



Report

Date: 2 May 2019

Security Level: BUDGET - SENSITIVE

To: Hon Carmel Sepuloni, Minister for Social Development
Hon Ron Mark, Minister for Veterans

Budget 2019: Abatement changes and the Veterans' Support Act 2014

Purpose of the report

- 1 On 15 April 2019, Cabinet agreed to increase the abatement thresholds of main benefits, Veteran's Pension and New Zealand Superannuation (non-qualifying partner) as part of the Budget 2019 Incomes for People Receiving Benefits package [CAB-19-Min-0174.36 refers].
- 2 Cabinet invited you to work together to agree the best way to provide legislative support for the proposed changes as the abatement thresholds could not be made through Orders in Council under the Veterans' Support Act 2014 [CAB-19-Min-0174.36 refers].
- 3 This report provides advice and recommends how to provide legislative authority for the proposed series of changes to the abatement thresholds in 2020, 2021, 2022 and 2023.

Recommended actions

It is recommended that you:

- 1 **note** that shifting the detail of the Veteran's Pension abatement thresholds into regulation will:
 - 1.1 enable legislative authority to be provided for the schedule of changes to Veteran's Pension abatement thresholds agreed to by Cabinet [CAB-19-Min-0174.36 refers]
 - 1.2 be consistent with the intent and design of the Veterans' Support Act 2014
 - 1.3 ensure that these abatement threshold changes will be made consistently with the abatement threshold changes to be made for superannuitants and main beneficiaries
- 2 **agree**, under the delegation from Cabinet [CAB-19-Min-0174.36 refers],
 - 2.1 to create a regulation making power in relation to abatement thresholds under section 265 of the Veterans' Support Act 2014

AGREE / DISAGREE

AGREE / DISAGREE

- 2.2 to shift the details of the Veteran's Pension abatement thresholds out of section 171 of the Veterans' Support Act 2014 and into the Veteran's Support Regulations 2014

AGREE / DISAGREE

AGREE / DISAGREE

Cabinet agreed to increase the abatement thresholds for main benefits and New Zealand Superannuation and Veteran’s Pension through Budget 2019

- 4 On 15 April 2019, Cabinet agreed to increase the abatement thresholds for main benefits, New Zealand Superannuation (non-qualifying partner) and Veteran’s Pension as part of the Budget 2019 Incomes for People Receiving Benefits package [CAB-19-Min-0174.36 refers]. The schedule of increases to the abatement thresholds are as follows:

	Current	April 2020	April 2021	April 2022	April 2023
<i>Abatement threshold for Jobseeker Support</i>	\$80	\$90	\$95	\$100	\$105
<i>Abatement threshold for NZS/VP-non-qualifying partner</i>	\$100	\$115	\$120	\$125	\$130
<i>Sole parents and Support Living Payment abatement threshold 1¹</i>	\$100	\$115	\$120	\$125	\$130
<i>Sole parents, Support Living Payment abatement threshold 2²</i>	\$200	\$215	\$220	\$225	\$230

- 5 Additional detail on the proposed changes to the abatement thresholds are attached as appendix one.

Amendment to the Veterans’ Support Act 2014 will be required to give effect to this decision

- 6 Cabinet invited you to work together to agree the best way to provide legislative support for the proposed changes as the abatement thresholds could not be made through Orders in Council under the Veterans’ Support Act 2014 (VSA). This direction was made because the VSA is different to the New Zealand Superannuation and Retirement Income Act 2001 and the Social Security Act 2018 because abatement thresholds are prescribed in 171 (and include a relevant definition in section 158) of the VSA, rather than being set in schedules.
- 7 This report provides advice on the best way to provide legislative authority for the proposed series of changes to the abatement thresholds in 2020, 2021, 2022 and 2023.

Officials consider shifting the abatement thresholds out of the VSA and into regulations is the best way to give effect to Cabinet’s decision

- 8 As section 171 of the VSA prescribes in detail the different abatement thresholds, we have identified three options for providing legislative authority for Cabinet’s decision to adjust the abatement thresholds for Veteran’s pensioners:

¹ Including Veteran’s Pension recipients under 65 years of age

² Including Veteran’s Pension recipients under 65 years of age

- 8.1 Leave the abatement thresholds as set out in sections 158 and 171 of the VSA and amend the VSA to change the abatement thresholds prior to 1 April 2020, 1 April 2021, 1 April 2022 and 1 April 2023 through a legislative process
- 8.2 Amend the VSA to allow abatement thresholds to be set out in regulations, and then amend the regulations as required, or
- 8.3 mirror how the abatement thresholds are legislated for superannuitants.

Officials do not recommend retaining abatement thresholds in section 171 of the VSA

- 9 Officials do not recommend leaving the detail of the abatement thresholds in section 171, and having a definition included in section 158, of the VSA. This is because the VSA will need to be amended each year in order to increase the abatement thresholds in 2020, 2021, 2022 and 2023. This is an expensive and time consuming process. It also creates a risk that the abatement thresholds could increase for main beneficiaries and non-qualifying partners of superannuitants, but not the non-qualifying partners of Veteran's pensioners due to delays in the legislative process.
- 10 The underlying policy intent is that the core entitlements for veterans and superannuitants are aligned. Therefore, in our view that it is better that the detail of the abatement thresholds be shifted out of section 171 of the VSA³ so they can be adjusted alongside any changes to the abatement thresholds for superannuitants and main beneficiaries.

Officials recommend shifting the detail of the abatement thresholds into regulations

- 11 The VSA is specifically designed to set rates of payments and thresholds in regulation. Section 265 of the VSA allows regulations to be made in respect of payment rates under the Act and many other matters. These are then specified in the Veterans' Support Regulations 2014 which can be amended by the Governor General through Order in Council. To remain consistent with the current approach, it is recommended that the detail of the Veteran's Pension abatement thresholds be moved into regulation.
- 12 Officials recommend that section 265 of the VSA be amended to allow regulations to be made specifying the abatement thresholds. This would enable the high level description of abatement thresholds to be described in section 171, with the detail of the thresholds to be set in regulations.
- 13 Officials consider this approach alleviates the risk that abatement thresholds under the VSA would not align with the abatement thresholds which apply to the New Zealand Superannuation and Retirement Income Act 2001 and the Social Security Act 2018 due to delays in the legislative process. This is because it would be possible to adjust the Veteran's Pension abatement through the same, or similar, process being used to adjust the thresholds for superannuitants and main beneficiaries.
- 14 Cabinet agreed that changes to the abatement thresholds for superannuitants and main beneficiaries would be through Orders in Council under section 453 of the Social Security Act 2018 as part of the relevant year's Annual General Adjustment process [CAB-19-Min-0174.36 refers].

Officials consider it is inappropriate to mirror the legislative abatement threshold provisions used for superannuitants

- 15 Officials considered whether it was possible to adopt the exact same legislative approach used for the abatement thresholds for superannuitants. However, we consider this is inappropriate because of the abatement provisions set out in section

³ Including a consequential amendment to section 158 of the Veterans' Support Act 2014.

171(3) of the VSA are different to the abatement settings for superannuitants or main beneficiaries. The abatement thresholds for superannuitants are currently legislated by cross reference to the Social Security Act 2018. On balance, we consider it is more appropriate for abatement rates applicable for Veteran's Pension be contained in Regulations related to the VSA because it is easier for people to know what affects their entitlement if it is in one place.

Next steps

- 16 We understand that Ministers are considering whether to progress the Budget 2019 Incomes for People Receiving Benefits package through Budget night legislation. Therefore, officials will prepare instructions for the Parliamentary Council Office on the basis of your decisions on this paper.
- 17 If the draft Bill is to be progressed through Budget night legislation it is expected to be considered at Cabinet Legislation Committee on 22 May 2018. Officials will prepare a draft Cabinet Paper to support the Minister for Social Development to take the draft Bill to Cabinet Legislation Committee.

REP/19/5/368

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Appendix One: Increasing the abatement thresholds for main benefits and the Veteran's Pensioners and superannuitants

- Under current policy settings:
 - people receiving a main benefit can earn up to a certain level of income per week (abatement threshold) before their benefit begins to reduce; and
 - the number of hours someone can work earning minimum wage in a week before their benefit begins to reduce has declined over time;
- Under current settings Jobseeker Support recipients are subject to an abatement regime intended to encourage them to take up full-time work (income over \$80 a week is abated at 70 cents in the dollar), with separate settings designed to encourage part-time work for sole parents and Supported Living Payment recipients (30 cents for each additional dollar over \$100 and 70 cents for each dollar over \$200).
- Similar settings apply to New Zealand Superannuation (NZS) and Veteran's Pension (VP) recipients where they have included a non-qualifying partner in their NZS or VP. NZS and VP recipients who are over 65 and who have included a non-qualifying partner in their payment are subject to an abatement regime designed to encourage full-time work (income over \$100 a week is abated at 70 cents in the dollar). VP recipients who are under 65 are subject to an abatement regime which encourages return to part-time or full-time work depending on their capacity to undertake paid work.
- This initiative will link the following abatement thresholds to the minimum wage:
 - Jobseeker Support (excluding sole parents)
 - Sole parents
 - Supported Living Payment
 - NZS/VP Non-Qualifying Partner
- The link between benefit abatement thresholds and the minimum wage will be applied to ensure the number of hours worked on the minimum wage before the benefit begins to abate is maintained relative to \$16.50 per hour (therefore also including the effects of the recent minimum wage increase to \$17.70 per hour). This means Jobseeker Support recipients will continue to be able to work around 4.5 hours on the minimum wage before their benefit begins to abate and Sole Parent Support and Supported Living Payment recipients around 6 hours.
- The link to the minimum wage will be applied over the next four years only, in line with the commitment to increase the minimum wage to \$20 per hour in 2021, as well as more modest estimated increases in 2022/23 and 2023/24. No further adjustments will be made after 1 April 2023.
- The second abatement threshold, which is currently \$200 per week, for sole parents and Support Living Payment recipients, will continue to be fixed at \$100 per week above the lower benefit abatement threshold. The benefit abatement thresholds have been rounded up to the nearest \$5 per week, to avoid creating additional administrative complexities for clients.

- The proposed benefit abatement thresholds are below:

	Current	April 2020	April 2021	April 2022	April 2023
Abatement threshold for Jobseeker Support	\$80	\$90	\$95	\$100	\$105
Abatement threshold for NZS/VP-non-qualifying partner	\$100	\$115	\$120	\$125	\$130
Sole parents and Support Living Payment abatement threshold 1	\$100	\$115	\$120	\$125	\$130
Sole parents and Support Living Payment abatement threshold 2 ⁴	\$200	\$215	\$220	\$225	\$230

- Changes to the abatement thresholds do not impact Youth Payment or Young Parent Payment as these benefits have a separate abatement regime which is the same as for Student Allowance. Nor does it impact Orphan's Benefit or Unsupported Child's Benefit as these do not have an income test.

⁴ Including VP non-qualifying partner recipients under 65