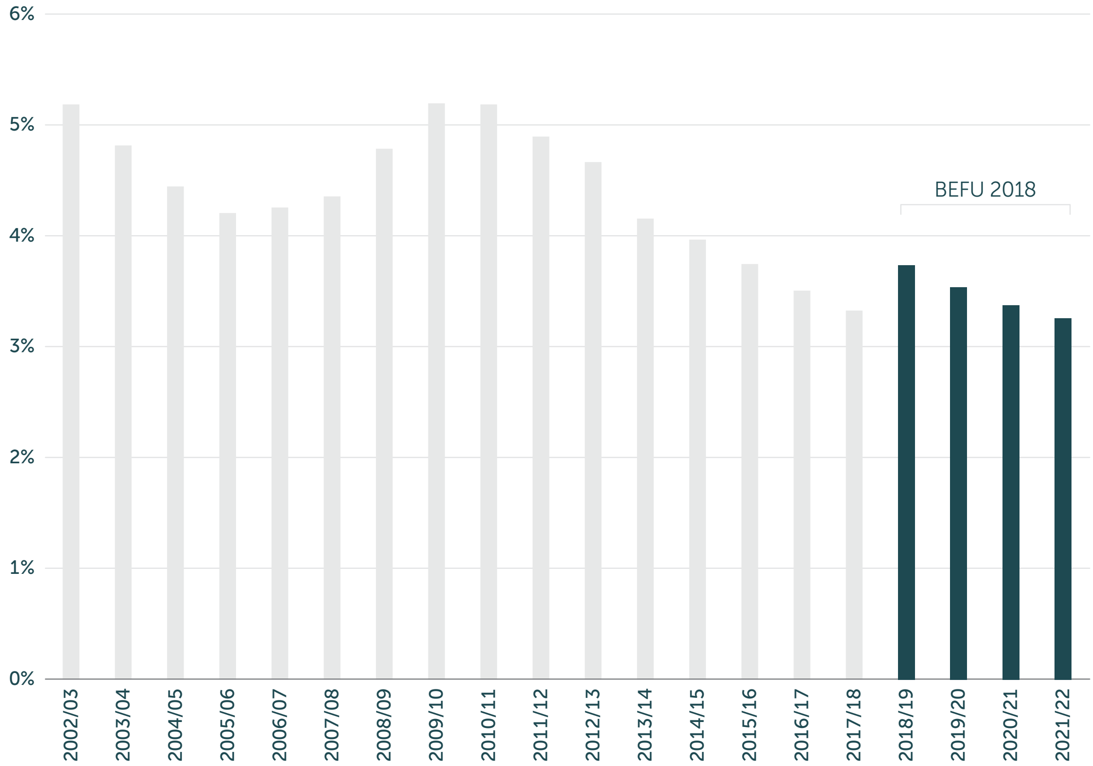
Since 2002 working-age welfare spending (including main benefits, Working for Families tax credits, and supplementary and hardship assistance) has increased in dollar terms. Part of the increases after 2005 can be attributed to the introduction of Working for Families, and from 2008 to 2010 the impact of the Global Financial Crisis (and domestic economic downturn) can be seen to have increased spending (as unemployment rose).

Between 2010 and 2016 overall welfare spending fell slightly, reflecting the economic recovery and potentially the impacts of welfare reforms, and changes to Working for Families that kept spending and recipient numbers relatively flat.

The increased welfare spending forecast from 2018 onwards is largely the result of the Families Package changes (increases to the FTC, AS, OB/UCB and FCA and the introduction of WEP and BSTC).

Figure 13: Total working age welfare spending (% GDP), 2002–2021

Total Benefit Expenditure and Tax Credits less NZS as Proportion of Nominal GDP



The grey columns show historical spending, and the dark blue columns show forecast spending.

Since 2002 working-age welfare spending has generally fallen as a percentage of GDP (Gross Domestic Product). From 2002 to 2007 GDP growth was strong, and welfare spending fell in comparison.

This falling trend was reversed through 2006 to 2010, largely due to the factors described in Figure 12 (the introduction of Working for Families and then the economic downturn and Global Financial Crisis causing GDP to fall over this period).

Since 2010 economic growth has been strong while welfare spending has slightly declined, leading to a strong decline in welfare spending compared to GDP, dropping from just over 5% of GDP in 2010 to 3.3% of GDP in 2017/18.

The Families Package caused welfare spending to increase compared to GDP in 2018/19 (up to 3.7% of GDP). However, strong continued GDP growth forecast from 2018 onwards sees welfare spending forecast to decline steadily relative to GDP growth in future.

Further reading

Nolan, P. (2018) Effective marginal tax rates: The New Zealand case. *New Zealand Productivity Commission Working Paper 2018/01*

https://www.productivity.govt.New Zealand/working-paper/effective-marginal-tax-rates-the-new-zealand-case

Raven, J. (2015) Financial incentives to work: the size of the margin between benefit and in-work incomes. *Policy Quarterly Vol 11 No 4*

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