

**Government Response to  
Petition of Brian Webb, Align Weekly Earnings to Eight Hours of the  
Minimum Wage Before Reducing Benefits**

**Presented to the House of Representatives**

**In accordance with Standing Order 252**

## **Government response to Petition of Brian Webb, Align Weekly Earnings to Eight Hours of the Minimum Wage Before Reducing Benefits**

### **Introduction**

- 1 The Government has carefully considered your petition, which seeks to align weekly earnings to eight hours of the minimum wage before reducing benefits.
- 2 The Government responds to the report in accordance with Standing Order 252.

### **Background**

- 3 On 11 March, your petition titled “Align Weekly Earnings to 8 Hours of the Minimum Wage Before Reducing Benefits” (the Petition) was presented to the Petitions Committee, and on 26 March the Petition was referred to the Minister for Social Development and Employment for response.
- 4 The Petition requests that the House of Representatives amend legislation to enable those in receipt of a benefit to earn an amount equivalent to eight hours at the minimum wage a week, or over a 52-week period (whichever is highest) before any deductions to their benefit are made. It also requests that benefit deduction rates are reduced to between 25 and 65 cents for every dollar earned over this new threshold.
- 5 The intention of this amendment is described as being to increase the standard of living for people in receipt of a benefit and to enable them to work more hours without their benefit reducing, as well as building their self-worth and esteem and increasing societal contributions through additional tax revenue.
- 6 The Petition is in response to the fact deduction thresholds have not increased since 2021, and the opinion of the petitioner that this has eroded the spending power of some benefit recipients, as they are seeing their benefit rate reducing while the hourly minimum wage rate has been increasing.

### **Abatement is the process of reducing rates of benefit based on income levels**

- 7 All income tested main benefits have an amount of income above which any other income earned will gradually reduce the amount of benefit they receive. This practice is referred to as abatement.
- 8 Schedule 2 of the Social Security Act 2018 (the SSA) contains four income tests used by the Ministry of Social Development to determine how applicable benefit rates must be abated. Section 452 of the SSA gives the Governor-General authority to make discretionary increases to the rates of benefits, including amending the income tests in Schedule 2 by increasing an amount that is specified in that provision.

- 9 The four income tests are applied to clients based on their family circumstances and the type of benefit they are receiving, with each beginning to abate when a client receives \$160 (gross) a week of income and then abating at different rates depending on the applicable test.
- 10 These benefit abatement rates and thresholds reflect the differing work incentives each payment is trying to achieve, for example the thresholds for Supported Living Payment are designed to incentivise part-time work by having two abatement thresholds. A person receiving Supported Living Payment can receive up to \$160 per week before their benefit is abated at 30 cents for every dollar earned. For income over \$250 per week, their benefit is reduced by 70 cents to the dollar. This graduated abatement ensures that people can increase their total income through part-time work where possible. It recognises that people may have a limited ability to return to full-time employment.
- 11 The abatement thresholds for main benefits were increased in 2020, with the relevant thresholds for income tests increasing as follows<sup>1</sup>:
- Income Test 1 – first abatement threshold increased from \$100 to \$115 and second abatement threshold increased from \$200 to \$215.
  - Income Test 2 – first abatement threshold increased from \$100 to \$115 and second abatement threshold increased from \$200 to \$215<sup>2</sup>.
  - Income Test 3 – abatement threshold (when the rate of benefit is a rate of New Zealand Superannuation) increased from \$100 to \$115. Abatement threshold for other rates of benefit increased from \$80 to \$90.
  - Income Test 4 – abatement threshold increasing from \$80 to \$90.
- 12 This was followed by a further increase in 2021, in recognition of the fact that the number of hours a person on a benefit was able to work before their benefit began to reduce had eroded over the years. The increases to relevant thresholds were as follows<sup>1</sup>:
- Income Test 1 – first abatement threshold increased from \$115 to \$160 and second abatement threshold increased from \$215 to \$250.
  - Income Test 2 – first abatement threshold increased from \$115 to \$160 and second abatement threshold increased from \$215 to \$250<sup>2</sup>.
  - Income Test 3 – abatement threshold (when the rate of benefit is a rate of New Zealand superannuation) increased from \$115 to \$160. Abatement threshold for other rates of benefit increased from \$90 to \$160.

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<sup>1</sup> The types of assistance that each income test applies to can be found in Schedule 4 of the Social Security Act 2018.

<sup>2</sup> While the abatement thresholds for Income Test 1 and Income Test 2 are the same, income above these thresholds abates assistance at a different rate depending on the income test applied.

- Income Test 4 – abatement threshold increasing from \$90 to \$160.
- 13 These adjustments were not indexed to minimum wage movement. This is in part because adjustments of this nature are associated with significant fiscal costs. For example, the 2021 increase in abatement thresholds had an associated cost of \$387.496 million over the following five years, with an additional \$17 million over this time required for changes to the Minimum Family Tax Credit to ensure it remains aligned to benefit rates.
- 14 While the abatement thresholds have been adjusted over the years, the amount that is abated for each dollar of income above each applicable threshold has remained consistent over time.
- 15 There are no plans to adjust benefit abatement thresholds or rates, however the Government is focussed on supporting more people on benefits to enter employment in order to reduce benefit dependency. Reducing benefit dependency will improve the life outcomes of New Zealanders and their children. The Coalition Government has announced early actions to get people into work as part of a wider reset of the welfare system.

## Conclusion

- 16 The Government acknowledges that thresholds over time correspond to a lower number of hours of earnings when they are not updated regularly or indexed to some form of wage growth within the labour market. The current abatement thresholds are designed to incentivise most people to work by ensuring that in most situations, recipients will see a tangible increase in their financial resources through work.
- 17 Currently, there is no work planned to adjust abatement thresholds or rates for main benefits. This reflects that adjustments to the thresholds were made in 2020 and 2021.
- 18 However, abatement thresholds are only one factor affecting the amount someone receives from the income support system. All main benefits will have an annual increase on 1 April each year, in line with growth in the Consumer Price Index.
- 19 Financial incentives to participate in paid work are a core design feature of the welfare system that must be balanced against income adequacy and fiscal costs.
- 20 Large policy changes, such as changes to abatement thresholds will have significant impacts across the welfare system and must be carefully considered and balanced against other planned work.
- 21 The Government's priority is to ensure the welfare system is focused on supporting people into employment rather than accepting benefit dependency.
- 22 The Government would like to thank the petitioner for raising this issue.