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Kia Piki Ake Welfare Expert Advisory Group

Understanding Benefit Debt

BACKGROUND PAPER

Benefit debt, understanding where we are now

Purpose

This paper gives an overview of benefit debt and aims to provide an understanding of how benefit debt happens. It captures information relating to all Social Security Act related debtors and includes New Zealand Superannuation related debt.

It also provides information on the Ministry of Social Development (MSD) Service Delivery debt management framework.

Benefit debt can be categorised loosely into three areas:

- Overpayments of benefit entitlement or money received. This normally happens when someone has continued to receive money that they were not entitled to, but were not intentionally seeking to receive these funds.
- Hardship Assistance Debt (Advances, Recoverable Assistance Payment, Recoverable Special Needs Grants)
- Fraud-related debt, where it has been found that someone has intentionally set out to receive or benefit from money that they were not entitled to.

This paper, in part, will explore the first two categories.

The Welfare Expert Advisory Group (WEAG) have noted the work under way by the government to curb companies that prey on marginalised communities with exorbitant interest rates and questionable practices. This paper will provide high-level information on the activities that are currently in place to support families in building their financial capability.

> "Growing evidence suggests that experiences of financial strain and over-indebtedness can contribute to problems of physical and mental health."[1]

Increasing debt is another result of a complex system with low levels of financial support. Debt can result from the need to seek extra help for essential costs. It also results from the accidental overpayments of benefit that are common in the complex income support system. Debt causes additional stress, is very hard to repay on a low income and reduces the returns from paid work. Financial pressure, including high debt levels, has an impact on the wellbeing of families.

1 International Journal of Health Services, Volume 41, Number 3, pages 525–538, 2011 https://core.ac.uk/download/prd/5222578.pdf

Snapshot of benefit debt

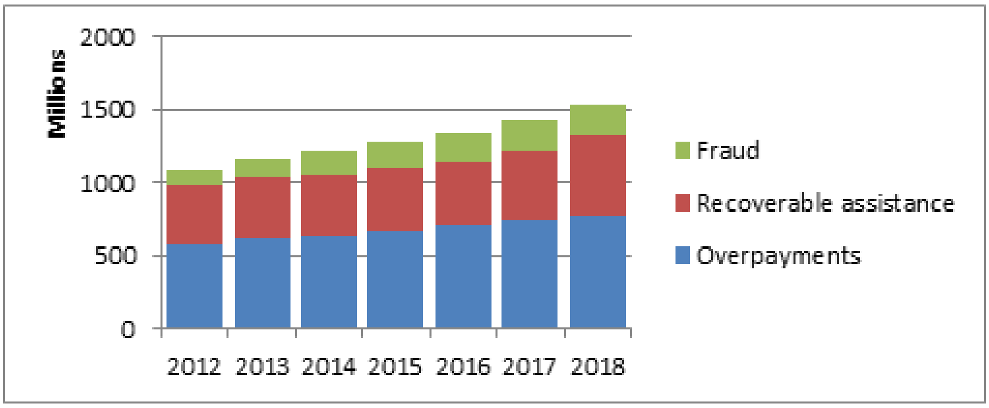
As of June 2018, there was a total of $1.53 billion accumulated benefit debt owing to MSD.[2]

This debt is made up of:

- $768.7 million in overpayments
- $557.8 million in recoverable assistance
- $210.8 million in fraud-related overpayments.

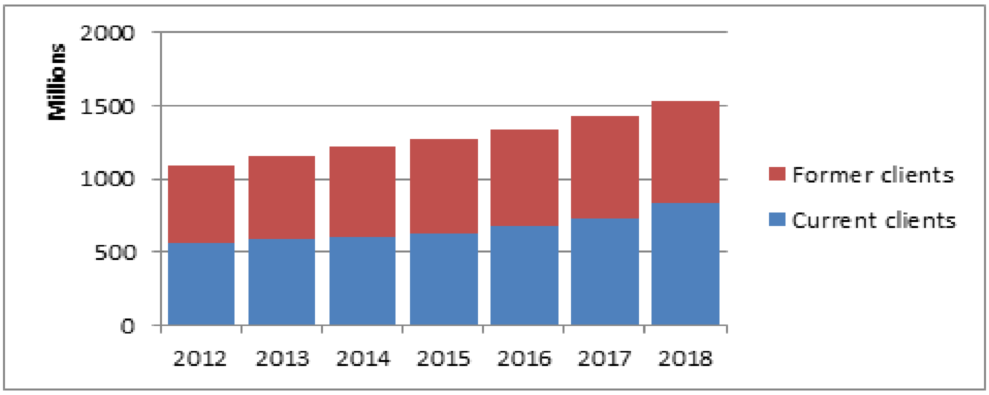
As figures 1 and 2 show, this debt has been increasing over recent years amongst current and former clients.

Figure 1: Total debt balances owed by debt type in the financial years ending June 2012 to June 2018[3]



SOURCE: MSD administrative data.

Figure 2: Total debt balances owed by current and former clients in the financial years ending June 2012 to June 2018[4]



SOURCE: MSD administrative data.

Most debts are the result of small overpayments and recoverable assistances, but a small proportion of clients have high value debts. As at June 2018, 514,062 clients owed $1.53 billion. This is an overall average of $2,976.29 per person. There is a small variation when looking separately at current or former clients ($2,988.94 average across current clients and $2,985.24 average across former clients).

2 MSD administrative data.

3 Full data Appendix 1.

4 Full data Appendix 1.

The total benefit debt is increasing year by year. There has been a significant increase of 14.7% in hardship assistance in 2018 from 2017. There have been much smaller increases in the benefit overpayments (which increased 4.1%) and fraud-related payments (which increased by 3.3%).

Table 1: Total debt established and recovered in the financial years ending June 2012 to June 2018

	2012	2013	2014	2015	2016	2017	2018
Established	$378.5 m	$374.0 m	$371.0 m	$372.2 m	$401.5 m	$434.1 m	$460.6 m
Recovered	$291.7 m	$278.2 m	$284.1 m	$292.2 m	$292.0 m	$294.0 m	$319.7 m
Total	**- $86.8 m**	**-$95.8 m**	**-$86.9 m**	**-$80.0 m**	**-$109.5 m**	**-$140.1 m**	**-$140.9 m**

Overall MSD has established more debt each year than what is being recovered (Table 1). This is primarily due to the relatively low rate of repayment that can be afforded by those incurring the debt. MSD must balance its responsibility to provide support to New Zealanders alongside its legislative duty to recover debt.

Current and non-current debt

"Current debt" is debt that belongs to people who are in receipt of income support. Most current debt comes about through recoverable hardship payments or through an overpayment of benefit entitlement. When a person's benefit is cancelled, any debt is transferred to the MSD internal collection unit, who will make contact with the person and arrange debt repayments. This is referred to as "non-current debt". Benefit debt is transferred back from non-current debt if a person returns to receiving a main benefit. This means that the debt can be reactivated and is then known as current debt. Once a debt is considered recoverable, MSD does not change the language in its letters to differentiate between recoverable assistance, overpayment and fraud-related overpayment. It is all rolled up into one total and often referred to simply as debt, or money owed to MSD.

Requirement to seek repayment of benefit debt

MSD is required to seek repayment of all debts established and owed to the organisation. Regulation 206 of the Social Security Regulation 2018[5] outlines which payments are considered a debt. It also confirms that debts are any penalty, benefit paid, advances or other grants of special assistance made under the welfare payment.

MSD has a legislative duty to recover outstanding debts. Though there is flexibility in deferring repayment temporarily, or the rate at which it is repaid, once a debt is determined as liable, MSD must take all reasonable and practical steps to recover the debt.

5 From 26 November 2018, the Social Security Act 2018 was enacted. Regulation 206 replaces Section 85 and 85A of the Social Security Act 1964.

Current recipients income support

If a person incurs an overpayment while receiving a benefit, the debt will be recovered by deducting a small amount from the person' regular benefit payments. If the person is in hardship, recovery of the debt can be placed on hold until they are in position to start repayments.

If a person receives extra assistance in the form of recoverable Special Needs Grants or advance payments of benefit, these normally need to be paid back before the person can access these in future. The amount of repayment is based on the type of assistance provided and the person's ability to repay.

The recommended maximum recovery rate for people receiving current income support is no more than $40 a week, unless they volunteer to pay more.[6]

Certain forms of deductions take priority over others for current clients and sometimes have different protected earnings rules around them.

Highest priority

- Child support deductions made under the Child Support Act 1991
- Inland Revenue tax deductions
- Ministry of Social Development debt repayments including Liable Parent Contributions, child maintenance debts and Major Repairs Advances, student allowance debt, student loan debt converted to Ministry of Social Development debt, income-related rent from historical Housing New Zealand debt, income-related rent from Ministry of Social Development debt
- Attachment orders made under the Family Proceedings Act 1980
- Court attachment orders issued under the Summary Proceedings Act 1957
- Court attachment orders issued under the District Courts Act 1947

Lowest priority

No attachment order can take a person's total income below the "protected earnings" rate (whether on its own or when combined with any other attachment order, Child Support deduction or Ministry of Social Development debt repayment). Protected earnings are the percentage of income that must not be reduced by deductions or are a maximum that can be taken due to deductions.

Child support deductions are the highest priority and no more than 40% of a person's net income can be deducted. Where child support deductions and debt repayments will exceed 40%, debt deductions need to be reduced to ensure that this does not happen.

Former recipients of income support

When a person's benefit is cancelled and there is an outstanding debt, this debt is referred to MSD's internal collections unit for recovery.

Former income support recipients with debt are encouraged to contact MSD to negotiate a suitable payment arrangement based on their ability to repay. If no contact is made, MSD will look at other methods of recovery, such as initiating deductions at the source of income. If the person is in hardship, they can negotiate for the debt to be placed on hold for a period.

6 https://workandincome.govt.nz/map/income-support/core-policy/current-client-debt/debt-recovery-maximum-01.html

Information regarding repayment guides and what happens if people do not repay debt has been published on the MSD website, see bellow excerpt.[7]

Table 2: Repayment guide

The table below is a guide to weekly repayments based on the amount you owe.

Debt amount less than $2,000	$2,000–$3,500	$3,500–$5,000	$5,000–$6,000	$6,000–$8,000	More than $8,000
$25 a week	$30 a week	$35 a week	$40 a week	$45 a week	$50 a week

If you don't pay your debt

We will try several times to contact you about your debt.

If you don't respond, we will seek to get the money back in other ways.

To find out your current circumstances we compare information with other government agencies, for example, Inland Revenue. There are legal steps we can take that allow us to recover your debt by making deductions from your wages or bank account without your consent.

Ability to write debt off

MSD is required by law to recover debt. Under Regulation 208 of the Social Security Regulations 2018,[8] MSD can normally write off debt only if it resulted from an error that the person had not intentionally contributed to.

If it is established that the debt was created by error, **MSD considers all the following criteria to determine whether writing off the debt is the appropriate course of action.**

These are:

- Whether they intentionally contributed to the error
- Whether there's any change in their position
- Whether the money was received in good faith
- Whether it would it be inequitable, given all the circumstances, to recover the debt

The Chief Executive of MSD also has the authority to write off certain debts under the Public Finance Act where all reasonable practical steps to recover the debt have been taken and where all avenues have been exhausted. This authority may used, for example, when someone has died and the estate is insolvent, when someone becomes bankrupt or when an Official Assignee has recognised under the No Asset Procedure that the person is insolvent with no realisable assets.

7 https://workandincome.govt.nz/on-a-benefit/debt/repaying-debt-not-on-a-benefit.html

8 From 26 November 2018, the Social Security Act 2018 was enacted. Regulation 208 replaces Section 86 (9a) of the Social Security Act 1964.

Overpayments

As at June 2018, there were $768.7 million in debts to MSD originating from overpayments, representing 48% of all debts to MSD.

Overpayments can be created through a change in circumstances, through information sharing with Inland Revenue and other data matching agencies and changes to income-related rent overpayments.

Overpayments can also be a result of trying to comply with a very complicated income support system, which does not adapt well to changes in circumstances. There are inconsistencies throughout MSD in how income is defined and how the impact on a benefit is determined. Whether it is declaring income to the Contact Centre, declaring it online through MyMSD[9] or declaring it face to face with a case manager, charging income and assessing the correct rate of assistance payable is difficult for income support recipients and staff.

Preventing incorrect payments has been a priority for the MSD to help minimise debt. The Ministry has data-match agreements with a number of agencies and will engage with people based on the information it receives from these agencies. These matches are managed by the MSD's Integrity Intervention Centre (IIC).

The role of the IIC involves:

- Minimising debt by stopping payments that are paid incorrectly
- Reviewing entitlement and advising people of any money that may need to be repaid and why
- Offsetting overpayment debt against benefits currently being received
- Referring cases for fraud investigation
- Referring cases to the appropriate business unit to review the person's entitlement to benefit, which will often require a face to face appointment to discuss the individual circumstances.

Table 3 outlines the data matches between MSD and other agencies:

Table 3: Data matches

Agency	Type of match
Inland Revenue (IR)	Data match of student allowances to confirm those students receiving income
Inland Revenue (IR)	Information sharing to show people earning income from salary and wages and receiving a benefit
Accident Compensation Corporation (ACC)	Data match of all recipients of ACC, showing when ACC payments start or stop. If decisions are made retrospectively by ACC, this match will cause a retrospective review of any benefit entitlements.
Department of Corrections	Data match of people going to or being released from a Corrections facility, including those being held on remand
Customs	Data match of all people departing the country or arriving in the country

9 An online service provided by MSD for people to interact and declare changes in their situation.

Agency	Type of match
Department of Internal Affairs	Deceased person's match (which is registered in New Zealand)
Department of Internal Affairs	Identify verification match
Department of Internal Affairs	Name change match
Department of Internal Affairs	Marriage match
Ministry of Justice	Warrants to arrest match

The Inland Revenue data match is the most active of all those managed by IIC. It has been in place since March 2013. Each month, Inland Revenue provides MSD with a file of people who are earning income from employment (salary and wages) and also receiving a benefit, allowing MSD to confirm eligibility.

Each month, approximately 50,000 people appear on the monthly report and of these around 27,000 or 54% have declared their income correctly and are receiving their correct entitlement.[10] For the remaining people, their information is checked to determine what their correct entitlement is. Where income has not been declared, overpayments will occur.

In all cases, MSD should advise the person that a debt has been established and explain how it has come about, pointing out that it is recoverable and providing repayment options. For current income support recipients, repayments will be recovered by deducting a small amount from the client's regular payments. For former income support recipients, the debt will be managed by MSD's internal collection unit.

There should also be clear information on what steps the person can take if they disagree with the decision or would like to lodge a review of decision.

Of all review of decisions (RODs) for the year ending June 2018, 22% were related to overpayments.[11]

For the period July 2017 to June 2018, MSD received 5,000 RODs. Of these, 1,090 were related to overpayments. The RODs generally were about whether the overpayment was established, the amount of the overpayment or the repayment amount.

Of the debt-related RODs, 41% had a change to the decision, either partially upheld or fully overturned.

10 MSD administrative data.

11 MSD administrative data.

Hardship assistance debt

As at June 2018, there were $557.8 million in debts to MSD originating from hardship assistance, representing 36% of all debts to MSD.[12]

The current system of hardship assistance includes three payments:

- *Benefit Advance Payments (ADVs)*: for people receiving a main benefit – is always recoverable and can be, as a guide, up to six weeks of a person's net benefit entitlement
- *Recoverable Assistance Payments (RAPs):* for people not receiving benefits who meet income, asset and other eligibility – is always recoverable
- *Special Needs Grants (SNGs):* not related to a person's beneficiary status – can be recoverable or non-recoverable.

All ADVs, RAPs and some SNGs are recoverable payments, and when granted they always create a debt to the recipient. For recoverable payments, staff must negotiate a repayment arrangement before the application is approved, and repayment is expected within twenty-four months after the payment is granted unless exceptional circumstances exist. The debt will often be on top of other debts owing. As a consequence, a person may also end up with multiple debts where they receive a second or subsequent grant before they've repaid the first grant. In addition to other qualification criteria, all these hardship payments require that there is an immediate, essential or emergency need that the client cannot meet from their own resources.

Improving the adequacy of benefits and improving the efficiency of systems around main benefits and secondary assistance, such as the Accommodation Supplement, are likely to have flow-on effects on the demand for hardship assistance and reduce the need for people to go into debt to meet immediate and essential costs.

12 MSD administrative data.

Service Delivery Debt Management Framework

The MSD Service Delivery Debt Management Framework focuses on prevention and early intervention. It has four strategic themes focused on minimising debt:

Making it Easy
People find it easy to understand and meet their obligations to tell MSD about their situation and when it changes

Working Smarter
MSD's systems, information, practices and processes support effective debt management

Working Together
MSD will partner with other agencies to more effectively manage debt

Reviewing Policy & Legislation
Policy frameworks support effective debt management

One of the main drivers of benefit debt growth is hardship assistance payments. This is increasing at a significantly higher rate than any other area.

MSD want to make it easier for people to do the right thing and harder for them to get it wrong. Overall the strategy is aimed at reducing the level of debt growth by creating less debt and becoming more effective at recovering outstanding debt. Initiatives include an obligations review, a review of the correspondence that MSD sends to people and the ongoing development and refinement of MyMSD and channels of declaring a change in circumstances.

It is also apparent that the income support system needs to be simplified so people and staff can more readily engage with the system and the levels of unintended over or underpayment are reduced.

Building Financial Capability

Building Financial Capability (BFC) was the result of a major co-design process between MSD and more than 500 people to explore how budgeting services could better meet the needs of people experiencing hardship. The result has seen MSD change the funding and delivery of budget services to a model that places clients at the centre and supports them to build their financial capability and resilience.

MSDs focus for Building Financial Capability services is on people living in hardship who are excluded from a minimum acceptable way of life in their own society. It is based on strong evidence that improving financial capability can improve outcomes for people living in hardship. Improved financial capability leads to improved financial resilience, which in turn can have positive effects on wellbeing by improving a wide range of social and health outcomes through employment, improved health, housing and education. Reducing New Zealander's financial hardship is important to improve outcomes and break intergenerational transfer of poor outcomes.

BFC takes a strengths-based approach to empower people to get control of their money, set goals and achieve long-term, sustainable change. BFC offer a variety of services designed to support people who are experiencing extreme levels of financial hardship and complex need. The services, products and supports that are currently contracted through MSD include the following:

- Financial mentors – one-on-one service focused on helping people, families and whānau with their finances
- MoneyMates – peer-led support group programme that encourages people to learn from others as they talk about money and finances in a group situation
- BFC Plus – intensive support for people with more complex needs
- The Generator – support for vulnerable communities with a focus on generating prosperity through community action and enterprise
- MoneyTalks – free financial helpline that provides confidential advice to people in difficulty and connects them with BFC services in their community
- BFC Fund – initiative to support communities experiencing hardship to become financially capable and resilient
- Community Finance Initiative – affordable credit for individuals and whānau on low incomes.

MSD has commissioned a five-year evaluation of BFC and its products. The evaluation is a partnership between MSD, the National BFC Trust, the Building Financial Capability provider sector and the evaluation team. The evaluation team is working alongside the BFC sector, testing the effectiveness of the new products and supporting the continuous improvement of BFC products for people, families and whānau in hardship.[13]

An interim evaluation of the BFC Plus showed that there is a need for a skilled, capable and equipped workforce to support low-income families and that when an intensive support is in place, and where the individual themselves has engaged, there has been significant debt reduction for whānau.[14]

13 http://malatest-intl.com/wp-content/uploads/BFC-Evaluation-Information-Sheet-20180725.pdf

14 http://malatest-intl.com/wp-content/uploads/BFC-Plus-A3-23052018.pdf

FinCap

FinCap has been contracted by MSD to provide eight core activities related to BFC. This is separate funding to the delivery of the core BFC services, products and supports.[15]

FinCap activities are:

- Workforce development, frameworks and training delivery to induct and upskill financial mentors and boost service and governance standards in the BFC sector
- Quality assurance standards and support
- Access to shared technology platforms and analysis and sharing of information and data to enable BFC sector providers to better capture, understand and evidence the value of their interventions
- Accords and strategic partnerships to increase cross-sector collaboration with the aim of supporting clients of BFC sector providers – partnerships including, but are not limited to, government, financial institutions and other third parties
- Organisational support for BFC services, including the provision of information (newsletters, website, social media) and common services (for example, indemnity insurance, helpline and related services)
- Communities of practice meetings to develop collaboration between local budgeting services, with the aim of promoting continuous improvement throughout the sector
- Innovation/research and development to promote efficiency in the sector and ensure service quality is supported by the latest best practice
- A shared sector voice including advocacy and engagement with government and media.

15 https://www.msd.govt.nz/what-we-can-do/providers/building-financial-capability/national-entity.html

Debt – the bigger picture

Many households with low incomes have limited ability to access finance through banks and mainstream finance companies and are forced to access non-mainstream lenders. Exploitative rates of interest and dubious debt collection methods by such lenders puts people into a downward spiral of debt.

The recent review[16] of the Credits Contracts and Consumer Finance Act 2003 (CCCFA) looks to curb some of the predatory lending behaviour and to support all people when looking at contracts. The government has made decisions on what changes will be made to the CCCFA. Though steps have been taken in the right direction to put a cap on high-cost loans, they are still high and can trap people in a spiral of debt.

A summary of the proposed CCCFA changes are:

16 https://www.mbie.govt.nz/info-services/consumer-protection/review-of-consumer-credit-law/docuements-and-images-library/review-of-cccfa-summary.pdf

Increasing access to affordable credit, microfinance and ethical lending

No-interest loans for low-income families and other microfinance initiatives are helping families escape indebtedness.

MSD is part of the Community Finance Low-Income Loans Scheme with The Salvation Army, Good Shepherd New Zealand and the BNZ, but there are many ethical lenders in New Zealand who assist in the provision of safe and fair affordable finance options. According to the current microfinance directory, these are some of the microfinance providers currently operating in New Zealand:

- Agape Budgeting Service
- Angel Fund Wahine Putea
- Aviva
- Good Shepherd New Zealand
- Just Dollars Trust
- Moray Foundation Trust
- Nelson Women's Angel Fund – Wahine Putua
- Newtown Ethical Lending Trust
- Ngā Tangata Microfinance.

Research carried out by Good Shepherd Australia confirms that when families are supported in reducing their debt through an ethical lender, they are not only reducing the debt burden and the repayment, but they are also building their financial resilience and capability. This is because they were often required to have an established relationship with a budget advisor prior to accessing any microfinance and for a specified period afterwards.

Debt Relief Loan Scheme (DRLS), offered by Ngā Tangata Microfinance, is another initiative. Through helping beneficiaries and low-income families reconcile high-interest loans to interest-free loans, the scheme helps with cash savings in the weekly budget, as well as other flow-on benefits. Some of these benefits include:

- People can rebuild their credit rating as unexpected fees, increasing administration costs and late payment are avoided, allowing budgets to be kept to, and payments made by due dates. By rebuilding their credit rating, families will be in a better position to access mainstream credit.
- The cash flow that is freed up through the DRLS means that families are able to redirect finance to other debt, including increasing repayments to other higher-interest debt.
- Families experience increased wellbeing and a reduction in stress – for example, the reduced stress of not having to worry about goods being repossessed or having continuous contact from lenders and creditors. An overall increase in wellbeing comes about through a sense of control of one's budget and a planned approach to minimising debt.

Debt Relief Loan Scheme

Debt Relief Loan Scheme (DRLS) can provide additional support for clients who are trying to service high-interest debt. Clients are required to work with a financial mentor for at least six months prior to the application, and for the duration of the loan repayment. The loan has no fees and no interest.

The following case demonstrates the difference that debt relief loans and no-interest loans can make.

> *Sally* has been working with her financial mentor since April 2018. It was suggested to her that she make contact with (a financial mentor) by MSD after she had requested food assistance.*
>
> *Sally's granddaughter lives with her and was not helping out or initially contributing financially. Sally also supports her daughter, who experiences severe depression and addiction issues. Balancing all these has been very difficult for Sally.*
>
> *Sally got herself into difficulty by drawing on easy finance. When the Clothing Truck turned up to her home, she was in need of clothing and it was instant. She felt like she was getting a good deal.*
>
> *The financial mentor also worked with Sally's granddaughter, helping her access the right benefit so she could pay board. Sally has increased her understanding around the true cost of lending and other ways of getting the things she needs such as putting together a small savings plan. Sally has also been able to help her whānau with understanding the true cost of lending.*
>
> *The budget adviser applied for a Debt Relief Loan (DRL) to clear a Pay Day Lender loan and the Clothing Truck account. The DRL was approved, and both accounts were cleared. The DRL account is interest free and repaid at $25.00 per week over twenty-four months.*

There are some clear benefits when reviewing Sally's experiences with both the financial mentor and the DRLS:

- Building Sally's financial capability around the true cost of lending through her engagement with the financial mentor
- Helping Sally increase her income (for example, ensuring her granddaughter is able to pay board)
- Decreasing debt repayments
- Saving on interest by converting to a no-interest loan
- Intergenerational learning regarding lending.

* The above case has been provided to the WEAG by a Microfinance organisation. The person's name has been changed.

	18/07/2018	18/10/2018
Income		
Benefit	$269.15	$269.15
Board being received	$50.00	$100.00
Accommodation Supplement	$165.00	$165.00
Temporary Additional Support	$80.75	$80.75
Disability Allowance	$3.00	$3.00
Total weekly Income	**$567.90**	**$617.90**
Outgoings		
Work and Income Advances	$12.00	$12.50
Pay Day Lender	$20.00	0
Clothing Truck	$45.00	0
Debt Relief Loan		$25.00
Rent	$365.00	$375.00
Power	$20.00	$20.00
Groceries	$100.00	$100.00
Water Rates	$5.00	$5.00
Women's Mental Health/Activity Group	$5.00	$5.00
Family Health	$5.00	$5.00
Life Insurance	$4.01	$4.01
Fares/Travel	$20.00	$20.00
Clothing	$5.77	$5.77
Family Presents	$3.85	$3.85
Cell Phone	$4.62	$4.62
Personal Cash		$20.00
Total weekly outgoings	**$615.25**	**$605.75**
Surplus/Deficiency of Income	-$47.35	$12.15
Outstanding Debt Liability		
Pay Day Lender @ 480% p/a	$343.39	
Clothing Truck @ 25.5% p/a	$2,333.59	
Work and Income Advances @ 0%	$573.50	$887.18
Debt Relief Loan @ 0%		$2,676.98
Total	**$3,250.48**	**$3,564.16**

The differences between Inland Revenue (IR) and MSD

There are clear differences between how MSD and IR treat debt, despite both being part of the welfare system. The legislation that governs MSD is very prescriptive. MSD has a duty to recover previous debts and must take all reasonable and practical avenues to recover debt. If a person's ongoing payment from MSD stops, all attempts, including contacting employers are made to make an arrangement on outstanding benefit debt. There is no ability to accept part payment or to offer debt relief due to hardship.

By comparison, under the Tax Administration Act 1994, IR have the ability to not recover outstanding tax (including payments made under the Working for Families Tax Credits) where it would be an inefficient use of IR resources or would place the taxpayer in a state of serious hardship. IR has a duty in legislation to collect **over time** the highest net revenue that is practicable within the law having regard to:

(a) the resources available to the Commissioner; and

(b) the importance of promoting compliance, especially voluntary compliance, by all taxpayers with the Inland Revenue Acts; and

(c) the compliance costs incurred by taxpayers.

IR has a much broader ability to provide debt relief. The table below shows the comparison between the options of the two agencies (Table 3).[17]

The Child Support Act, also administered by IR has some similar but less permissive debt write-off provisions, especially around money owed to the Crown rather than the other parent.

Table 3: Options regarding debt

Circumstances	MSD options regarding debt	IR options regarding debt
Financial relief – unable to make immediate payment	Temporary suspension of repayment, re-negotiate repayment	Instalment arrangement (including delayed payment)
Error from organisation in payment has been made	Write-off may be considered (no payment required)	Write-off may be considered (no payment required)
Financial relief – serious hardship		Write-off (no payment required)
Unrecoverable amount	Write-off may be considered in limited circumstances (no payment required)[18]	Write-off (no payment required)
Inefficient use of department resources		Write-off (no payment required)
Bankruptcy, liquidation or the disruption of an estate	Write-off may be considered (no payment required)	Write-off (no payment required)
Small amounts of refunds or debt/tax payable	Write-off may be considered (no payment required)	Write-off (no payment required)
Event or circumstance beyond the taxpayer's control		Remission (no payment required on penalties only)
Declared emergency event		Remission (no payment required on interest only)

17 https://www.ird.govt.nz/resources/5/0/50571911-e021-4414-a084-63e0920dca1a/tib-vol30-no9.pdf pages 37–57

18 Reference page 6 for further information on the ability to write-off in these circumstances.

Exploring options to minimise benefit debt

This paper has provided a basic overview of benefit debt. To deliver on the Government's vision, the current level of indebtedness of those reliant on benefits needs to be addressed. The levers behind benefit debt establishment and the ability to respond to debt and the hardship this causes, when combined with inadequate rates of benefit, must also be considered.

The low levels of payments made by the current benefit system means that second tier and hardship support is needed. This would indicate the current benefit payments do not keep people out of high levels of hardship. Hardship support is the fastest growing area of debt creation to MSD. This could be reduced if main benefit payment levels were set to meet realistic living needs.[19]

Priority should to be given to further prevent unnecessary benefit debt and minimising the debt that does occur. The complexity of the system means it is hard for clients and staff to navigate it, resulting in overpayments that should not have been received.

Options that maximise debt reduction and encourage further financial literacy and capability will support the wellbeing of individuals and families.

These coupled with a co-ordinated approach across government to address and respond to debt would help deliver on the government’s vision for a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities.

19 Refer to WEAG 2019c

Appendix 1: **Data to support Snapshot of Debt**

Table 4: **Total debt balances owed by debt type in the financial years ending June 2012 to June 2018** (shown in Figure 1)

	2012	2013	2014	2015	2016	2017	2018
Overpayments	$576.3 m	$619.8 m	$ 639.6 m	$673.8 m	$708.6 m	$739.0 m	$768.7 m
Hardship Assistance Debt	$407.5 m	$414.0 m	$421.3 m	$423.6 m	$440.6 m	$486.2 m	$557.8 m
Fraud	$106.3 m	$128.0 m	$162.4 m	$182.6 m	$194.3 m	$204.1 m	$210.8 m
Total	**$1.09 b**	**$1.16 b**	**$ 1.22 b**	**$1.28 b**	**$1.34 b**	**$1.43 b**	**$1.53 b**

Table 5: **Total debt balances owed by current and former clients in the financial years ending June 2012 to June 2018** (shown in Figure 2)

	2012	2013	2014	2015	2016	2017	2018
Current Client	$ 559.5 m	$585.0 m	$599.5 m	$627.5 m	$ 674.8 m	$728.9 m	$831.1 m
Former Client	$ 530.6 m	$576. 8m	$623.7 m	$652.2 m	$668.6 m	$700.4 m	$704.5 m
Total	**$1.09 b**	**$1.16 b**	**$1.22 b**	**$1.28 b**	**$1.34 b**	**$1.43 b**	**$1.53 b**