



12 SEP 2019

Dear 

On 29 July 2019, you emailed the Department of Internal Affairs requesting, under the Official Information Act 1982, the following information:

- *On 3 May 2019, Minister Sepuloni stated that "increasing abatement thresholds of main benefits over the next four years will benefit around 73,000 low income individuals and families and is a total investment of \$97.1 million over four years"*
  1. *Please provide figures and costings for adjusting the abatement rate as announced by Minister Sepuloni.*
  2. *Specifically, how is the figure of \$97.1 million reached. What is the economic rationale and details behind this number?*

This request was then transferred to the Ministry of Social Development, as we hold this information.

A feature of the main benefits (Jobseeker Support, Sole Parent Support, and Supported Living Payment) is that benefit entitlement reduces (is abated) once clients earn over specified thresholds. Increases to these abatement thresholds mean that clients can earn more before their benefit begins to reduce, which incurs a cost to the Crown.

The figure of \$97.1 million, for the cost of the increases to abatement thresholds, is an estimate and reflects several assumptions made during the cost modelling process.

This figure reflects the total cost of increasing the abatement thresholds between April 2020, when it will be implemented, until the end of June 2023. The breakdown of the cost of this policy, broken down by financial years, is given in the table below:

**Table One: Estimated cost for increasing abatement threshold broken down by financial year for the years 2019/20 to 2022/23**

<b>Fiscal Year</b>	2019/20	2020/21	2021/22	2022/23	<b>Total</b>
<b>Estimated Cost</b>	\$4.619m	\$22.469m	\$30.943m	\$39.069m	<b>\$97.100m</b>

*Beneficiaries who earn income*

Most clients in receipt of a main benefit either have no earnings or earn below the relevant abatement threshold. In such an instance, this policy change will have no impact on a client's rate of main benefit.

Currently around 31,000 beneficiaries have earnings above the current abatement thresholds. Most of these clients are recipients of either Jobseeker Support, or Sole Parent Support. When the abatement thresholds increase on 1 April 2020, these beneficiaries will gain as their benefits will reduce by less than under current settings.

The main reason that the cost of this policy grows over the forecast horizon is because we expect people's earnings to increase over time due to wage inflation. We have not assumed any behavioural impact of people changing the amount they work.

To produce cost estimates for large policies such as this, we use a tool called Microsimulation. This tool simulates how the policy would impact real clients using the Ministry's administrative data. The results are scaled to reflect expectations of the number of clients receiving benefits, and the associated expenditure, over the forecast horizon.

Please note that this policy has impacts beyond main benefit payment rates. Clients in receipt of supplementary assistance payments may experience higher rates of payments, as the abatement structure depends on the main benefit abatement thresholds. The accommodation supplement is estimated to be the most impacted type of supplementary assistance from this abatement threshold increase.

#### *Newly-eligible recipients*

One shortfall of our Microsimulation model is that it does not provide results for people who are not our current clients and who may gain eligibility to financial assistance following the increase abatement levels.

To estimate the cost of the increase of people entitled to main benefits, we applied some of the Microsimulation functionality to data in the Integrated Data Infrastructure (IDI). This is a data repository administered by Statistics New Zealand that brings together a wide range of data from Government organisations to allow for this type of analysis.

A different approach was taken to estimate the increase of people entitled to non-beneficiary forms of assistance. The Ministry used a microsimulation model that came from the Treasury. This model used the Household Economic Survey as a source of information on all New Zealanders and an estimate was made on the number of people that will be below the new income threshold.

Given the limitations in this additional modelling, the estimated increase of people entitled to financial assistance is not included in the 73,000 figure. The costs, however, are included in the total estimated cost of \$97.1 million.

#### *The total costs*

The total costs for this policy are calculated by considering the impact on both clients with existing eligibility, and clients who will become newly eligible due to the change of abatement thresholds. The total cost to the Crown of this policy can be attributed to these two groups.

The following table breaks down estimated costs into: Existing Clients, Newly Eligible Clients and All Clients. In each of these groups, the costs of this abatement threshold increase are broken down by the type of assistance.

**Table Two: Breakdown of estimated costs by current and newly eligible clients**

<b>Existing Clients</b>	<b>Cost (in millions)</b>
Main Benefits	\$54.354
Accommodation Supplement	\$27.245
Other Financial Assistance	\$0.591
<b>Newly Eligible Clients</b>	
Main Benefits	\$8.001
Accommodation Supplement	\$5.467
Other Financial Assistance	\$1.442
<b>All Clients</b>	
Main Benefits	\$62.355
Accommodation Supplement	\$32.712
Other Financial Assistance	\$2.033
<b>Total</b>	<b>\$97.10</b>

**Notes:**

- Other Financial Assistance includes estimated costs from Temporary Additional Support, Special Benefit, Childcare Assistance, Income Related Rent Subsidy, and Minimum Family Tax Credit. This also includes costs incurred from an increase of clients entitled to Winter Energy Payments.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

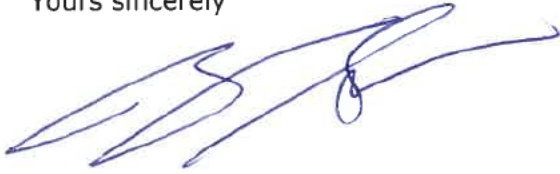
- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public shortly. The Ministry will do this by publishing this letter on the Ministry of Social Development's website. Your personal details will be deleted and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact [OIA\\_Requests@msd.govt.nz](mailto:OIA_Requests@msd.govt.nz).

If you are not satisfied with this response regarding estimated costs for increasing the abatement threshold, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or 0800 802 602.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'S. Crombie', written over a faint circular stamp.

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Stephen Crombie  
**Deputy Chief Executive**