

Regulatory Impact Statement

Welfare reform: benefit rates and abatement rules for some sole parents, widows and domestic purposes – women alone beneficiaries who receive jobseeker support from 15 July 2013

Agency Disclosure Statement

This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Social Development. It accompanies the Cabinet paper *Welfare reform: benefit rates and abatement rules for some sole parents, widows and domestic purposes – women alone beneficiaries who receive jobseeker support from 15 July 2013*, and provides regulatory impact analysis of proposals in that paper.

In October 2011 Cabinet agreed to proposals to merge current main benefits into three new benefit categories to increase the work focus of the benefit system. This was followed by further decisions in February 2012 to extend work expectations.

Following these decisions, on 30 July 2012 Cabinet considered a suite of five papers that proposed further significant reforms to New Zealand's social security system, including the detailed rules for how the three new benefits will operate. Following Cabinet agreement to those proposals, consideration of protection from financial loss is one of the second-order issues for consideration. For the full context of the proposals covered by this RIS, it should be read alongside the suite of five earlier Cabinet papers.

Analysis of the impacts of various changes to abatement rules on the income levels of affected beneficiaries assume that no behavioural change occurs (i.e. beneficiaries do not increase or decrease their hours of work as a result of the change). Although it is likely that some beneficiaries may make behavioural adjustments, the exact nature of such responses is difficult to estimate. MSD and Treasury have undertaken a separate exercise to estimate the overall impacts, including behavioural changes, of the entire welfare reform package, and for this reason these are excluded from the analysis in this paper.

On 30 July 2012 when Cabinet considered welfare reform proposals, it agreed to a post-implementation review of the reforms. The Cabinet paper this RIS relates to recommends that the post-implementation review also include the proposals covered in that Cabinet paper and this RIS.

It is not expected that the proposals in the Cabinet papers this RIS accompanies will: impose additional costs on business; impair private property rights, market competition, or the incentives on businesses to innovate and invest; or override fundamental common-law principles.


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PART ONE: BACKGROUND, CONSULTATION, IMPLEMENTATION AND REVIEW

Introduction

- 1 This Regulatory Impact Statement (RIS) accompanies the Cabinet paper *Welfare reform: benefit rates and abatement rules for some sole parents, widows and domestic purposes – women alone beneficiaries who receive jobseeker support from 15 July 2013*. The regulatory impact analysis of the proposals in the Cabinet paper has been undertaken by the Ministry of Social Development.
- 2 This RIS is structured as follows:
 1. This part provides context and background information relating to the policy proposals this RIS covers, and summarises consultation undertaken and how proposals agreed to will be implemented and reviewed
 2. Part Two covers proposals to grandparent the higher rate of benefit currently paid to current recipients of Widow's Benefit who do not have dependent children and Domestic Purposes Benefit for Women Alone (DPB Women Alone), after they are transferred to the new Jobseeker Support benefit
 3. Part Three covers proposals to grandparent the rules for reducing the amount of benefit payable when additional income is earned (abatement rules) for women alone, widows, and sole parents whose youngest dependent child is aged between 14 and 18 years old.

Welfare reform: background

- 3 In April 2010, the Government established the Welfare Working Group to examine ways to reduce long-term benefit dependency, and in doing so reduce the fiscal costs and waste in human potential that it gives rise to.
- 4 Following the release of the WWG's final report, Cabinet considered its recommendations and in May 2011 agreed to a programme of work to reform New Zealand's social security system.
- 5 Central to these reforms were decisions in October 2011 to introduce three new benefits to replace the current seven main benefits, including the introduction of a new work-focused benefit named Jobseeker Support [CAB Min (11) 39/8 refers]. A summary of the current and new benefit categories is attached as Appendix One.
- 6 Following those decisions, the Minister for Social Development reported back to Cabinet on 30 July 2012 with a suite of five Cabinet papers. Those papers made detailed proposals for how the new benefits will operate, for the introduction of pre-employment drug testing, and for new social obligations for beneficiaries with children. Cabinet decisions made in response to those proposals will significantly reform New Zealand's system of social security [CAB Mins (12) 26/11.1-11.5 refer].
- 7 The Cabinet paper for this RIS is intricately linked with the suite of Cabinet papers from 30 July 2012. It covers remaining decisions on detailed aspects of how the new benefits should operate and as such should be read alongside those papers.

The objectives of welfare reform

- 8 The welfare reforms that these proposals are part of aim to fundamentally shift the welfare system to one that encourages independence and personal responsibility, primarily through paid employment, and which contributes to better social and economic results for individuals, families and the country.
- 9 They are intended to result in a system that:
 - reduces benefit dependency;
 - leads to a simpler, more transparent benefit system;
 - is work-focused and expects and rewards independence;
 - is more flexible, and supports an investment approach, focusing resources where the returns are greatest;
 - is able to work with as many people as possible to support them into work; and
 - reinforces social norms and improves outcomes through the introduction of social obligations for parents.
- 10 The options analysed in this paper are assessed against objectives that respond to specific issues that arise from changes to the current system.

Grandparenting

- 11 In the context of this paper “grandparenting” refers to a system for maintaining existing benefit settings or rates for current benefit recipients who would be adversely affected by changes to these.
- 12 Grandparenting is an important mechanism for managing changes in benefit entitlements. It ensures fairness by not reducing entitlements for existing beneficiaries, who can reasonably expect that these will continue into the future. By doing this it also limits the potential impact on living standards and hardship that a sudden change in income can bring about, thereby making changes more widely acceptable. This in turn can help with the long term success of changes made.
- 13 Variants of grandparenting include grandparenting for a time-limited period, gradually phasing out grandparenting by not adjusting the grandparented rate for inflation, allowing the new (lower) rate to catch up.
- 14 Although grandparenting can be an effective way to introduce changes to benefit rates/rules without adversely affecting current benefit recipients, it has some drawbacks. Specifically, it adds an additional layer of complexity to the benefit system, and can work against the policy objectives of the changes, including achieving better long-term outcomes for the people affected.
- 15 In the context of this paper, some forms of grandparenting can also have a negative impact on work incentives. For instance, grandparenting of abatement rates discussed in part three of this RIS may make beneficiaries more reluctant to take up an offer of short-term employment, or employment where they are unsure how long it will last, if they are aware that any grandparenting concession will cease if they take up that employment and subsequently reapply for a benefit.

16 Previous examples of grandparenting in New Zealand include:

- In January 1998 the age of eligibility for the Training Benefit and Sickness Benefit was increased from 16-18 years and the Job Search Allowance was abolished. The changes did not apply to existing recipients of these benefits who were aged 16 or 17 years.
- In July 1998 benefit rates for the Sickness Benefit were aligned with those of the Unemployment Benefit for new recipients of the Sickness Benefit. Existing recipients had their higher rate grandparented, but this grandparented rate was 'frozen' during subsequent annual adjustments to benefit rates so that new lower rate could catch up gradually over several years
- In July 1998, a lower 'at home' rate of Unemployment Benefit was introduced for 16-18 year olds who were living with one or both of their parents. The 'at home' rate did not apply to existing beneficiaries.
- In April 1999 the conditions around receiving Disability Allowance for telephone related costs were clarified and a special programme was established to allow people who were receiving a Disability Allowance for these costs prior to the change to continue to receive payment for them
- In April 2006 the discretionary Special Benefit was replaced by the rules-based Temporary Additional Support. Existing recipients of Special Benefit had their eligibility to Special Benefit grandparented until their circumstances changed. To ensure that a person could continue to receive a Special Benefit following a short-term change in circumstances (eg a period of temporary work) and applicant who had received a Special Benefit within the previous eight weeks could have their Special Benefit re-granted.

Consultation

Departmental Consultation

17 The Treasury, the Ministry of Health, the Ministry of Education, the Ministry of Business, Innovation and Employment, the Ministry of Justice, the Ministry of Pacific Island Affairs, Te Puni Kōkiri, New Zealand Police, the Accident Compensation Corporation, Inland Revenue, the Department of Corrections, and the Ministry of Women's Affairs were consulted during the preparation of this RIS. The Department of the Prime Minister and Cabinet and the State Services Commission were informed.

Public Consultation

18 Decisions to merge existing main benefits into three new benefit categories - which includes decisions on payment rates of the new benefits and how these abate as additional income is received - were made following recommendations by the Welfare Working Group (WWG). The WWG was established by Cabinet to undertake an expansive and fundamental review of New Zealand's social security system, with its primary task to identify how to reduce long-term welfare dependency.

19 As part of its review of the benefit system, the WWG engaged in public consultation, including a series of workshops. In August 2010, the WWG published "Long-Term Benefit Dependency: The Issues" and in November 2010 it published "Reducing Long-

Term Benefit Dependency: The Options". The latter of these documents discussed abatement and incentives in some detail, and explicitly sought public feedback on this through some of the questions to which they sought a response from the public. Public submissions on the issues were considered by the WWG in making its recommendations.

- 20 No public consultation on the specific proposals discussed in this RIS has been undertaken, either with beneficiaries, their advocates or other key stakeholders.

Implementation

- 21 Giving effect to Cabinet decisions on benefit rates and abatement rules of the new benefits being introduced in July 2013 can only be achieved through legislative amendments to the Social Security Act 1964. A Bill, the Social Security (Benefit Categories and Work Focus) Amendment Bill, is being developed to give effect to these decisions and other welfare reform decisions made by Cabinet on 30 July [CAB Mins (12) 26/11.1-11.5 refer].
- 22 The Social Security (Benefit Categories and Work Focus) Amendment Bill is scheduled to be introduced to the House by the end of September this year, and pass into law in the first half of 2013 for implementation from 15 July that year.
- 23 Following Cabinet decisions on the options presented in the Cabinet paper, the Ministry of Social Development will finalise detailed implementation plans covering: IT infrastructure changes required; a communications plan; and operational guidance for staff including staff training.

Monitoring, evaluation and review

Monitoring welfare reforms

- 24 The Ministry of Social Development will use a combination of monitoring and evaluation to track trends and assess the impacts of the overall package of welfare reforms that these proposals form part of, including proposals for abatement rules of the new benefits and the rate of benefit for widows and women alone. Regular reports will be produced for the Minister for Social Development that track the number and characteristics of beneficiaries.

Post-implementation review

- 25 On 30 July 2012, when Cabinet considered the welfare reform proposals, it agreed to a post-implementation review of the package of welfare reforms. That review will, inter alia, cover the benefit rates and abatement rules for the new benefits and any grandparenting arrangements. The nature and timing of this review will be agreed by the Minister of Social Development, in consultation with the Treasury, and signed off by the Minister for Social Development, in consultation with the Minister of Finance and the Minister for Regulatory Reform [CAB Min (12) 26/11.2 refers].

PART TWO: RATE OF BENEFIT FOR WIDOWS AND WOMEN ALONE TRANSFERRED TO JOBSEEKER SUPPORT

Introduction and problem

Background

- 26 In October 2011 Cabinet agreed to merge a range of current main benefits, including the Unemployment Benefit, and Sickness Benefit and Widow's Benefit (WB) or a Domestic Purposes Benefit for Women Alone (DPB-WA) for those without dependent children, into a new benefit called Jobseeker Support [CAB Min (11) 39/8 refers]. Further detailed design features of Jobseeker Support, and other benefits that are being introduced were agreed to by Cabinet in July 2012 [CAB Min (12) 26/11.2 refers].
- 27 In general, the current benefit rates for each of the groups who will transfer to Jobseeker Support are the same, and this benefit rate will be the rate of the new benefit. However, women who do not have dependent children and are currently receiving Widow's Benefit (WB) or a Domestic Purposes Benefit for Women Alone (DPB-WA) receive a slightly higher rate of benefit – currently \$8.53 a week more – than others who will transfer to Jobseeker Support in July 2013.¹ There are currently about 8,300 women receiving these benefits receiving this higher rate (4,300 on WB and 4,000 on DPB-WA).

Problem

- 28 Unless a decision is made to preserve their current rate of benefit, these women will experience a fall in income at the point of transition from their current benefit to Jobseeker Support on 15 July 2013. Affected women may have a reasonable expectation of having this income, and the loss of it may result in some hardship and affect future plans and lifestyle choices. A reduction in their benefit rate could adversely affect these plans, and could be seen as inconsistent with a legitimate expectation to continue receiving the higher rate, signalled by government statements that benefit rates will not be reduced through the reform of the welfare system.
- 29 However, there are also disadvantages with having some recipients of Jobseeker Support having a higher rate of benefit than others:
- it perpetuates discrimination in the benefit system, since men in similar circumstances do not receive this higher rate;
 - having two rates of benefit for those on Jobseeker Support makes the administration of benefits, particularly supplementary assistance² more complex; and it has the potential to undermine strong messaging about expectations that people on Jobseeker Support seek full-time work.

¹ There is no issue for recipients of Widow's Benefit who have a dependent child, as they receive the same rate of benefit as sole parents, and will transfer to the new Sole Parent Support or Jobseeker Support depending on the age of their children.

² The assessment of supplementary assistance, such as the Accommodation Supplement and Temporary Additional Support, is linked to the rate of main benefit that a person receives.

Objective

30 To accommodate the reasonable expectation of having this higher benefit rate and minimise any hardship the lower rate may give rise to, while moving towards a single rate of benefit for all people receiving Jobseeker Support over time.

Regulatory impact analysis

31 The status quo is that a single rate of benefit will be paid on Jobseeker Support. Three alternatives to address the problems identified with this above were considered:

- Option 1 – Grandparent the higher rate for current recipients of DPB Women Alone and Widow's Benefit only;
- Option 2 – Grandparent the higher rate for current recipients of DPB Women Alone and Widow's Benefit as well as new applicants for Jobseeker Support;
- Option 3 – Discontinue the higher rate and provide a one-off payment to compensate affected beneficiaries.

Option 1: Grandparent the higher rate for current recipients only (Preferred Option)

32 This option is to continue the higher rate for current recipients of DPB Women Alone and Widow's Benefit,³ but not to grant it to new applicants for Jobseeker Support after it is introduced on 15 July 2013.

33 Under this option, a recipient of Jobseeker Support on the grandparented rate who moves off benefit would not have access to the grandparented rate if they return to benefit.

34 This option is consistent with the objective of protecting existing benefit recipients from an abrupt change in benefit rates, while also meeting the objective of moving to a single rate over time as current recipients move off benefit.

35 Option 1 gives rise to a number of further sub-options:

- retain the grandparented rate for current recipients indefinitely (Option 1a);
- retain the grandparented rate for current recipients for a limited period of time (Option 1b); and
- retain the grandparented rate for current recipients, but without adjusting it for inflation, so that over time it aligns with the rate of Jobseeker Support other people on that benefit receive (Option 1c).

36 These sub-options are analysed below.

³ This includes widows and women alone who had their benefit payments suspended at the point of change to the new benefits.

Option 1a - retain the grandparented rate for current recipients indefinitely (preferred option)

- 37 This option continues the higher rate for those on WB and DPB-WA who do not have dependent children indefinitely, including annual general adjustments of this rate for inflation. This would maintain the real value of this rate over time, and maintain the difference with other benefit rates.
- 38 Grandparenting the higher rate on an ongoing basis would provide assurance to women receiving it that they will not experience a reduction in their benefit rate, no matter how long they remain on benefit. This would also continue the additional costs associated with maintaining a grandparented rate for longer.
- 39 Over time this option will lead to a single rate of benefit for all people on Jobseeker Support, as current recipients move off benefit (usually onto New Zealand Superannuation, but also into employment or as a result of partnering). Table one, below, shows the age profile of current recipients of WB and DPB-WA. Based on this, most current recipients will move off the grandparented rate within ten years as they become eligible for New Zealand superannuation.

Table 1: Age profile of WB and DPB-WA recipients

| Age | 18-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | Total |
|-----|-------|-------|-------|-------|-------|-------|-------|
| | 5 | 29 | 131 | 1,220 | 2,654 | 4,319 | 8,349 |

- 40 The relatively small number of younger recipients (i.e. younger than 50 years of age) will have full-time work availability expectations introduced in October 2012, following the passage into law of the Security (Youth Support and Work Focus) Amendment Act 2012. As a result of Work and Income now actively working with these beneficiaries to move off benefit and into full-time work it could be expected that most of these women will not remain on benefit long-term. This would hasten the objective of moving towards a single rate of benefit on Jobseeker Support. For these reasons, this is the preferred option.
- 41 Grandparenting the higher benefit rate indefinitely but for current recipients only is estimated to cost \$7.9 million⁴ over four years compared to the status quo, if the rate is annually adjusted.

Option 1b - retain the grandparented rate for a limited period of time

- 42 An alternative to grandparenting on an indefinite basis would be to specify a limited period of time during which the grandparented rate will be available. This would:
- remove the additional costs associated with maintaining a grandparented rate once the period ends;
 - result in an immediate reduction in benefit payments for any women still receiving the grandparented rate when the period ends.
- 43 Although the immediate drop in benefit rate could adversely impact on affected widows and women alone, they would have a clearly defined period during which the higher rate

⁴ All cost estimates in this RIS are rounded to the \$100,000.

is grandparented, in which they could revise their plans and expectations to adjust to the new, lower benefit rate. However, this option will still result in a reduction in benefit rate for affected women, with the impact delayed but not avoided.

- 44 This option achieves a single rate of benefit for recipients of Jobseeker Support, but affords little ongoing protection of benefit rates for existing recipients.
- 45 The grandparented rate would continue to be adjusted annually under this option. The level of savings under this option will depend upon the period of time for which the higher rate is grandparented – shorter lengths would result in greater cost savings while longer lengths deliver less. Grandparenting for existing recipients only for 2 years will cost \$6 million over two years. Grandparenting for five years costs \$8 million.

Option 1c - continue the higher rate, but not adjusting it for inflation so that over time rates on Jobseeker Support align

- 46 As part of the Future Focus welfare reforms made in 2010, all benefits are automatically adjusted for inflation on an annual basis. This option is to reverse that policy for affected widows and women alone by ‘freezing’ the higher rate they receive, until the lower rate that others on Jobseeker Support receive ‘catches up’ (as that rate will continue to be increased annually for inflation). This approach would reduce the real value of the higher rate gradually, until it is aligned with the normal rate – effectively removing it from the system after 2 to 3 years. As beneficiaries enter or re-enter the system they would not be entitled to the higher rate of benefit.
- 47 Although this option has the benefit of moving to a single rate of benefit on Jobseeker Support fairly rapidly, it results in a real drop in income for affected widows and women alone in a comparatively short space of time.
- 48 Grandparenting the higher rate for current recipients but not adjusting it annually for inflation is estimated to cost \$5.2 million over two years.

Option 2: Maintain the higher rate for current recipients of DPB-Women Alone as well as new applicants for Jobseeker Support

- 49 This option is to retain the higher rate for existing DBP-WA and WB recipients without children, and for new applicants for Jobseeker Support who would meet the criteria for these benefits.
- 50 This option would ‘lock in’ discrimination in the benefit system on the basis of gender – women who enter the system as widows or women alone would receive a higher rate of benefit than men in the same situation on an ongoing basis.
- 51 It could also reduce the effectiveness of work availability expectations - affected women may continue to regard themselves as receiving benefits because they are widows or women alone, rather than viewing themselves as job seekers with the same work availability expectations as other beneficiaries on Jobseeker Support.
- 52 By applying the higher rate to new applicants this option will never lead to a single rate of Jobseeker Support, with the disadvantages that entails (mentioned in paragraph 29, above) continuing permanently. It is the option least consistent with the objectives of welfare reform, as it will lead to two sets of rules being permanently in place for people

on Jobseeker Support, making the system more complex and detracting from the rationale for merging these benefits into it.

53 Relative to the status quo, this option has a cost of \$12.2 million over four years, and \$4 million each year thereafter

Option 3 – discontinue the higher rate and provide a one-off payment to compensate affected people

54 This option would result in the former higher rate of benefit being discontinued at the point of transfer to the new benefits, but compensates those affected with a one-off payment of \$500. This has the advantage of avoiding the problems associated with continuing the higher rate identified in paragraph 29, above, while providing a degree of compensation to those affected.

55 This option still ultimately leads to a reduction in benefit rate which for many affected will not be fully compensated by the one-off payment. A \$500 one-off payment is slightly more than one year's worth of the difference in rates, and many affected women will stay on benefit for longer than this – potentially much longer.

56 A further disadvantage is that this option could result in iniquitous 'windfall gains' to some widows or women alone, for instance if they move off benefit shortly after receiving the payment (such as a planned move into full-time employment or onto New Zealand Superannuation).

57 This option saves has a one-off cost of \$4.3 million compared to the status quo.

Comparison of fiscal impacts of options

58 Table two below summarises the fiscal impacts of the various options considered:

Table 2: fiscal impact of options for protecting the higher rate of WB and DPB-WA

| Option | Cost |
|---|---|
| No Grandparenting. Rates and conditions of the new Jobseeker Support apply to all those transferred from the applicable pre-existing main social security benefits. This is the status quo. | No cost |
| Maintain the higher rate for current recipients of DPB-Women Alone as well as new applicants for Jobseeker Support | \$12.2 million over four years, \$4 million a year thereafter |
| Grandparent for current recipients indefinitely | \$8 million over four years |
| Grandparent for current recipients for five years | \$8 million over four years |
| Grandparent for current recipients for two years | \$6 million over two years |
| Grandparent for current recipients, but not annually adjusting for inflation until rates on Jobseeker Support align | \$5.2 million over two years |
| No grandparenting, \$500 compensation payment to current recipients of the higher rate | \$4.3 million |

Human Rights Implications

- 59 DPB-WA is restricted to women over 50 years old who have previously been married or have cared for children or an elderly relative, while WB is restricted to women who have been widowed. There is no reason to treat women in these situations differently from men in the same circumstances. Removing these benefits from the system (by moving those who receive them onto the new benefits) will remove a source of discrimination from the benefit system.
- 60 Part of this discrimination involves the payment of a higher rate of benefit paid to women without children who currently receive a WB or DPB-WA than is paid to men in comparable situations. Grandparenting the higher rate for current recipients while no longer providing this rate for new applicants will gradually remove this discrimination from the benefit system as current recipients move off benefit, while protecting the value of benefits paid to current recipients.

PART THREE: ABATEMENT OF BENEFIT AS ADDITIONAL INCOME IS RECEIVED

Introduction and problem

The current abatement rules

- 61 A feature of social security systems throughout the world is that the amount of benefit payable reduces as a beneficiary (inclusive of their partner or spouse) receives additional income, with ineligibility for a main benefit for those earning above certain thresholds. Targeting payments to those most in need is a long-standing feature of New Zealand's social security system
- 62 Currently, there are two broad categories of rules for how benefit payments reduce (abate) as additional income is received: part-time abatement and full-time abatement. These are briefly discussed below.
- 63 *Part-time abatement*
- 64 Domestic Purposes Benefits (comprising DPB for Sole Parents, DPB for Women Alone, and DPB Care for Sick or Infirm), Widow's Benefit and Invalid's Benefit have broadly the same abatement rules, which are referred to as "part-time" abatement rules. They are described in this way because these rules are designed to incentivise these beneficiaries – who are not expected to be available to work full-time – to engage in part-time work.
- 65 The part-time abatement regime allows earnings of up to \$100 per week without it affecting benefit payments. Income (before tax) over \$100 a week reduces benefit payments (after tax) by 30 cents for every dollar of income, and income above \$200 per week reduces benefit payment by 70 cents for each dollar.
- 66 Other features of the part-time abatement rules include a 52-week income assessment period, the absence of 'hours rules',⁵ and a childcare cost income disregard, which are not features of the full-time abatement rules. The options discussed below for grandparenting part-time abatement rules also include grandparenting these associated rules as well.

Full-time abatement

- 67 Full-time abatement rules are designed to incentivise full-time work over part-time work. Full-time abatement involves benefit payments reducing by 70 cents in every dollar for income (before tax) over \$80 a week. This makes part-time work on benefit relatively unattractive, and moving off benefit and into full-time work relatively more attractive. These settings reinforce full-time work availability expectations.
- 68 This abatement regime currently applies to those receiving the Unemployment and Sickness Benefits.

⁵ Which mean that someone will qualify for a benefit if they work 30 hours per week or more, unlike on benefits with full-time abatement

Applying abatement rules to the new benefits

- 69 Cabinet's decisions to merge current main benefits into the new benefit categories by implication involves applying part-time or full-time abatement rules to each, depending on the objectives for the particular new benefit. This means that the full-time abatement rules will apply to Jobseeker Support, whereas part-time abatement will apply to Sole Parent Support and the Supported Living Payment.
- 70 Applying abatement rules to the new benefits will, however, result in some significant impacts on certain groups. For those transferring from part-time to full-time abatement there can be a potentially large reduction in income, which could have implications for material well-being and hardship. It can also influence work incentives, for instance by making part-time work less attractive.

Impact of applying abatement rules to the new benefits

- 71 Applying abatement rules to the new benefits will result in large numbers of beneficiaries transferring from part-time abatement rules to full-time abatement rules: approximately 20,900 people would move from benefits with part-time abatement to the full-time abated Jobseeker Support (comprising DPB Women Alone, widows and sole parents whose children are older than 14 or widows without dependent children).
- 72 Based upon their current earnings, it is estimated that there are approximately 4,700 people currently receiving additional income of more than \$80 a week will be worse off as a result of this change.⁶ The average loss is estimated to be \$43 a week, with a maximum loss of \$54 a week.⁷
- 73 A breakdown of those shifting from part-time to full-time abatement as they are transferred to Jobseeker Support by estimated impact is provided in table three, below:

Table 3: Numbers of DPB, WA, WB clients affected by transfer to JS (annualised basis)

| Client | Losers | No change | Total |
|--------------|--------------|---------------|---------------|
| Widows | 1,200 | 5,000* | 6,200 |
| Women Alone | 900 | 3,600 | 4,500 |
| DPB 14+ | 2,600 | 7,600 | 10,200 |
| Total | 4,700 | 16,200 | 20,900 |

- 74 It is estimated that shifting these people from part-time to full-time abatement would generate fiscal savings of approximately \$38 million over a four year period.⁸ This comes through lower levels of benefit payments to the estimated 4,700 people earning over \$80 a week who will be affected by abatement changes (assuming no change in employment behaviour).

⁶ Those with additional income of less than \$80 a week will not be affected by this change, as under full-time abatement rules the first \$80 a week of additional income does not reduce benefit payments.

⁷ The estimate of average loss is derived based on current income for these beneficiaries, and does not take into account any behavioural changes that may be made in response to the change in abatement regime.

⁸ Note: this assumes no behavioural responses to earnings as a result of abatement changes.

The problem: transitional impacts

75 Abatement changes associated with introducing the new benefits give rise to two problems:

- a transitional issue when the new benefits are introduced in July 2013 arising from changes to abatement; and
- an ongoing issue after 15 July 2013, as sole parents transfer from the part-time abated Sole Parent Support to Jobseeker Support as their youngest child turns 14.

Problem 1: Transitional impact when the new benefits are introduced in July 2013 arising from changes to abatement

76 This is the impact discussed above in paragraphs 71 and 72, affecting 4,700 women alone, sole parents and widows whose children are older than 14, or widows without dependent children, who earn more than \$80 per week and will transfer from part-time abated benefits to the full-time abated Jobseeker Support when it is introduced in July 2013.

77 The reductions in income would represent a significant proportion of these beneficiaries' income. For some, it would mean an abrupt and major reduction in income levels, which could impact on material wellbeing of beneficiaries and their children (if any).

Problem 2: Ongoing transitional impacts as beneficiaries transfer from Sole Parent Support to Jobseeker Support

78 In addition to the one-off change at the point of transfer to the new benefits in July 2013, there will be an ongoing transitional impact for sole parents who transfer from the part-time abated Sole Parent Support to the full-time abated Jobseeker Support when their youngest child turns 14 years of age. This has the potential to be significant, with income reductions of up to \$54 a week from the change in abatement rates, with the possibility of further reductions from removing the 52-week income assessment period, the absence of hours' rules, and childcare income disregard, as these are not features of the full-time abatement rules.

79 Based on the number of sole parents whose youngest child is 13 years old, it is estimated that there will be approximately 100 sole parents a month that would experience this change in abatement rules, alongside the move from a part-time to full time work expectation.

Objective

80 Addressing the problems identified above involves a trade-off between a number of competing objectives. In addition, options need to be assessed against the overall objectives for welfare reform discussed in part one, above.

81 Objectives for responding to the abatement problems identified above are:

- to protect beneficiaries from abrupt reductions in income levels due to changes in the abatement rules they face;

- to have a simple and easy to administer benefit system that is easy to understand, with people on the same benefit having the same rules;
- to move towards a system of abatement that reinforces the work availability expectations of beneficiaries with appropriate work incentives through the abatement rules.

82 The two problems identified above are separately analysed against these objectives below.

Regulatory impact analysis part 1: grandparenting abatement at the point of change to the new benefits in July 2013

83 Three options were analysed for addressing people financially disadvantaged at the point of change:

- Option 1 – no transitional arrangements for those affected at the point of change (status quo);
- Option 2 – compensating beneficiaries affected by a change in abatement rules; and
- Option 3 – grandparenting abatement for existing recipients at the point of change to the new benefits.

Option 1 – no transitional arrangements for those affected by abatement rules at the point of change (status quo)

84 This option is to take no measures to ameliorate the impact on beneficiaries who are transferred from their part-time abated benefits to the full-time abated Jobseeker Support when it is introduced on 15 July 2013. This is the status quo option.

85 Not having any transitional arrangements will mean that an estimated \$38 million in total will be available over the next four years to re-invest in other aspects of welfare reform.

86 This option is most consistent with the objectives of having a simple and easy to administer benefit system that treats beneficiaries on the same benefits in the same way. It also consistent with the objective of having abatement rules that reinforce the full-time work availability expectations of Jobseeker Support, and does this more quickly than any of the other options (i.e. as soon as the new benefits are introduced). Alignment of these rules are an important aspect of the rationale for introducing Jobseeker Support, as they provide clear incentives to encourage movement off benefit.

87 This option is also most consistent with the overall objectives of welfare reform.

88 However, the clear disadvantage of this option is that it does not meet the objective of providing protection to beneficiaries from an abrupt, and potentially significant, reduction in income levels and it may be perceived as a reduction in their rate of benefit and at odds with government statements that benefit rates would not be reduced as part of welfare reform.

Option 2 – Compensating beneficiaries affected by a change in abatement rules at the point of change

- 89 This option is to provide a one-off payment to compensate widows, women alone and sole parents for the reduction in income they would experience when they move from their current part-time abated benefit to the full-time abated Jobseeker Support.⁹
- 90 The level of compensation each beneficiary receives would vary based upon their estimated level of income reduction over a defined period of time (for instance a year), based upon their level of income at the point of transition.
- 91 As with option one (above), this option is consistent with the objectives of having a simple and easy to administer benefit system, with the same abatement rules for people on the same benefits. It is also consistent with the objective of reinforcing full-time work availability expectations on Jobseeker Support with full time abatement rules from the point of introduction of the new benefits.
- 92 By providing a one-off compensation payment this option also goes some way to protect affected beneficiaries from a drop in income when they transfer to the full-time abated Jobseeker Support. This payment can be used to assist with lifestyle adjustments that may be required to adapt to the lower levels of income that result.
- 93 Despite these advantages there are some significant disadvantages with this option.
- 94 Although it protects affected beneficiaries from reductions in income to an extent, basing the amount on defined period of loss will under-compensate some while over-compensating others. For instance, basing the compensation payment on losses over a one year period will under-compensate those who stay on benefit for a longer duration, while over-compensating those who stay on benefit for shorter durations. For those in the latter group, those who move off benefit rapidly after receiving the compensatory payment will receive a 'windfall gain' which could be considered unfair
- 95 A further problem is that designing a targeted compensation payment is not straightforward. Even identifying exactly who the losers are is problematic. The main difficulty is that the amount people lose from abatement changes will depend upon their future earnings, whereas a compensation payment will inevitably be based on past earnings, which can give rise to arbitrary and unfair scenarios.
- 96 For instance, if based upon income in the week prior to the change, someone who worked every week apart from that week would not qualify for compensation, whereas someone who had one-off earnings in that week would be compensated for the full period.
- 97 Similarly, if based on income over the preceding year, then someone who stopped working just before the transition date would qualify for a full buy out, even though the new abatement rules would have no impact on their income. In contrast, but someone who had just started working (and continued to work after transition) would receive little or no compensation.

⁹ This would include those receiving benefits but whose benefit payments are suspended at the time of transfer.

98 The cost of this option depends on the period of time that the compensation payment is designed to cover. Based on a 12 month period of loss it is estimated that there would be a one-off cost of around \$10.5 million compared to the status quo under option one, above.

Option 3 – grandparenting abatement rules for existing recipients at the point of change to the new benefits

99 This option is to continue the existing abatement rules of beneficiaries who are transferred from a current part-time abated benefit to Jobseeker Support on 15 July 2013 for as long as they remain on benefit.¹⁰ Those who move off benefit (for instance, because they begin working full-time) who subsequently move back on to benefit would lose access to ongoing grandparenting of abatement rules.

100 New applicants for Jobseeker Support will have full-time abatement, which means that over time as existing recipients move off benefit all people on Jobseeker Support will have full-time abatement rules. Most current recipients of widows and women alone will move off benefit within ten years as they become eligible for New Zealand superannuation (see table 1, above). However, some sole parents and younger widows could stay on benefit for much longer than this, meaning that different abatement rules on Jobseeker Support could persist for reasonably long periods of time.

101 Mitigating this is that there are relatively few younger widows, and that each of the grandparented groups will have full-time work availability expectations introduced in October 2012, following the passage into law of the Security (Youth Support and Work Focus) Amendment Act 2012. This will mean that Work and Income will start to actively work with these beneficiaries to move off benefit and into full-time work, with the result that it could be expected that most of these beneficiaries will not remain on benefit long-term. The availability of Working for Families also mitigates this to an extent, as it provides good incentives to work full-time.

102 This option still results in approximately 20,900 beneficiaries who transfer to Jobseeker Support in July 2013 having part-time abatement rules. That makes this option least consistent with the objectives of having a simple and easy to administer benefit system that is easy to understand, with people on the same benefit having the same rules. It also takes the longest to reach the objective of moving towards a system of abatement that reinforces the work availability expectations of beneficiaries with appropriate work incentives through the abatement rules. For these reasons this option is also least consistent with the overall aims of welfare reforms.

103 This option costs \$25 million compared to the status quo of providing no transitional protection for beneficiaries who go from part-time to full-time abatement at the point of change.

¹⁰ This would include those on benefit but whose benefit payments are suspended at the point of transfer to the new benefits.

Regulatory impact analysis part 2: grandparenting for those who move from Sole Parent Support to Jobseeker Support after the point of change on 15 July 2013

104 Three options for addressing ongoing transitions after the point of change, were analysed:

- Option 1 – no grandparenting, but a service delivery solution to assist sole parents to transition from part-time to full-time abatement (status quo)
- Option 2 – temporary grandparenting for affected sole parents
- Option 3 – an ongoing dual abatement regime.

Option 1 – No grandparenting, but a service delivery solution to assist sole parents to transition from part-time to full-time abatement (status quo).

105 This option is the status quo option. After 15 July 2013, when a sole parents' youngest child turns 14 they will transfer to Sole Parent Support and, under this option, be subject to the full-time abatement rules of that benefit. To assist with this adjustment, Work and Income would implement a service delivery package of support designed to help sole parents transition from part-time to full-time abatement.

106 This approach would include providing job search and preparation support, financial support with the transition to work, and information about the financial benefits of moving to 20 hours work and onto Working for Families. Working for Families provides an incentive to work 20 hours a week and move off benefit. While the exact financial gain from moving off benefit depends on the individual's circumstances, pay rates and hours of work, this incentive is usually quite significant, and is a lucrative reason to leave the benefit.

107 This option is the most consistent with the objectives of having a simple and easy to understand benefit system where the same rules apply to people on the same benefit. It also ensures that sole parents who transfer to Jobseeker Support will have their full-time work availability expectations supported by the incentives provided by full-time abatement. It is the most consistent with the overall objectives of welfare reform.

108 However, this option will still result in some sole parents experiencing a reduction in income as they transfer from Sole Parent to Jobseeker Support, despite the service delivery solution that Work and Income would implement. While the exact financial disadvantage an individual sole parent experiences will depend on their circumstances, for some it could be considerable, at up to \$54 a week. This option is least consistent with the objective of protecting affected beneficiaries from abrupt reductions in income levels due to changes in the abatement rules they face.

Option 2 – temporary grandparenting for affected sole parents

109 This option could be viewed as a compromise option between having no grandparenting and grandparenting indefinitely for new and existing sole parents. It involves progressively transitioning people onto the new abatement rules, giving them advance

warning about the implications of shifting to full-time abatement and adequate time to prepare.

110 This would be achieved by providing all sole parent beneficiaries who will transfer to Jobseeker Support with a 5 year transition period from the date when the new benefit categories are introduced, during which they would have part-time abatement rules. This means that this transitional provision will end in July 2018.

111 Sole parents whose youngest child is aged 14 or over at the point of change would be grandparented and would cease to qualify for the sole parent rate of benefit, along with the part-time abatement rules, when their child turns 18. Similarly, a sole parent whose child is aged 15 in July 2014 would have a further 3 years of part-time abatement before they move onto the full-time abatement rules.

112 The result would be a stair-casing of eligibility for part-time abatement rules, with the age at which beneficiaries move to the full-time abatement rules reducing by 1 year each year from July 2014. The table below shows how this would work:

Table 4: transition to full-time abatement for sole parents on Jobseeker Support

| | Age of youngest dependent child | | | | |
|-----------|---------------------------------|-----------|-----------|-----------|-----------|
| | 14 | 15 | 16 | 17* | 18 |
| July 2013 | Part-time | Part-time | Part-time | Part-time | Full-time |
| July 2014 | Part-time | Part-time | Part-time | Part-time | Full-time |
| July 2015 | Part-time | Part-time | Part-time | Full-time | Full-time |
| July 2016 | Part-time | Part-time | Full-time | Full-time | Full-time |
| July 2017 | Part-time | Full-time | Full-time | Full-time | Full-time |
| July 2018 | Full-time | Full-time | Full-time | Full-time | Full-time |

*This category includes children who are 18 years but who remain a dependent child as a result of attending school or tertiary study, up until the end of the school year in which they turn 18 years

113 This approach differs from option 1 in that it treats newcomers to the system the same as existing recipients, and extends the transition period to parents whose youngest dependent child is 12 or older.

114 This option strikes a balance between the objectives of protecting beneficiary sole parents from an abrupt and potentially large reduction in income when their youngest child turns 14, and having a simple and easy to understand benefit system where people on the same benefit have the same rules, and where full-time work availability expectations are reinforced by incentives to work full-time through the abatement rules.

115 While this option provides protection for newly affected groups over a 5-year period, it does not extend that protection to existing beneficiaries whose youngest child is currently 11 years or younger, who in the future make the transition into the affected group. However, it provides them with time to adjust and plan for the future change in their abatement rules.

116 This option has two sub-options for how newcomers to the benefit system are treated after 15 July 2013:

- Option 2A: Newcomers to the benefit system have the new abatement rules applied automatically; and

- Option 2B: Newcomers have the part-time abatement rules applied similar to those already on a benefit prior to 15 July 2013.

Option 2A: Newcomers have the new abatement rules applied automatically

117 This option involves sole parents who enter the benefit system after 15 July 2013 not having the same temporary grandparenting as those who were already in the benefit system. This would mean that a sole parent who enters the benefit system after July 2013 would go straight to Jobseeker Support with full-time abatement when their youngest child turns 14.

118 This sub-option is more consistent with the objective of moving towards a system that reinforces work availability expectations with matching abatement rules.

119 However, this option treats new entrants to the benefit system less favourably than those already in it. This is less consistent with the objective of having an easy to understand benefit system where people on the same benefit have the same rules than option 2B (below). However, this can be justified as (unlike those already on benefit) these people will not experience a reduction in their income as a result of having full-time abatement rules applied, and generally will not have preconceived expectations of the abatement regime that will apply to them.

120 This difference gives rise to discrimination under the Human Rights Act, by treating sole parent beneficiaries more favourably than those who enter the benefit system after losing a job or partner. This is discussed further in the human rights section, below.

121 This option costs \$30 million more than no transitional arrangements/grandparenting.

Option 2B: Newcomers have the part-time abatement rules applied similar to those already on a benefit prior to 15 July 2013.

122 This option extends temporary grandparenting protection of part-time abatement rates to sole parents who enter the benefit system after 15 July 2013, until July 2018. This would treat those already on benefit in the same as new entrants to the benefit system, and so avoids issues of discrimination

123 However, these sole parents would generally not have had an expectation of having part-time abatement and there is therefore a less compelling case to protect these sole parents from full-time abatement.

124 This option is less consistent with the objective of reinforcing work availability expectations with matching abatement rules.

Option 3 – An ongoing dual abatement regime

125 This option is to grandparent part-time abatement on an ongoing basis for sole parents, who transfer to Jobseeker Support after July 2013, when their youngest child turns 14. This would apply to sole parents who transfer from Sole Parent Support to Jobseeker Support as well as sole parents not currently on benefit who apply for Jobseeker Support.

126 This option most comprehensively meets the objective of protecting sole parents from abrupt changes in income due to abatement rules, by ensuring that they do not

experience a change in abatement rules when their youngest child turns 14. For this reason, it is the preferred option.

127 Although this option results in two sets of abatement rules for people on Jobseeker Support on an ongoing basis, and is less consistent with the objective of reinforcing full-time work availability expectations that sole parents on Jobseeker Support with aligned abatement rules, there are strong mitigating factors. Full-time work availability expectations and the availability of working for families for sole parents working 20 hours or more a week will be a strong catalyst for sole parents on Jobseeker Support to move off benefit and into full-time employment.

128 This option has costs of approximately \$39 million over four years, compared to no transitional arrangements/grandparenting.

Human rights Implications

Grandparenting abatement at the point of change to the new benefits in July 2013

129 Grandparenting abatement rules for existing recipients at the point of change to the new benefits in July 2013 raises issues of discrimination, as men in similar situations to those currently on Widow's Benefit and DPB Women Alone will have less generous abatement rules.

Grandparenting for those who move from Sole Parent Support to Jobseeker Support after the point of change on 15 July 2013

130 Option 2A, which temporarily grandparents part-time abatement for sole parents already on benefit prior to the point of change on 15 July 2013, but not those who move onto benefit after that date, treats sole parent beneficiaries more favourably than sole parents who enter the benefit system due to losing a job or partner. This raises potential issues of discrimination on the grounds of family and/or employment status. However, the progressive phasing out of the part-time abatement regime for those groups with full-time work availability expectations by July 2018 would mitigate these issues to some degree. Option 2B, which extends access to the protection provisions to newcomers to benefit would help to mitigate these issues.

131 Option 3, which is for an ongoing dual abatement regime that grandparents part-time abatement for sole parents on Jobseeker Support indefinitely, may also give rise to issues of discrimination. It would provide more generous abatement to sole parents on Jobseeker Support than others, which may raise issues of discrimination on the basis of family status.

Comparison of current main benefits with new benefit categories

On 15 July 2013 all beneficiaries receiving one of the seven current main benefits will be transferred to a new benefit that replaces their current benefit:

- Jobseeker Support replaces the Unemployment Benefit, Sickness Benefit, Domestic Purposes Benefit for Women Alone, Widow's Benefit for widows whose children are 14 or older or who do not have children, and Domestic Purposes Benefit for Sole Parents whose children are 14 or older. It has a full-time work focus.¹¹
- Sole Parent Support replaces Domestic Purposes Benefit for Sole Parents and Widow's Benefit for sole parents with a child younger than 14. It has part-time work availability expectations for those whose youngest child is aged 5-13, and work preparation expectations for those with a younger child.
- Supported Living Payment replaces Invalid's Benefit and Domestic Purposes Benefit Care for the Sick or Infirm. People on this benefit do not have work availability expectations, but may be required to prepare for work if they have capacity.

The Emergency Benefit (EB) – which is available to those who do not meet the criteria for a main benefit in cases of hardship – is unaffected by these welfare reforms.

The diagram below shows the numbers that will transfer from current main benefits to the new benefits, based on numbers receiving a benefit at the end of May 2012.

Current benefit system

| | | | | | | |
|--------------|----------------------|--------------|------------------|--|--------------|---------------------------------------|
| UB 49,000 | UB Training 6,500 | SB 57,500 | DPB-SP 97,500 | WB / DPB-WA 10,000 DPB-CSI - 7,500 | IB 83,500 | Other (inc EB and EMA) 4,500 |
|--------------|----------------------|--------------|------------------|--|--------------|---------------------------------------|

New benefit system from July 2013

| | | | | | | |
|--|--|--|--|--|--|---------------------------------------|
| Jobseeker Support (JS) 132,500 | | | Sole Parent Support (inc widows with children 0-13) 88,000 | | Supported Living Payment (inc 7,500 carers) 91,000 | Other (inc EB and EMA) 4,500 |
| Full-time work availability • No children, or youngest child aged 14+ | Part-time work availability • Sick/disabled, some work capacity | Deferred work availability • Sick/disabled, no short-term work capacity | Part-time work availability • Youngest child aged 5-13 | Work preparation • Youngest child under 5 | Reducing over time → | |

¹¹ For those temporarily unable to work full-time because of sickness, injury or disability, there will either be part time work expectations or a temporary deferral of work expectations depending on their circumstances.