



Report

Date: 25 October 2018

Security Level: BUDGET SENSITIVE

To: Hon Carmel Sepuloni, Minister for Social Development

Welfare Overhaul Budget 2019: Abatement Thresholds

Purpose of the report

- 1 **s 9(2)(f)(iv)**
This advice is part of a package for Budget 2019 and should be read in conjunction with the following reports:
 - Overview of the Welfare Overhaul Budget 2019 Proposals [REP/18/10/1443 refers]
 - **s 9(2)(f)(iv)**
 - **s 9(2)(f)(iv)**

Executive summary

- 2 As part of the Welfare Overhaul, you have asked MSD officials to consider a number of potential proposals for Budget 2019. One of the proposals is to increase abatement thresholds. **s 9(2)(f)(iv)**
s 9(2)(f)(iv)
 - **s 9(2)(f)(iv)**
 -
 -
- 3 Altering abatement thresholds will have a number of differing implications for the wider welfare system. The Ministry of Social Development (MSD) considers that threshold changes will improve the incentives to work part-time and increase incomes particularly for low-income part-time workers on benefits. **s 9(2)(g)(i)**
s (9)(2)(g)(i) Also, a number of people will become newly eligible for assistance due to abatement threshold changes. A key example being a number of non-beneficiaries becoming eligible for the Accommodation Supplement (AS).
- 4 Abatement thresholds are increased through one-off changes. The last adjustment to main benefit abatement thresholds occurred in September 2010. Given the lack of recent changes to abatement thresholds, the value of what people can earn before their benefit abates has declined in real terms over time. Effectively, beneficiaries

work fewer hours and earn less before their benefit abates. This makes a review of abatement thresholds timely.

5 s 9(2)(g)(i)

6 s 9(2)(g)(i) MSD modelled the total cost, expenditure by benefit type and the gains that people would experience. In general, the costs increased with larger changes to benefit abatement thresholds.

7 While this paper proposes increases to abatement thresholds, there is a need to take a more in-depth look at the abatement regime. The Welfare Expert Advisory Group may consider this as part of advice on the changes needed to ensure the system achieves the Government's vision for the welfare system. The changes proposed in this paper should be considered as an initial step in the overhaul of the welfare system.

8 There are a number of flow-on impacts from increasing benefit abatement thresholds. These flow-on effects will increase the cost of this package. These impacts include increasing eligibility to the welfare system, affecting the policy intent and incentives provided by the Minimum Family Tax Credit (MFTC), increasing the number of people who would receive AS (and increasing the rate for some current recipients) and affecting the balance of labour market incentives between part-time and full-time employment. Where possible, further analysis will be supplied.

Recommended actions

It is recommended that you:

- 1 **note** that in 2017 the Ministry of Social Development provided you with options for changing abatement thresholds [REP/17/12/1234 refers], however at that time a Budget bid was not progressed
- 2 **note** that altering abatement thresholds will have a number of impacts such as improving the incentives to work part-time, increasing incomes for low-income part-time workers on benefits and making some limited impacts on child poverty levels
- 3 **note** that abatement thresholds have not been adjusted recently, Jobseeker Support thresholds have not been adjusted since 1996, meaning the amount that beneficiaries can earn before their benefit abates has declined in real terms over time

4 **agree** that the Ministry of Social Development develop a bid for Budget 2019 to:

- 4.1 s 9(2)(f)(iv)
s 9(2)(f)(iv) s 9(2)(g)(i)
s 9(2)(g)(i)

Agree / Disagree

Or

- 4.2 s 9(2)(f)(iv)

Agree / Disagree

Or

Agree / Disagree

- 5 **note** that the Ministry of Social Development has modelled changing the abatement thresholds for main benefits including Jobseeker Support, Sole Parent Support, Supported Living Payment and New Zealand Superannuation Non-Qualifying Spouse
- 6 **note** that should there be changes to income abatement thresholds there will be a number of flow-on impacts, these impacts have to yet to be fully modelled and will be provided with further advice if required
- 7 **agree** to forward a copy of this report to the Ministers of Finance, Revenue and Housing and Urban Development and the Ministers for Child Poverty Reduction and Veterans.

Agree / Disagree



Fiona Carter-Giddings
General Manager
Employment and Income Support Policy

26/10/2018

Date

Hon Carmel Sepuloni
Minister for Social Development

Date

s 9(2)(f)(iv)

9 s 9(2)(f)(iv)

You have requested advice s 9(2)(f)(iv) for changing abatement thresholds and this is part of a wider welfare overhaul package

10 As part of the Welfare Overhaul, you have asked MSD officials to consider a number of potential proposals for Budget 2019. One of the proposals is to increase abatement thresholds. s 9(2)(f)(iv)

- s 9(2)(f)(iv)

-

-

There are two main benefit abatement regimes currently

11 Currently, benefits are targeted to people who are not able to fully support themselves through paid work. This targeting is achieved through eligibility criteria and the benefit abatement regime, which gradually reduces the benefit payments people receive as their other income increases. The policy rationale for having an abatement threshold before the amount of benefit received decreases is to encourage labour market entry (as incentivising entry, even for a small number of hours, is important) and to recognise that there are additional costs associated with work (e.g. transport). The abatement regimes are provided for in the Social Security Act 1964 (the SSA) and the New Zealand Superannuation and Retirement Income Act 2001. These will need to be amended if thresholds change.

12 The benefit system has two main abatement regimes. There is:

- a part-time regime designed to incentivise part-time work, which mainly applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP)
- a full-time regime designed to incentivise full-time work, which mainly applies to people on JSS-Related benefits.

13 These two regimes seek to align the financial incentives to work with the level of labour force engagement expected of the individual. Table one below summarises the two current abatement regimes.

Table one: Current abatement rules

Income Abatement	Full time	Part Time
Abatement free zone (gross per week)	\$80	\$100
Income charge against benefit	70c per \$1 over \$80	30c per \$1 between \$100 - \$200 70c per \$1 over \$200

- 14 The abatement rules along with the benefit rate also determine the benefit cut-out point, which is the amount of income at which a benefit is reduced to zero.

There is a different abatement regime for New Zealand Superannuation and Veteran's Pension

- 15 A person who qualifies for NZS can choose to include a non-qualified partner (NQP) in their payment. If they make this choice, they receive payment for a couple but NZS becomes subject to an income test, based on the income of both partners. Alternatively, the qualifying partner can receive NZS paid at half of the married rate without an income test. The abatement threshold is currently \$100 per week (\$5,200 per annum). Income in excess of the threshold reduces the before tax weekly amount by 70c for each dollar of excess income. It should be noted that some changes are being considered for NZS-NQP.¹
- 16 Under the SSA, NZS is defined as a benefit and a recipient is a beneficiary – NZS is a component of the wider social security system. Therefore, any change to the income test for main social security benefits should be reflected in the income test applying to NZS when a non-qualified partner is included. The same rules apply for the Veteran's Pension.

Changing abatement thresholds will have a range of effects, such as for work incentives, and implications for the wider welfare system

- 17 There will be a range of effects on work incentives from changing abatement thresholds. s 9(2)(g)(i)
- 18 Changes to abatement thresholds will increase incomes for low-income part-time workers on benefits, given that they will be able to work for longer prior to abatement occurring. For those people who have children and are currently on benefit there will be some limited child poverty impacts, options two and three will have the most effect. The level of gain for them will be dependent on the interaction between the types of assistance they are receiving.
- 19 There are also a range of implications for other parts of the welfare system, in particular changes in abatement thresholds will mean that a number of people will become newly eligible for social assistance. In particular, there will be more people who receive Accommodation Supplement (AS).

¹ Changes to NZS-NQP are currently being considered by Government. A Superannuation Reform package was discussed at Cabinet Business Committee [CBC-18-MIN-0092 refers] proposing that the NQP provision be closed to new applicants (while grandparenting existing NQPs). A final policy paper is being developed for 12 December 2018.

Thresholds have not been adjusted recently and the amount beneficiaries can earn before abatement occurs has declined in real terms

- 20 Abatement thresholds are increased through one-off changes, rather than being adjusted annually. The last adjustment to main benefit abatement thresholds occurred in September 2010, when changes were made for recipients of (what was then known as) Domestic Purposes Benefit (DPB), Invalid's Benefit, Veteran's Pension while aged under 65, and Widow's Benefit.² Changes were also made to the abatement rates for New Zealand Superannuitants and Veteran's Pensioners with non-qualifying partners.³ Some thresholds have not been adjusted in a significant period of time, in particular the full-time abatement regime used for Jobseeker Support (JSS) which was last adjusted in 1996. This makes a review of abatement thresholds timely.
- 21 Given the lack of recent change to abatement thresholds this means that the value of what people can earn before their benefit abates has declined in real terms over time. As an illustration of this we have compared what people earn under various abatement thresholds when they last changed (1996 and 2010) and now (2018) against the minimum wage (the lowest level that wages can be for employees aged 16 years and over). For example:
- from 1 March 1997 the minimum wage for adults was \$7.00 per hour. This means that a person receiving JSS could work for approximately 11.4 hours before their benefit abated. Now, the current minimum wage for adult is \$16.50 per hour. A person receiving JSS could now only work for approximately 4.8 hours before their benefit abated
 - from 1 April 2010, the minimum wage for adults was \$12.75 per hour. Someone receiving the DPB then, equivalent to SPS now, would have been able to work approximately 7.8 hours before their benefit abated. Now, a person receiving SPS would only be able to work for approximately 6 hours before their benefit abated.
- 22 This means that people receiving JSS and SPS can work fewer hours and earn less before their benefit abates. Even if the threshold does change now, the amount of hours that people can work before their benefit abates will decrease with subsequent increases in the minimum wage over time.

s 9(2)(f)(iv)

23 s 9(2)(f)(iv)

² This change allowed them to earn up to \$100 a week before their benefit was reduced by 30 cents – an increase from the previous \$80 threshold. Additionally, there was an increase to allow them to earn up to \$200 a week before their benefit was reduced by 70 cents – an increase from the previous \$180 threshold.

³ For those who claimed the married couple rate, their threshold was increased to allow them to be able to earn up to \$100 before their benefit was abated.

s 9(2)(f)(iv)

s 9(2)(g)(i)

31

s 9(2)(g)(i)

32

Once again as noted above, there are limited impacts on child poverty from altering abatement thresholds. The impacts that do exist increase with the size of the increase in abatement thresholds. s 9(2)(f)(iv)

33

s 9(2)(f)(iv)

34

s 9(2)(f)(iv)

Implementation of changes to abatement thresholds

35

To implement any potential changes there would need to be IT system updates and other operational changes. Should, a bid for Budget 2019 proceed we will undertake further work to determine the cost and extent of these updates and changes. At this stage we are assuming an implementation date of 1 April 2020. This could change once the detailed implementation work is complete.

36

Changing abatement thresholds would have legislative implications and require primary legislation changes through Orders in Council.

There are flow-on consequences for altering the abatement regime

37

s 9(2)(f)(iv)

advice. You may like to discuss the flow-on effects to AS and Income Related Rent (IRR) Subsidy with the Minister for Housing and Urban Development.

Youth Payment / Young Parent Payment

- 38 Young Parent Payment (YPP) is a benefit for 16 to 19 year old people who have a dependent child or children and are single or are, or have been, married, in a civil union, or in a de facto relationship. Similarly, the Youth Payment (YP) is a benefit for 16 and 17 year old young people who have no dependent children and are not being supported by their parents or are, or have been, married, in a civil union, or in a de facto relationship. While there is not a specific flow-on effect to YP and YPP, changing the abatement regime for other benefits would raise a policy question as to whether YP and YPP's abatement regime should also be changed. However, it should be noted that for YP and YPP recipients education and training outcomes are the key focus.
- 39 Most young people receiving YP will be under money management and will receive an in-hand allowance of up to \$50.00 a week^{5 6}, with the majority of their payment being redirected to pay for their everyday living costs and lawful debts.
- 40 YP and YPP share an income charge and abatement regime. Young people (and their partners, if any) can earn up to \$217.22 gross per week before it will affect their benefit.⁷ A young person who receives over \$217.22 gross a week will have their benefit reduced by \$1.00 for every \$1.00 of income until they earn \$267.22. For young people who are married, in a civil union or de facto relationship where only one of them is receiving YPP, 50 cents is taken from the YPP for each \$1.00 of the combined income of the young person and their partner over \$217.22 gross a week, until they earn \$317.22.

Accommodation Supplement

- 41 AS is a non-taxable benefit that provides assistance towards a client's accommodation costs. A person does not have to be receiving a benefit to qualify for AS. The amount of AS payable is assessed taking account of a client's accommodation costs, income, assets, family status and the region in which they are living.
- 42 AS abatement thresholds for non-beneficiaries are aligned to the relevant JSS income-cut out points.⁸ This is to avoid multiple payments abating simultaneously at low income levels. Increasing benefit abatement thresholds will increase JSS cut-out points and therefore increase the AS abatement thresholds and cut-outs. Increases in the AS abatement thresholds will result in higher AS for non-beneficiaries who are receiving an abated rate of payment. It may also result in more middle-income families becoming eligible for AS due to a higher income cut-out.

Income Related-Rent

- 43 IRR is a subsidised rent scheme for public housing tenants with low incomes. Calculation of IRR is based on after-tax income. Changing abatement thresholds could increase an IRR recipient's rent. If someone was receiving a benefit and working part-time and the abatement threshold was altered and they subsequently kept more income then this could mean that they had to pay more rent.

Minimum Family Tax Credit

- 44 MFTC provides a guaranteed minimum level of after-tax income to families in full-time work, by topping up the net income they receive from work to a set level (the

⁵ This payment is as at 1 April 2018.

⁶ It should be noted that these payments have not increase since their introduction in 2012.

⁷ All figures for the income charge and abatement regime are as at 1 April 2018.

⁸ The alignment between JSS income cut-out points and AS was implemented in 2004.

MFTC threshold).⁹ MFTC is designed to ensure that someone not receiving a main benefit and in full-time work is no worse off than they would be if they worked and continued to qualify for an abated benefit. It supports the objective to encourage families into paid work by making work pay. If benefit abatement thresholds increased and the MFTC did not, then people may choose not to move into full-time employment.

- 45 A change to the MFTC on 1 April 2020 would be business as usual for Inland Revenue. There would likely be some implementation costs for Inland Revenue if implementation was done at a different time in the year.

46 s 9(2)(f)(iv)



Special Benefit and Temporary Additional Support

- 47 SB is a discretionary non-taxable benefit and that provides assistance to clients whose particular circumstances are causing them hardship. A client does not need to be receiving a benefit in order to be granted Special Benefit (SB). However, grants of SB cannot be made to people who were not receiving it or had not applied for it immediately before 1 April 2006. SB was replaced by Temporary Additional Support (TAS) on this date.
- 48 TAS is a non-taxable supplementary benefit that provides temporary financial assistance to alleviate financial hardship for people whose essential costs cannot be met from their income and other resources. People who apply or are or granted TAS are required to take reasonable steps to reduce their costs or increase their income. There are around 75,000 TAS recipients.
- 49 Both TAS and SB have qualifying criteria which includes cash asset and income tests. Changes in abatement levels and any consequent effects on income will affect the amount of SB or TAS received. Generally, any increase in benefit through changes to abatement may result in a dollar for dollar reduction in SB or TAS. A general increase to main benefit rates would not have this effect. Please see the report entitled Welfare Overhaul Budget 2019: Increasing main benefit rates [REP/18/10/1451 refers] for further information.
- 50 The impacts on people receiving TAS and SB will be complicated and depend upon on whether their income increases due to abatement threshold changes. For example, if the amount of wages they were earning increased due to a higher abatement threshold then this may lower the amount of TAS they were entitled to receive.

Other impacts that will need to be considered

- 51 Increases to benefit thresholds may also impact on the following:

⁹ Currently, MFTC tops up a family's annual income (net income after tax has been deducted) to \$26,156 a year (\$503 per week) for the tax year ending 31 March 2019.

- the Winter Energy Payment – eligibility is linked to main benefits. If more people become eligible for benefits through abatement threshold changes then they will also become eligible for the Winter Energy Payment
- the rates rebate scheme – social assistance payments are considered income for the scheme, changes to abatement thresholds may affect people's income and therefore what they are entitled to receive
- the Community Services Card – from 1 December this year AS recipients will automatically qualify for the Community Services Card, changes to abatement thresholds will mean that more people receive AS
- Childcare Assistance – social assistance payments are included as income for the purposes of determining the rate of Childcare Assistance payable.

Operational impacts for the Ministry

52 We consider that changes to abatements threshold are unlikely to have any on-going resourcing impacts for MSD's business processes. However, if there are increases in the number of eligible clients that MSD need to provide a service to then this will have corresponding resource impact. We do not currently have an estimate for what these resource costs are at the current time, but if needed we will include any available information and seek funding for this in a final bid for Budget 2019.

Further work on flow-on impacts for the social welfare system that will need to be modelled

- 53 Increasing abatement levels will mean that more people will keep a greater proportion of their benefit as they earn money from employment. There will be a group of people who were previously no longer eligible for benefit (because their benefit was reduced to zero) who will become eligible again (or newly eligible) if the abatement threshold shifted. Similarly, it will extend out entitlement to AS if thresholds shift. MSD cannot currently model how many people would be affected in this situation.
- 54 Work incentives for groups such as working beneficiaries would likely alter if abatement thresholds shifted. For example, for those beneficiaries who are working part-time a threshold change would allow them to work more hours before their benefit abatement and potentially encourage them into full-time work.
- 55 Changing abatement thresholds may impact families moving into work as a result of the impact on the MFTC. MSD notes that it would be appropriate to consider the threshold and rates for MFTC as part of benefit abatement threshold changes. If MFTC remained at the same level as it currently is and only benefit abatement levels were adjusted, then the MFTC would not be ensuring that all beneficiaries would be better off in paid work.
- 56 Should you decide to proceed with increasing abatement thresholds, further advice and work would be undertaken on increasing the MFTC threshold, determining the impacts on newly eligible beneficiaries and any flow-on effects to AS. It should be noted that there is a specific process for increasing the MFTC threshold.¹⁰ These flow-on effects will increase the cost of this package.

¹⁰ There is a statutory requirement for any adjustment to MFTC to be approved by Order in Council by 1 December for application from the following 1 April. Otherwise the existing MFTC threshold continues unless overridden by a legislative change.

57 s 9(2)(f)(iv)

s 9(2)(f)(iv)

58 s 9(2)(f)(iv)

Next steps

59 Dependent on your decisions, officials will continue to develop a budget bid

s 9(2)(f)(iv)

REP/18/10/1434

File ref: A10894543

Author: s 9(2)(a) Senior Policy Analyst, Employment and Income Support

Responsible manager: s 9(2)(a) Policy Manager, Employment and Income Support