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Families Package changes to income support and financial incentives for model families

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Contents

Measures used in this report

This report presents measures that capture different dimensions of income and financial incentives to do paid work. These measures are technical terms that are used to explain what happened because of the Families Package changes.

Measures of income presented are net income and residual income.

- **Net income** is calculated by summing all sources of income (inclusive of earned income, benefits and tax credits) and deducting income tax.
- **Residual income** is calculated by deducting core costs from net income. In this report we calculate residual income after deducting housing costs (residual income after housing costs).[1]

Measures of financial incentives presented in this report are effective marginal tax rates (EMTRs), replacement rates, and participation tax rates, as defined by Figari, Paulis & Sutherland (2015).[2]

- **Effective Marginal Tax Rates (EMTRs)** are indicators of financial incentives for a person already in paid work to increase their work effort, through an increase in hours (the intensive labour supply margin). Here, they are calculated as the proportion of additional gross income that is taxed away, taking into account both income tax and the withdrawal of income support (both income-tested benefits and tax credits delivered through the tax system), with each additional hour worked. High EMTRs are generally a concern because they indicate situations where increasing hours worked will result in little or no change in the income received for a family.
- **Replacement rates** show the level of out-of-work net income (from zero hours of paid work) relative to the level of in-work net income. High replacement rates are a concern because they mean that working provides little or no additional income compared to not working.
- **Participation tax rates** give the proportion of gross earnings lost as taxes, reduced benefit, and tax credit withdrawal if a person moves from zero hours to a given number of hours of work. Along with replacement rates, they are indicators of financial incentives for the decision whether to be in paid work or not (the extensive labour supply margin). Here we calculate participation tax rates for working 20 and working 40 hours. High participation tax rates are a concern because they mean that working provides very little additional income compared to not working once taxes, benefit abatement, and tax credit withdrawal is considered.

A summary of measures we present, and their definitions is in Table 1 (overleaf).

[1] This is to provide a sense of a family's available income for other expenditure after housing costs.
[2] See https://www.sciencedirect.com/topics/economics-econometrics-and-finance/tax-rate

Table 1: Measures used in this report and their definitions.

Measure	Definition (in all instances, 'work' refers to paid work)
Switching point (shortened to "SP", "SP pre-FP", "SP post-FP" in graphs)	Either: the number of hours worked when net income while off a main benefit exceeds that received on a main benefit, or the point where earned income reduces the main benefit received to zero.
Average EMTR	The EMTR is the proportion of additional income that is effectively taxed away with each additional hour worked. This is calculated by dividing the change in net income by the change in gross earnings, and then subtracting this from 1 to give the proportion. Average EMTRs over hours-of-work ranges are used here to help simplify the analysis and allow for comparisons across groups and time periods. For our sole parent with one child model family, average EMTRs are measured over: zero to 40 hours, zero to 19 hours (on main benefit), 19 to 20 hours (switching point), 20 to 40 hours (off main benefit). For our couple with two children model family, average EMTRs are measured over: zero to 80 combined hours, zero to 28 combined hours (on main benefit), 28 to 30 combined hours (switching point), 30 to 80 combined hours (off main benefit). For our single without children model families, average EMTRs are measured over: zero to 40 hours, zero to 21 hours (on main benefit), 21 to 24 hours (switching point), 24 to 40 hours (off main benefit).
Replacement rate	The replacement rate is net income when out of work as a proportion of net income in-work for a given number of hours. This is calculated by dividing the net income at a given set of hours in work by the net income that would be received if the family was not in work. This is measured at 20 and 40 hours for our sole parent with one child and single without children model families. It is measured at 30, 40 and 80 hours combined for our couple with two children model family.
Participation tax rate	The participation tax rate is the proportion of gross earnings lost as taxes, reduced benefit, and tax credit withdrawal if a person moves from zero hours to a given number of hours of work. This is calculated by first subtracting the net income that would be received if not in work, from the net income received at a given hours of work. This is then divided by the total gross earnings at the given hours of work. Finally, this is subtracted from 1 to give the proportion. This is measured at 20 and 40 hours for our sole parent with one child and single without children model families. It is measured at 30, 40 and 80 hours combined for our couple with two children model family.
Net income	Net income at different hours is inclusive of earned income, benefits, and tax credits less income tax. This is measured at 0/20/40 hours for single adult model families, 0/40/80 for couple model families.
Residual income after housing costs (AHC)	Residual income after housing costs at different hours is net income less accommodation costs. This is measured at 0/20/40 hours for single adult model families, 0/40/80 for couple model families.
Change in income from the Families Package	This represents the net income post-Families Package minus the net income pre-Families Package. This is measured at 0/20/40 hours for single adult model families, 0/40/80 for couple model families, and minimum/maximum for all model families.

Executive summary

From April 2018, the Families Package increased several social assistance payments delivered through the tax and benefit systems, introduced a Best Start tax credit for families with babies and toddlers, extended the length of paid parental leave available to families, and introduced the Winter Energy Payment.

This report and a companion technical report show how the Families Package changed incomes and measures of financial incentives for paid work for 'model families' in working age groups. We look at winter months when the potential income gains and effects on financial incentives were the most significant.

The measures of financial incentives we present are among the many factors that can affect people's decisions about paid work (with some of the others being the availability of suitable employment and childcare).

In this report, we analyse four model families, similar in composition to those presented in the Welfare Expert Advisory Group's background paper *'Income Support System'* in 2019. They are all based in central Auckland. These model families are:

a sole parent with one five-year-old child

a couple with two children, one is three years old, one is eight years old

a single person without children

a single person without children and with substantially reduced work capacity due to a severe health condition or disability

Findings

The high-level findings from this report are that:

- **our model families with children benefitted the most from the Families Package**. This was due to the increase in payment rates and abatement thresholds for Family Tax Credits and increased payment rates for the Accommodation Supplement
- **consistent with the policy design, our model families without children did not benefit as much when compared to our model families with children.** This was because the only additional support that families without children could qualify for as part of the Families Package changes was the Winter Energy Payment (if they were receiving a main benefit payment) and the Accommodation Supplement increase
- **the financial incentives to leave or stay off benefit worsened slightly during winter months following the Families Package changes,** due to the

introduction of the Winter Energy Payment, for most of our model families. The exception to this was our sole parent with one child family

- **the Families Package did not make large changes to financial incentives, and as a result the broad structure of financial disincentives remained.** Many of our model families effectively lost over 50 percent of their earnings in taxes, reduced benefit, and tax credit withdrawal when moving from zero to either part-time or full-time paid work
- **non-take-up of supplementary assistance when leaving benefit (for example, through either a lack of understanding of entitlements or reluctance to make a claim) could lead to worse financial outcomes when off a main benefit for model families.** This could result in families remaining on main benefit across a wider range of paid work hours even though they would increase their net income by moving off main benefit and taking up the supplementary assistance available.

After the Families Package changes, our sole parent with one child:

- **had increased net income of between $48 and $94 dollars per week,** depending on the number of hours worked between zero and 40 hours per week. The increase in net income was due to the increase in payment rates and abatement thresholds for Family Tax Credits and increased payment rates for the Accommodation Supplement
- **faced lower Effective Marginal Tax Rates (EMTRs) while on a main benefit, but higher EMTRs while off a main benefit**. This meant that the financial incentives to increase work hours generally improved while on a main benefit, but generally worsened while off a main benefit
- **faced lower replacement rates for 20 hours of paid work, and higher replacement rates for 40 hours of paid work.** This meant that the net income when out of work as a proportion of the net income for being in work for 20 hours decreased, while the net income out of work as a proportion of the net income for being in work for 40 hours increased
- **faced lower participation tax rates when moving from zero to 20 hours of work**. This meant that the proportion of gross earnings lost as taxes, reduced benefit, and tax credit withdrawal for a sole parent moving from zero hours to 20 hours decreased.

After the Families Package changes, our couple with two children:

- **had increased net income of between $58 and $104 dollars per week**, depending on the combined number of hours worked by the couple between zero and 80 hours per week. The increase in net income was due to the increase in payment rates and abatement thresholds for Family Tax Credits and increased payment rates for the Accommodation Supplement
- **faced lower EMTRs while on a main benefit, but higher EMTRs while off a main benefit**. This meant that the financial incentives to increase work hours generally improved while on a main benefit but generally worsened while off a main benefit
- **faced higher replacement rates across all measures**. This meant that the net income out of work as a proportion of the net income in work for either 40 or 80 hours combined increased

- **faced higher participation tax rates when moving from zero to 40 hours of work, and slightly lower participation tax rates when moving from zero to 80 hours of work.** This meant that the proportion of gross earnings lost as taxes, reduced benefit, and tax credit withdrawal for the couple moving from zero to 40 hours increased, while it decreased when moving from zero to 80 hours.

After the Families Package changes, our single people without children:

- **had increased net income of up to $25 per week while receiving a main benefit during winter months,** mostly due to the introduction of the Winter Energy Payment
- **did not see an increase of net income while not receiving a main benefit**, as their modelled circumstances meant they did not benefit from the increased payment rates of the Accommodation Supplement
- **were financially better off on a main benefit across a wider range of hours worked during winter months**, due to the Winter Energy Payment fully abating when moving off a main benefit
- **faced a higher replacement rate when moving to 40 hours of work during winter months**, due to the introduction of the Winter Energy Payment. This meant that the net income out of work as a proportion of the net income for being in work for 40 hours increased during winter months
- **faced a higher participation tax rate when moving from zero to 40 hours of work during winter months**, due to the introduction of the Winter Energy Payment. This meant that the proportion of gross earnings lost as taxes, reduced benefit, and tax credit withdrawal for the person moving from zero to 40 hours of work increased during winter months.

Companion technical report findings

In our companion technical report, we use the same four model families, but expand the analysis to consider other possible scenarios within the income support system. The technical report provides more detail about the financial incentives for model families, and the individual components of model families' income. The results from the technical report serve to highlight the complexity of the income support system, and how the effects of the Families Package on income and financial incentives could vary depending on the circumstances of families and their and take-up of payments.

The companion technical report can be found here: https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/families-package-reports/families-package.html

Introduction

The Families Package made significant changes to the income support system.

The Families Package was introduced in 2018. It formed part of the Government's focus on reducing child poverty, and ensuring children get the best start in life.

Different components of the package had different roles. These included:

- **boosting incomes of low- and middle-income families** by increasing the Family Tax Credit and Minimum Family Tax Credit and raising the Working for Families abatement threshold
- **helping families with costs in a child's early years** by introducing a Best Start tax credit (replacing the Parental Tax Credit) and increasing paid parental leave to 22 weeks (from 2018) and then 26 weeks (from 2020)
- **helping older New Zealanders and people receiving a main benefit heat their homes** by introducing a Winter Energy Payment
- **increasing financial assistance for carers** by increasing the rate of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance
- **increasing Accommodation Supplement and Accommodation Benefit**, by implementing changes that had been announced in the 2017 Budget.[3]

The potential income gains were most significant during winter months, when the Winter Energy Payment was paid. The Treasury estimated that, relative to policy settings before its implementation, the Families Package would make 385,000 families with children better off by an average of $75 a week once it was fully implemented in 2020/21 (New Zealand Government, 2017). Single people and couples without children were also expected to benefit from the Families Package, but to a lesser extent (by an estimated $14 per week on average) (New Zealand Government, 2017).

An estimated 332,700 families, over half of all families with children, received income from the Families Package in its first year. These 332,700 families are estimated to have received an average of $55 more a week from Families Package payments in 2018/19 than in 2017/18. This does not capture the full income gains from the Families Package because Best Start and the paid parental leave extension were not fully implemented in the first year, and the Winter Energy Payment was paid for a shortened period (McLeod & Wilson, 2021).

Further details of the Families Package changes are set out in our monitoring reports. These reports track receipt of the different payments.[4] Several subsequent changes to policy settings, including further increases to financial assistance, were made in 2020 and 2021 through income support packages as part of the other policy responses to COVID-19, and through the 2021 budget (McKenzie, 2021).[5] This report does not assess these changes.

[3] See https://www.beehive.govt.nz/sites/default/files/2017-12/Families%20Package%20Factsheet.pdf
[4] See https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/families-package-reports/families-package.html
[5] See https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-assistance-chronology-programme-history.html

Policy trade-offs, policy levers, and take-up are important frameworks for understanding how changes to the income support system impact people.

The paper *'Income Support System'*, prepared to support the work of the Welfare Expert Advisory Group in 2018, provides a useful set of frameworks that are commonly used in income support system analysis.[6]

These frameworks include '**the iron triangle**', which refers to trade-offs in welfare policy (that is, welfare objectives that are difficult to achieve at the same time) between:

- improving income adequacy/alleviating poverty
- improving or maintaining incentives to work
- sustainable cost to government.

For example, to contain costs, increases to financial assistance aimed at improving the adequacy of incomes are typically targeted so that assistance is reduced as private sources of income increase. A key concern is that this reduced assistance means that entering the workforce does not improve the overall financial situation of the family, or once they are in paid work feel they have little or no incentive to work additional hours or increase their earnings (Nolan, 2019).

Another commonly used framework refers to '**five levers**' that governments have to influence the welfare system:

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

Financial incentives may not affect behaviour as much as expected if other levers affect people's decision-making processes.

In addition to the five levers, the background paper noted that many 'soft' levers can be used to influence the welfare system. These include the varying levels of effort that the system requires of people to gain and maintain entitlement, such as how complex or difficult it is to access relevant information or to make a claim, the way that settings are applied (more or less aggressively), and the way people are treated.

Together with the five levers, soft levers potentially play an important role in shaping **take-up**; the degree to which people access and receive the financial assistance they are eligible for. Low take-up can undermine the assistance the income support system provides to alleviate poverty and hardship. It can also undermine employment outcomes by worsening the financial incentives to work, because people may not receive all the support for which they are eligible when working.[7] Low take-up is another possible reason why changes to policy settings might not impact behaviour as expected.

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[6] See http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/757c27caff/Income-support-system-040319.pdf. This paper also provides a useful overview of the income support system as it was at the time of the 2018 introduction of the Families Package.

[7] See http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/38f35441ff/Take-up-of-Income-Support-010419.pdf

The Families Package offers opportunities to generate new evidence of the effects of policy changes on financial incentives to work.

The Families Package offers opportunities to generate new evidence on the actual scale and nature of iron triangle trade-offs in the Aotearoa New Zealand context. One of our aims through this report is to provide a resource that can inform and encourage such studies.

This report, and a technical companion report, use the Ministry of Social Development's Effective Marginal Tax Rate (EMTR) model to show how the Families Package changed incomes and financial incentives for hypothetical 'model families'. This involves taking each model family's information (such as composition, demographics, and costs), payment information (such as rates and abatement thresholds), and eligibility rules, and using these to calculate the model family's income, the components of this income, and the family's EMTRs, replacement rates and participation tax rates.

The components of the Families Package covered in our model family analysis are the changes to Working for Families Tax Credits (excluding Best Start), the introduction of the Winter Energy Payment, and the changes to the Accommodation Supplement.

Because of subsequent changes to policy settings, the description of incomes and financial incentives post-Families Package does not represent current policy settings. It also does not enable readers to directly compare current settings with policy settings before 2017.

Report contents.

In the sections that follow, we first describe the model families, and then present results for each model family type.

We examine four different model families to understand the possible impacts of the Families Package changes.

In this report we examine four model families, similar in composition to those presented in the Welfare Expert Advisory Group's background paper.[8] The analysis also extends the model family scenarios presented in Nolan (2019).

For each model family, we show how the family's net income would change if adult family members were to increase their hours of paid work and compare how this picture looked during winter months before and after the 2018 Families Package changes.

The four model families that we analyse in this report are:

a sole parent with one five-year-old child

a couple with two children, one is three years old, one is eight years old

a single person without children

a single person without children and with substantially reduced work capacity due to a severe health condition or disability

All the model families lived in Central Auckland, paying a lower quartile rent for their dwelling type. They could be in work as well as on a main benefit. Adults in these families all earned the minimum wage as at June 2018 ($16.50 per hour) while working.[9]

The circumstances faced by the model families in this report are simplified representations of reality in that they take no account of work-related costs or the impacts of inflation on costs (which could reduce a family's available income), and do not account for the effects of delays in establishing payments when moving on or off main benefit or benefit stand-downs, on actual income received.

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[8] See http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/757c27caff/Income-support-system-040319.pdf

[9] By it's nature this is a low-end assumption for wages. Research undertaken by Judd and Gibbs (2020) has shown that a notable group of benefit leavers during 2015/2016 earned at least $1,260 per month after leaving benefit, which equated to working at least 20 hours a week at the minimum wage ($15.75 at the time). Of this group, around 17 percent earned between $1,260 and $2,000 (20 to 30 hours on minimum wage), 36 percent earned between $2,000 and $3,000 (between 31 and 48 hours on minimum wage) and the remainder earned over $3,000.

In addition, the model families are simplified further by assuming that:

- people were in a stable private rental situation and could receive the Accommodation Supplement, but did not receive other available housing support from MSD[10,11]
- hardship assistance was not received, except for Temporary Additional Support[12]
- extra assistance, such as the Work Bonus or the Transition to Work Grant was not received[13]
- Working for Families entitlements, including Family Tax Credit, were received as a weekly payment rather than as a fortnightly payment or end-of-tax-year lump sum
- all benefit abatement was based on weekly income, rather than annual income (in practice, Sole Parent Support and Supported Living Payment recipients can elect to have their benefit abated based on annual rather than weekly income)
- all income tax calculations were based on weekly income, rather than as an average weekly share of the annual income
- no student loan repayments or Kiwisaver contributions were made
- child support was not paid or received
- no childcare costs were incurred (for example because families either were able to stagger their work hours to not need childcare, or had extended family that were able to take care of their children during work hours)
- people took up all assistance they were entitled to, unless otherwise stated
- both partners in couples worked the same number of hours in paid work, and received the same wages
- for the pre-Families Package scenario, rates of payment were as at 1 April 2017
- for the post-Families Package scenario, rates of payment were as at 1 July 2018
- people remained on a main benefit until it was more financially advantageous to be off a main benefit (e.g., for a sole parent with one child, when the gain from accessing tax credits that could only be accessed while off a main benefit outweighed the loss of main benefit income they would give up in doing so), unless otherwise stated
- people were able to flexibly adjust their hours of paid work.

The companion technical report provides extensions for the model families presented in this report, that alter some of the assumptions detailed above.

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[10] For people not in a stable private rental situation, other supports are available. These include subsidisation of housing costs through provision of low-cost public housing, Income Related Rent, Emergency Housing, and Transitional Housing. The scenarios are simplified by not examining how these forms of support would alter income and financial incentives.

[11] As at the end of June 2018, there was 284,686 recipients of the Accommodation Supplement, of which 240,045 were aged 18 to 64 years old. Of these, 183,071 were receiving a main benefit, totalling 66 percent of the working age main benefit population.

[12] As at the end of June 2018, there was 58,763 recipients of Temporary Additional Support, of which 52,096 were aged 18 to 64 years old. Of these, 51,902 were receiving a main benefit, totalling 18 percent of the working age main benefit population.

[13] If a person is leaving benefit to go into employment, they may be entitled to bonus payments or grants to help support them into that employment. However, what they receive can be very dependent on their individual circumstances (such as the type of work, and the hours of work), and so isn't modelled here.

Our sole parent with one five-year-old child model family had a significant income gain from the Families Package.

Together with couples with children, sole parents were expected to benefit significantly from the Families Package changes, especially because of the increase to Family Tax Credit and other Working for Families entitlements, and increased Accommodation Supplement.

Our analysis demonstrates this, showing that our sole parent family had:

- increased net income
- lower EMTRs while on main benefit, though higher EMTRs while off main benefit
- lower replacement rates for 20 hours of paid work, though slightly higher replacement rates for 40 hours of paid work
- lower participation tax rates when moving from zero to 20 hours of work.

Sole parents make up nearly 90 percent of families with children supported by main benefits.

As at the end of June 2018, sole parents made up about 29.4 percent of the working age population supported by main benefits, and 89.7 percent of working age families with dependent children supported by main benefits. These proportions show that sole parents are overrepresented in the working age population supported by main benefits. Based on Household Labour Force Survey (HLFS) data for 2018, sole parents with dependent children made up an estimated six percent of all working age family units (defined as single people aged 18-64, or couples with at least one partner aged 18-64), and an estimated 22 percent of all families with dependent children.[14]

There was a total of 25,238 Sole Parent Support recipients with a single child as at the end of June 2018, which was 9.1 percent of the total working age benefit population. This group made up 27.7 percent of families with dependent children supported by main benefits.

This model family rented a house in Auckland Central, at a cost of $380 per week.

This was the median weekly rental cost for sole parents who received Accommodation Supplement and lived in the area as of the end of March 2018.[15]

Before the Families Package the sole parent received the maximum Accommodation Supplement for their area. However, after the Families Package, they were no longer at the maximum Accommodation Supplement rate for their area.

[14] Source: HLFS, customised tables prepared for MSD.

[15] Source: Information Analysis Platform, MSD. Data was of rental costs in Area 1, which at the time was only Central Auckland.

Incomes and incentives pre- and post- the Families Package

Figure 1: Net and residual incomes for this model family.

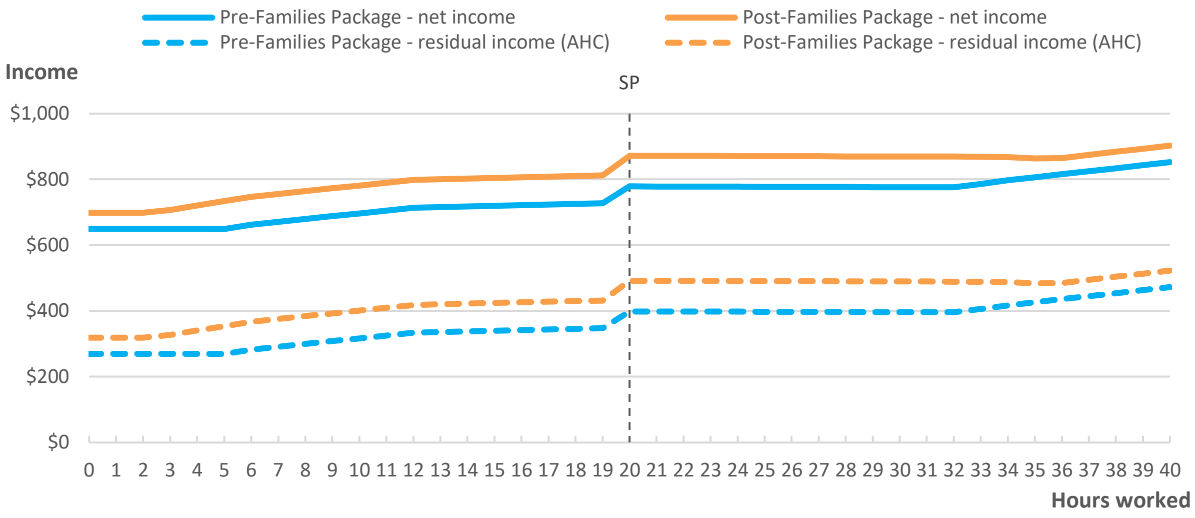

Table 2: Selected measures for this model family.

Measure	Pre-Families Package	Post-Families Package
Switching point	20 hours	20 hours
Average EMTR (0 to 40 hours)	69.3%	69.1%
Average EMTR (0 to 19/19 to 20/20 to 40 hours)	75.4%/-212.2%/77.6%	64.0%/-264.9%/90.7%
Replacement rates (20/40 hours)	83.5%/76.2%	80.1%/77.4%
Participation tax rates (20/40 hours)	61.0%/69.3%	47.5%/69.1%
Net income (0/20/40 hours)	$649.91/$778.64/$852.41	$698.73/$871.95/$902.72
Residual income after housing costs (0/20/40 hours)	$269.91/$398.64/$472.41	$318.73/$491.95/$522.72
Change in income from Families Package: 0/20/40 hours *(percentage change)* & minimum/maximum *(hours of work)*	+$48.82/+$93.31/+$50.31 *(+18.1%/+23.4%/+10.6%)* +48.82/+$93.31 *(hours 0 to 2/hours 20 to 32)*	

What changed?

Income increased across the range of hours worked.

Following the Families Package changes, this sole parent had an increase of income (between $48 and $94 depending on the hours worked) due to increases in the Accommodation Supplement, Family Tax Credit and Minimum Family Tax Credit payments that were received, as well as the introduction of the Winter Energy Payment.

EMTRs decreased while on a main benefit and increased while off a main benefit.

Following the Families Package, the average EMTR for the sole parent fell while on a main benefit (from an average of 75.4 percent before to 64.0 percent after). This meant they kept (on average) 36 cents per additional dollar earnt after the Families Package, compared with about 25 cents before the Families Package. This was due to earlier complete abatement of Temporary Additional Support and the net income ceiling it created (a situation where the model family's income does not increase, even if earnt income is increased), a consequence of the wider Families Package changes.

Around the switching point (which occurred when moving from 19 to 20 hours of paid work), the average EMTR fell from -212.2 percent before to -264.9 percent after. This meant that the sole parent kept (on average) $2.65 per additional dollar earnt after the Families Package, compared with $2.12 before the Families Package. This fall was due to the increased rate of Minimum Family Tax Credit.

However, the sole parent's average EMTR increased while off benefit following the Families Package (from an average of 77.6 percent before to 90.7 percent after). This meant that the sole parent kept (on average) nine cents per additional dollar earnt after the Families Package, compared with 22 cents before the Families Package. This was due to the higher rates of the Minimum Family Tax Credit taking longer to completely abate following the Families Package changes.

Replacement rates fell for 20 hours of paid work and increased for 40 hours of paid work.

Replacement rates for 20 hours of paid work reduced slightly following the Families Package (from 83.5 percent before to 80.1 percent after). This meant that after the Families Package, the sole parents out-of-work net income (zero hours of paid work) was 80.1 percent of their in-work net income when working 20 hours, compared with 83.5 percent before the Families Package. This indicates that the sole parent had slightly more incentive to move into 20 hours of work per week post-Families Package than pre-Families Package.

On the other hand, replacement rates for 40 hours of paid work increased slightly after the Families Package (from 76.2 percent pre-Families Package to 77.4 percent post-Families Package). This indicates that the sole parent had slightly less incentive to move into 40 hours of work per week post-Families Package than pre-Families Package.

Participation tax rates fell for the zero to 20 hours measure.

Following the Families Package, participation tax rates for the zero to 20 hours measure decreased (from 61.0 percent before to 47.5 percent after). This meant that when the sole parent moved from zero to 20 hours of work, 47.5 percent of their gross earnings was lost as taxes and reduced benefit after the Families Package, compared with 61.0 percent before the Families Package.

Participation tax rates for the zero to 40 hours measure remained relatively unchanged (69.3 percent before, 69.1 percent after).

Our couple with two children (aged three and eight) model family also had a significant income gain from the Families Package.[16]

Along with sole parents, couples with children were expected to benefit significantly from the changes, especially through increased Working for Families tax credits and Accommodation Supplement.

Our analysis demonstrates this, showing that this family had:

- increased net income
- lower EMTRs while on main benefit, though higher EMTRs while off main benefit
- lower replacement rates for 30 hours of paid work, though slightly higher replacement rates for 40 and 80 hours of paid work
- lower participation tax rates when moving from zero to 30 hours of work, though slightly higher participation tax rates when moving from zero to 40 hours of work.

Couples with children make up 10 percent of families with children supported by main benefits.

As at the end of June 2018, couples with children made up about 3.4 percent of the working age population supported by main benefits, and 10.3 percent of families with dependent children supported by main benefits.

In relation to this specific scenario, there were a total of 2,017 Jobseeker Support recipients that were partnered and had two children as at the end of June 2018, which was 0.7 percent of the total working age benefit population. This group made up 2.2 percent of families with dependent children supported by main benefits.

This model family rented a house in Auckland Central, at a cost of $460 per week.

This was the median cost for Accommodation Supplement recipients that were couples with children in the area.[17] Before the Families Package the family received the maximum Accommodation Supplement for their area. However, after the Families Package, they were no longer at the maximum Accommodation Supplement rate for their area.

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[16] Through this section, the hours worked are the combined hours worked of both working adults in the family. For simplicity, we refer to this as just "hours worked". As an example, where we say, "working 30 hours", this means that both adults are working 15 hours each for a combined total of 30 hours.

[17] Source: Information Analysis Platform, MSD. Data was of rental costs in Area 1 as at the end of March 2018, which at the time was only Central Auckland.

Incomes and incentives pre- and post- the Families Package

Figure 2: Net and residual incomes for this model family.

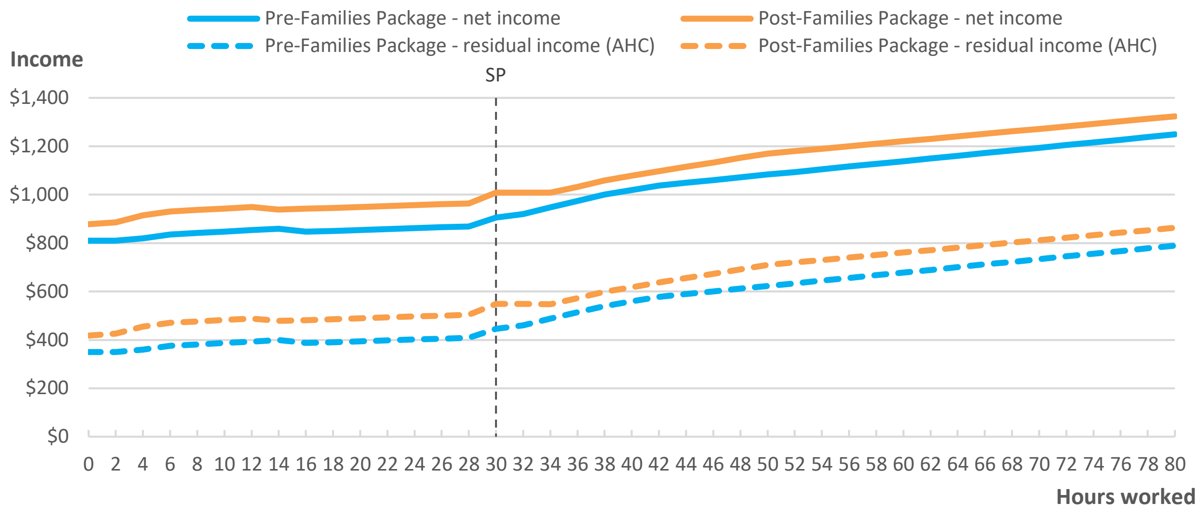

Table 3: Selected measures for this model family.

Measure	Pre-Families Package	Post-Families Package
Switching point	30 hours	30 hours
Average EMTR (0 to 80 hours)	66.7%	66.2%
Average EMTR (0 to 28/28 to 30/30 to 80 hours)	87.2%/-12.0%/58.4%	81.4%/-36.3%/61.9%
Replacement rates (30/40/80 hours)	89.4%/79.5%/64.8%	87.0%/81.5%/66.3%
Participation tax rates (30/40/80 hours)	80.6%/68.4%/66.7%	73.5%/69.7%/66.2%
Net income (0/40/80 hours)	$809.86/$1,018.69/$1,249.31	$877.92/$1,077.81/$1,323.44
Residual income after housing costs (0/40/80 hours)	$349.86/$558.69/$789.31	$417.92/$617.81/$863.44
Change in income from Families Package: 0/40/80 hours *(percentage change)* & minimum/maximum *(hours of work)*	+$68.06/+$59.12/+$74.13 *(+19.5%/+10.6%/+9.4%)* +$58.12/+$103.12 *(36 hours/30 hours)*	

What changed?

Income increased across the range of hours worked.

Following the Families Package changes, this family had an increase of income (between $58 and $104 depending on the hours worked) due to increases in the Accommodation Supplement, Family Tax Credit and Minimum Family Tax Credit payments that were received, as well as the introduction of the Winter Energy Payment.

EMTRs decreased while on a main benefit and increased while off a main benefit.

Following the Families Package, the average EMTR for the family fell while on a main benefit (from an average of 87.2 percent before to 81.4 percent after). This meant that the family kept (on average) 29 cents per additional dollar earnt after the Families

Package, compared with 13 cents before the Families Package. This was due to earlier abatement of Temporary Additional Support and the net income ceiling it creates, a consequence of the wider Families Package changes.

Around the switching point (moving from 28 hours to 30 hours of paid work), the average EMTR falls from -12.0 percent before to -36.3 percent after. This meant that the family kept (on average) $1.36 per additional dollar earnt after the Families Package, compared with $1.12 before the Families Package. This fall was due to the increased rate of Minimum Family Tax Credit.

However, the families average EMTR increased slightly while off main benefit following the Families Package (from an average of 58.4 percent before to 61.9 percent after). This meant that the family kept (on average) 38 cents per additional dollar earnt after the Families Package, compared with 42 cents before the Families Package. This was due to the higher rates of the Minimum Family Tax Credit and the net income ceiling this payment creates taking longer to completely abate following the Families Package changes.

Replacement rates fell for 30 hours of paid work and increased slightly for 40 and 80 hours of paid work.

Replacement rates for 30 hours of paid work decreased following the Families Package (from 89.4 percent before to 87.0 percent after). This meant that after the Families Package, the families out-of-work net income (zero hours of paid work) was 87.0 percent of their in-work net income when working 30 hours, compared with 89.4 percent before the Families Package. This indicates that the family had more incentive to move into 30 hours of work per week post-Families Package than pre-Families Package.

Replacement rates for 40 hours of paid work increased slightly following the Families Package (from 79.5 percent before to 81.5 percent after). This indicates that the family had slightly less incentive to move into 40 hours of work per week post-Families Package than pre-Families Package.

Replacement rates for 80 hours of paid work also increased slightly after the Families Package (from 64.8 percent pre-Families Package to 66.3 percent post-Families Package). This indicates that the family had slightly less incentive to move into 80 hours of work per week post-Families Package than pre-Families Package.

Participation tax rates fell for the zero to 30 hours measure and increased slightly for the zero to 40 hours measure.

Following the Families Package, participation tax rates for the zero to 30 hours measure decreased (from 80.6 percent before to 73.5 percent after). This meant that when the family moved from zero to 30 hours of work, that 73.5 percent of their gross earnings was lost as taxes and reduced benefit after the Families Package, compared with 80.6 percent before the Families Package.

Participation tax rates for the zero to 40 hours measure increased slightly (from 68.4 percent before to 69.7 percent after) while participation tax rates for the zero to 80 hours measure remained relatively unchanged (66.7 percent before, 66.2 percent after).

Our single person without children model case had a small income gain from the Families Package

While single people without children (together with couples without children) potentially benefitted from the Accommodation Supplement changes, and the introduction of the Winter Energy Payment, they did not benefit from the other Families Package changes which were directed at families with children.

Our analysis demonstrates this, showing that this person had:

- increased net income during winter months due to the Winter Energy Payment

However, this person also had:

- no increase in their Accommodation Supplement due to their circumstances
- a later switching point for moving off main benefit
- higher replacement rates for 40 hours of paid work
- higher participation tax rates when moving from zero to 40 hours of work.

Single people without children made up 64 percent of the working age benefit population as at the end of June 2018.

There were 148,698 single people without children receiving a main benefit at the end of June 2018. Of these, 80,933 were aged over 25 and receiving Jobseeker Support like the person illustrated in this scenario.

This person rented a room in a flat in Auckland Central, at a cost of $250 per week.

This was similar to the median cost claimed by unpartnered Accommodation Supplement recipients in the area.[18] Before the Families Package the person did not receive the maximum Accommodation Supplement for their area, and this continued to be the case after the Families Package.

This person was 26 years old, and thus eligible for the standard rate of Jobseeker Support.

This meant their benefit fully abated a few hours later than it would have if they had received the rate of Jobseeker Support payable if they were aged under 25 years old.

[18] Source: Information Analysis Platform, MSD. Data was as of the end of June 2018 for rental costs in Area 1, which at the time was only Central Auckland.

Incomes and incentives pre- and post- the Families Package

Figure 3: Net and residual incomes for this model case.

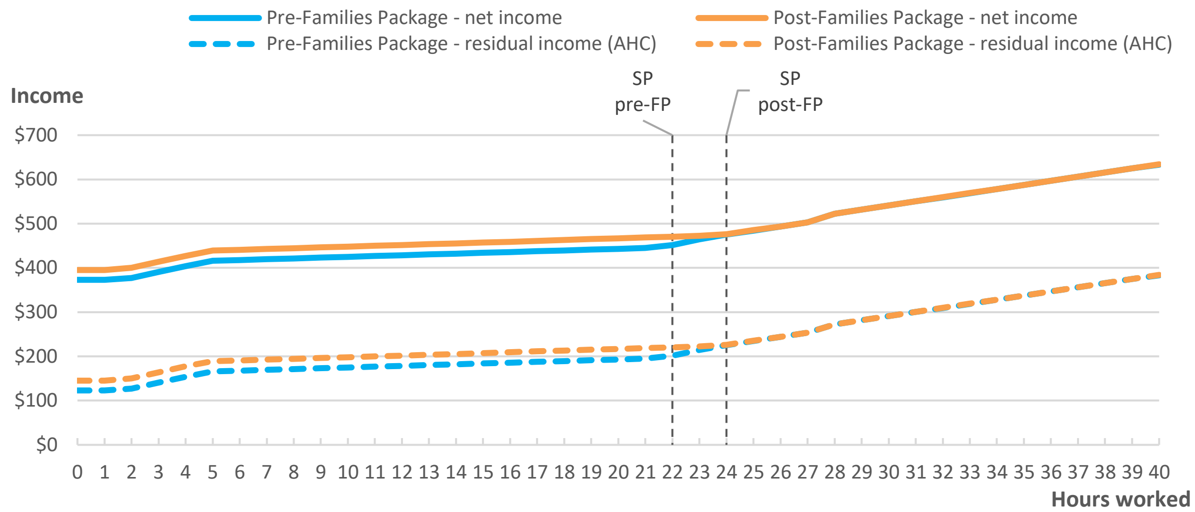

Table 4: Selected measures for this model case.

Measure	Pre-Families Package	Post-Families Package
Switching point	22 hours	24 hours
Average EMTR (0 to 40 hours)	60.6%	63.8%
Average EMTR (0 to 21/21 to 24/24 to 40 hours)	79.1%/39.9%/40.1%	78.8%/85.0%/40.1%
Replacement rates (20/40 hours)	84.2%/58.9%	84.7%/62.3%
Participation tax rates (20/40 hours)	78.8%/60.6%	78.4%/63.8%
Net income (0/20/40 hours)	$373.02/$443.11/$633.18	$395.15/$466.46/$634.18
Residual income after housing costs (0/20/40 hours)	$123.02/$193.11/$383.18	$145.15/$216.46/$384.18
Change in income from Families Package: 0/20/40 hours *(percentage change)* & minimum/maximum *(hours of work)*	+$22.13/+$23.35/+$1.00 *(+18.0%/+12.1%/+0.3%)* +$0/+$23.35 *(hours 26 to 31, 34 to 39/hours 2 to 21)*	

What changed?

Income increased while on main benefit.

Following the Families Package changes, this person had an increase of income while on benefit of up to $23.35 (depending on the hours worked during winter months) due to the introduction of the Winter Energy Payment. Once they moved off main benefit, their income gains were minimal ($0 to $1 per week). For this person, their rental situation did not yield an increase of Accommodation Supplement as a result of the Families Package changes.

EMTRs increased around the switching point, due to the switching point moving from 22 hours to 24 hours of work.

Following the Families Package, the average EMTR for the person was relatively unchanged while on a main benefit (79.1 percent before, 78.8 percent after). This meant that the person kept (on average) 21 cents per additional dollar earnt both before and after the Families Package.

Around the switching point (from 21 to 24 hours of paid work), the average EMTR increases from 39.9 percent before to 85.0 percent after. This meant that the person kept (on average) 15 cents per additional dollar earnt after the Families Package, compared with 60 cents before the Families Package. This increase was due to the Winter Energy Payment moving the switching point from 22 to 24 hours during winter months.[19]

Finally, the persons average EMTR was unchanged while off main benefit following the Families Package (40.1 percent both before and after). This meant that the person kept (on average) 60 cents per additional dollar earnt both before and after the Families Package.

Replacement rates for 40 hours of paid work increased.

The replacement rates for 20 hours of paid work were similar following the Families Package (from 84.2 percent before to 84.7 percent after). This meant that after the Families Package, the persons out-of-work net income (zero hours of paid work) was 84.7 percent of their in-work net income when working 20 hours, compared with 84.2 percent before the Families Package. This indicates that the person had a similar incentive to move into 20 hours of work per week post-Families Package than pre-Families Package.

On the other hand, replacement rates for 40 hours of paid work increased after the Families Package (from 58.9 percent pre-Families Package to 62.3 percent post-Families Package). This indicates that the person had less incentive to move into 40 hours of work per week post-Families Package than pre-Families Package.

Participation tax rates for the zero to 40 hours measure increased.

Following the Families Package, participation tax rates for the zero to 20 hours measure were relatively unchanged (78.8 percent before, 78.4 percent after). This meant that when the person moved from zero to 20 hours of work, that 78.8 percent of their gross earnings was lost as taxes and reduced benefit after the Families Package, compared with 78.4 percent before the Families Package.

Participation tax rates for the zero to 40 hours measure increased (from 60.6 percent before to 63.8 percent after).

[19] This was not observed in summer months and is discussed further in the technical companion report.

Our single person without children and with substantially reduced work capacity due to a severe health condition or disability had a small income gain from the Families Package

Here we look at a non-partnered (single) person with no children who had substantially reduced work capacity due to a severe health condition or disability and was potentially eligible to receive the Supported Living Payment. Single people with no children could benefit from the Families Package Accommodation Supplement changes and received the Winter Energy Payment while on a main benefit. Our analysis demonstrates this, with similar findings to the previous model case.

As at the end of June 2018, single people on Supported Living Payment made up 28.0 percent of the working age benefit population.

People are entitled to the Supported Living Payment if they are permanently and severely restricted in their capacity for work because of health conditions, injuries, or disabilities, or are totally blind. Permanent is defined as 'expected to continue for at least two years'. Severely is defined as 'not being able to regularly work for 15 hours or more per week in open employment'. This is known as the '15-hour rule'.

Due to the 15-hour rule, people receiving Supported Living Payment are generally only permitted to work up to 15 hours per week. Working more than this without prior approval from a specialised case management service would usually result in the client being transferred to Jobseeker Support, which results in a large fall in income. We assume that the person in this model case does not participate in the specialised case management service.

This person rented a room in a flat in Auckland Central, at a cost of $250 per week.

This cost was the median weekly rental cost claimed by unpartnered Supported Living Payment with no children Accommodation Supplement clients in the area as at the end of March 2018.[20] Prior to the Families Package the person did not receive the maximum Accommodation Supplement for their area and this remained the case following the Families Package.

This person was 26 years old, and thus eligible for the standard rate of Jobseeker Support if they worked over 14 hours a week.

They also were assumed to have $15 of costs per week relating to a health condition or disability, for which they were entitled to receive the Disability Allowance up until their gross income exceeded a given threshold.[21]

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[20] Source: Information Analysis Platform, MSD. Data was of rental costs in Area 1, which at the time was only Central Auckland.
[21] For this person, based on their age and circumstances, the thresholds were: $635.98 from 1 April 2017 and $648.92 from 1 April 2018.

Incomes and incentives pre- and post- the Families Package

Figure 4: Net and residual incomes for this model case.

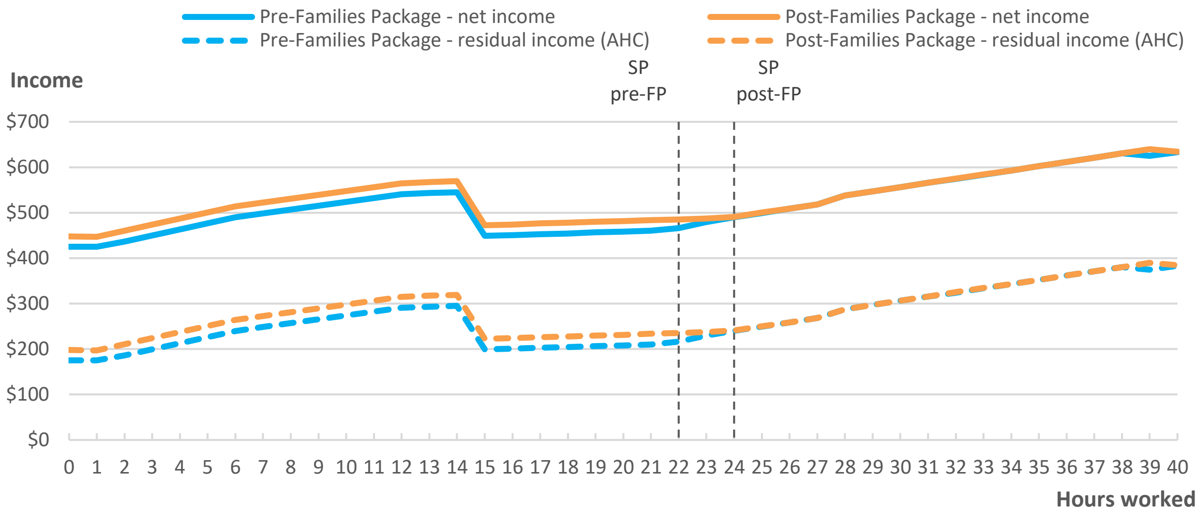


Table 5: Selected measures for this model case.

Measure	**Pre-Families Package**	**Post-Families Package**
Switching point	22 hours	24 hours
Average EMTR (0 to 40 hours)	68.5%	71.8%
Average EMTR (0 to 21/21 to 24/24 to 40 hours)	89.9%/39.9%/45.8%	89.7%/85.0%/45.8%
Replacement rates (20/40 hours)	92.8%/67.1%	93.0%/70.6%
Participation tax rates (20/40 hours)	90.0%/68.5%	89.8%/71.8%
Net income (0/20/40 hours)	$425.18/$458.11/$633.18	$447.82/$481.46/$634.18
Residual income after housing costs (0/20/40 hours)	$175.18/$208.11/$383.18	$197.82/$231.46/$384.18
Change in income from Families Package: 0/20/40 hours *(percentage change)* & minimum/maximum *(hours of work)*	+$22.64/+$23.35/+$1.00 *(+12.9%/+11.3%/+0.3%)* +$0/+$24.07 *(hours 26 to 31, 34 to 38/hours 2 to 14)*	

What changed?

Income increased while on main benefit.

Following the Families Package changes, this individual had an increase of income while on benefit of up to $24.07 (depending on the hours worked during winter months) mainly due to the introduction of the Winter Energy Payment.

Once they moved off main benefit, their income gains were minimal ($0 to $1 per week) as this person's rental situation did not yield an increase of Accommodation Supplement. However, there was an exception to this related to the Disability Allowance. As part of a regular adjustment (not part of the Families Package), the income threshold was slightly increased for the Disability Allowance in 2018. In this case, this resulted in the Disability Allowance cutting out one hour later when compared with pre-Families Package settings, and therefore the income for this person being higher at 39 hours of work than it was prior to 1 April 2018.

Both before and after the Families Package, this person faced a steep fall of income while on main benefit if they increased their hours of work to 15 or more per week.

This was due to losing eligibility to the Supported Living Payment, and having it replaced with the less generous Jobseeker Support.

One instance where this might take place is if the person had employment which provided an appropriate environment for the person and their needs, and therefore enabled them to increase their hours of work to 15 or more per week. However, in reality, very few Supported Living Payment recipients move into work, especially into work that is 15 hours or more per week.

Income and incentive changes because of the Families Package were the same as for the person receiving Jobseeker Support if they were working 15 or more hours to begin with. If they were working less than 15 hours to begin with, the point where they would be better off not on main benefit by increasing their worked hours increased from 29 hours to 30 hours (without the Winter Energy Payment) or to 32 hours (with the Winter Energy Payment).

EMTRs increased around the switching point, due to the switching point moving from 22 hours to 24 hours of work.

Following the Families Package, the average EMTR for the person was relatively unchanged while on a main benefit (89.9 percent before, 89.7 percent after). This meant that the person kept (on average) 10 cents per additional dollar earnt both before and after the Families Package.

Around the switching point (from 21 to 24 hours of paid work), the average EMTR increases from 39.9 percent before to 85.0 percent after. This meant that the person kept (on average) 15 cents per additional dollar earnt after the Families Package, compared with 60 cents before the Families Package. This increase was due to the Winter Energy Payment moving the switching point from 22 to 24 hours during winter months.[22]

Finally, the persons average EMTR was unchanged while off main benefit following the Families Package (45.8 percent both before and after). This meant that the person kept (on average) 54 cents per additional dollar earnt both before and after the Families Package.

Replacement rates for 40 hours of paid work increased.

Replacement rates for 20 hours of paid work were similar following the Families Package (from 84.2 percent before to 84.7 percent after). This meant that after the Families Package, the individuals out-of-work net income (0 hours of paid work) was 84.7 percent of their in-work net income when working 20 hours, compared with 84.2 percent before the Families Package. This indicates that the individual had a similar incentive to move into 20 hours of work per week post-Families Package than pre-Families Package.

[22] This was not observed in summer months, for more information please refer to the technical companion report.

On the other hand, replacement rates for 40 hours of paid work increased after the Families Package (from 58.9 percent pre-Families Package to 62.3 percent post-Families Package). This indicates that the individual had less incentive to move into 40 hours of work per week post-Families Package than pre-Families Package.

Participation tax rates for the zero to 40 hours measure increased.

Following the Families Package, participation tax rates for the zero to 20 hours measure were relatively unchanged (78.8 percent before, 78.4 percent after). This meant that when the individual moved from zero to 20 hours of work, that 78.8 percent of their gross earnings was lost as taxes and reduced benefit after the Families Package, compared with 78.4 percent before the Families Package.

Participation tax rates for the zero to 40 hours measure increased (from 60.6 percent before to 63.8 percent after).

Non-take-up of supplementary assistance could lead to worse financial outcomes for our model families.

The Families Package did not make large changes to financial incentives, and as a result the broad structure of financial *disincentives* remained, with many of our model families effectively losing over 50 percent of their earnings in taxes, reduced benefit, and tax credit withdrawal when moving from zero to either part-time or full-time paid work.

A key assumption in this report so far has been that our model families took up all the supplementary assistance (for example, Accommodation Supplement, Disability Allowance and Temporary Additional Support) that they were entitled to.

However, our synthesis of client experience research from before the Families Package found that while awareness of some components of the social assistance system was high, studies suggest lower levels of awareness of payments such as the Accommodation Supplement and Childcare Assistance had amongst eligible recipients. Additionally, research participants found it difficult to access the information they needed about their potential entitlements, and to apply for payments (Momsen, 2021). Similar themes were raised in consultations for the development of the Ministry of Social Development's Te Pae Tata and Pacific Prosperity strategies and action plans, and in consultations carried out by the Welfare Expert Advisory Group.

A recent study showed that take-up of Temporary Additional Support among those eligible could be as low as 68 percent. It also showed that it was possible to increase the rate of take-up of the payment through different forms of proactive engagement (Rea, Hyslop, & Smith, 2021).

In this section, we briefly look at what the post-Families Package income curves presented in the previous sections might look like if we alter our assumptions about take-up.

Instead of assuming that:

- people took up all assistance they were entitled to
- people remained on a main benefit until it was more financially advantageous to be off a main benefit (for example, for a sole parent with one child, when the gain from accessing tax credits that could only be accessed while off a main benefit outweighed the loss of main benefit income they would give up in doing so)

the scenario presented on the following pages assumes:

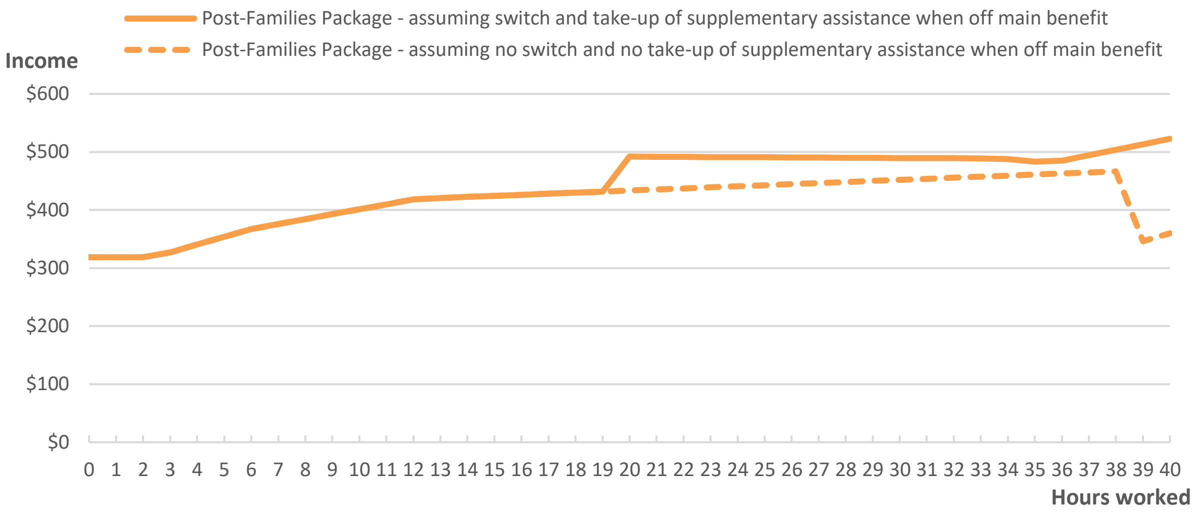
- people did not take up supplementary assistance from MSD once off a main benefit (because they did not know they were entitled, or did not wish to apply) (however those with children did take up Working for Families tax credits)
- people remained on a main benefit until it was fully abated and did not switch sooner even if it was financially advantageous to be off a main benefit.

Results show that over some hours-of-work ranges, non-take-up of supplementary assistance could lead to lower residual income when off a main benefit compared to on a main benefit. Replacement and participation tax rates would be higher because of non-take-up. However, because supplementary assistance was not received (and therefore not abating) while off main benefit, EMTRs while off main benefit were lowered.

Further information about how the model families' incomes and financial incentives changed with these modified assumptions is included in the technical companion report.

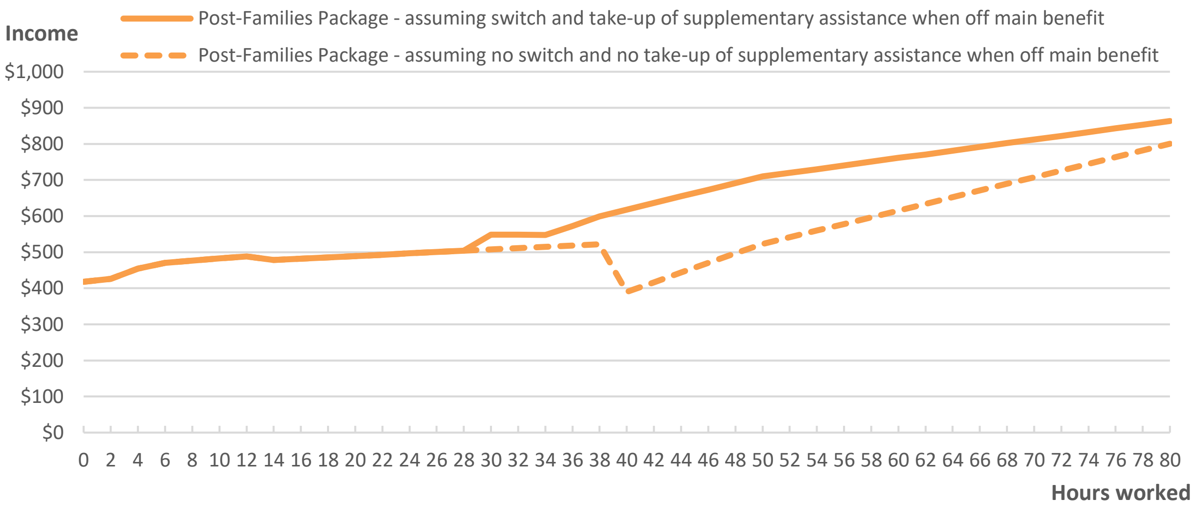
Our sole parent with one child model family stayed on main benefit and had lower income over a range of paid work hours and had a sharp fall in residual income once their main benefit fully abated.

Figure 5: Residual incomes for this model family.



Our partnered with two children model family also stayed on main benefit and had lower income over a range of paid work hours and had a fall in residual income once their main benefit fully abated.

Figure 6: Residual incomes for this model family.



Our single person without children model cases stayed on main benefit over the same income ranges, however like the other model cases, faced a fall in residual income once their main benefit fully abated.

Figure 7: Residual incomes for the single person without children model case.

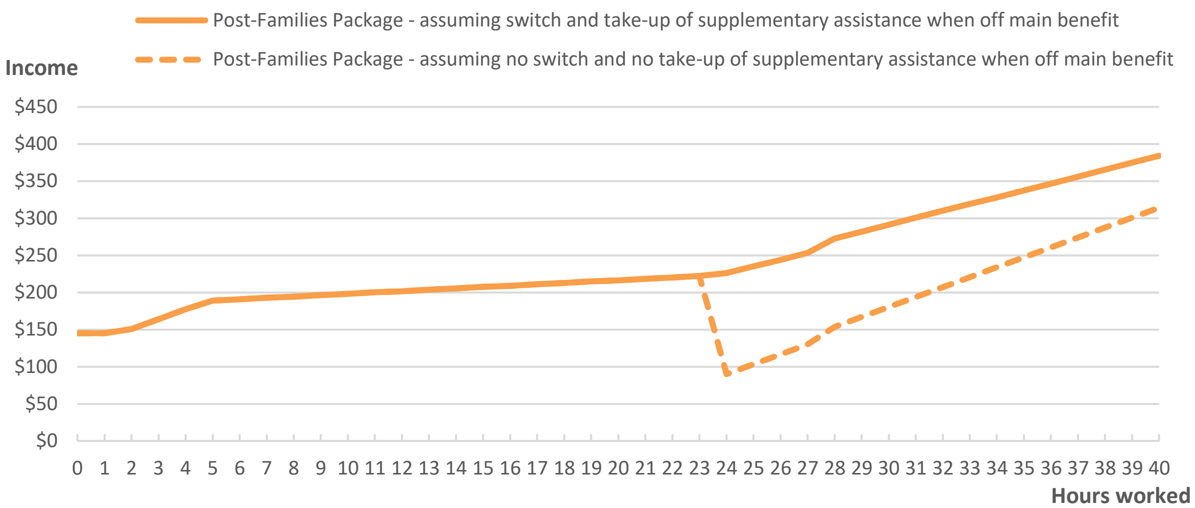
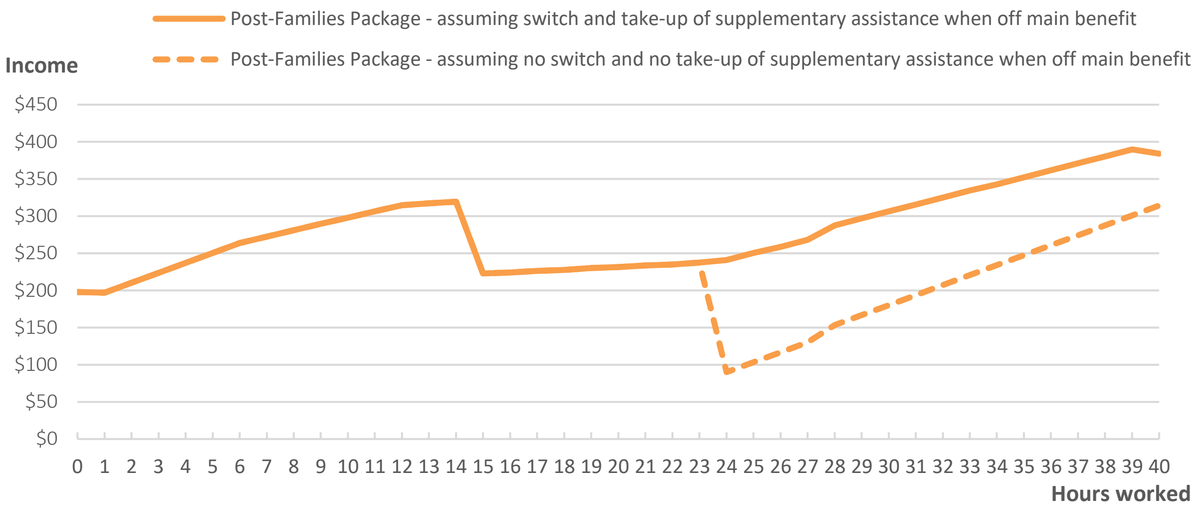


Figure 8: Residual incomes for the single person without children and with substantially reduced work capacity due to a severe health condition or disability model case.



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