



Proactive Release

The following document has been proactively released by the Department of the Prime Minister and Cabinet (DPMC), on behalf of Rt Hon Jacinda Ardern, Minister for Child Poverty Reduction:

Benefit increase - Costs and impacts

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Key to redaction code:

- Section 9(2)(a), to protect the privacy of individuals.

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Briefing

BENEFIT INCREASE: COSTS AND IMPACTS

To: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction			
Date	27/01/2021	Priority	HIGH
Deadline	29/01/2021	Briefing Number	DPMC-2020/21-475

Purpose

1. You recently requested that the Child Poverty Unit provide you with information on the cost and impacts of a \$50 per week increase to main benefit rates. This is in addition to cross agency advice, provided last week to joint Ministers, on increasing benefit rates by \$25 per week on 1 July 2021 (*DPMC-2020/21-456 refers*). We understand you would like to consider two options for implementation:
 - a. a \$50 per week benefit increase implemented in full on 1 July 2021; and
 - b. a \$50 per week benefit increase implemented in two stages: an initial \$25 per week increase on 1 July 2021, followed by a second \$25 per week increase on 1 April 2022.
2. The material in this report has been prepared by the Child Poverty Unit, with limited consultation with the Ministry of Social Development and Treasury. The advice has taken a relatively narrow focus on matters related to your child poverty reduction portfolio. If you wish to consider either of the \$50 options further, we recommend subsequent advice be provided to relevant Ministers by joint agencies, including the Ministry of Social Development, Inland Revenue, and the Treasury.

Recommendations

We recommend you:

1. **note** the contents of this report;
2. **forward** this advice to the Minister of Finance, Minister for Social Development and Employment, and Minister of Revenue;

YES / NO

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3. **indicate** if you wish for officials from the Ministry of Social Development, Inland Revenue, Treasury, and Child Poverty Unit to provide follow-up advice to the Minister of Child Poverty Reduction, Minister of Finance, Minister for Social Development and Employment, and Minister of Revenue on the following options

- a \$50 per week benefit increase implemented in full on 1 July 2021; and/or

YES / NO

- a \$50 per week benefit increase implemented in two stages across 2021 and 2022.

YES / NO

s9(2)(a)
Kristie Carter Director, Child Poverty Unit Department of the Prime Minister and Cabinet
...../...../2021 29/1/2021

Rt Hon Jacinda Ardern Prime Minister Minister for Child Poverty Reduction
...../...../2021

Contact for telephone discussion if required:

Name	Position	Telephone	1st contact
Kristie Carter	Director, Child Poverty Unit	s9(2)(a) s9(2)(a)	✓
Tim Garlick	Principal Analyst, Child Poverty Unit	s9(2)(a) s9(2)(a)	

Minister's office comments:

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to

Modelled costs and impacts in this advice

3. The rates, costs, and impacts for each option are attached as tables in Annex 1, and are also summarised below.
4. The fiscal costs and distributional impacts in this report have used estimates drawn from TAWA including, for comparability, for the one-off \$25 increase covered in advice provided by joint agencies last week. This means the costs and impacts will be slightly different from those on this option in last week's advice, which used MSD data. While TAWA costings are useful for high level consideration of options, MSD costings and impacts are generally more precise as they use administrative data, and we recommend that these be used if consideration of either option in this advice proceeds further.
5. Several assumptions have also been made that could be changed for subsequent advice, if desired. These include:
 - i. the increase would be for all beneficiaries (with and without children);
 - ii. the increase would be on a per-adult rather than per-family basis;
 - iii. both options assume the 2021 increase would be implemented in July, but the two-stage option would see the second 2022 increase occur in April; and
 - iv. increases would occur *in addition to* the wage indexation that occurs for those years.
6. The estimates in this note all assume that the abatement changes agreed by Cabinet will proceed, but do not include the costs and impacts of the abatement change. Officials can provide you with estimates of the combined impact across both in subsequent advice.

Option 1: impacts of a one-step \$25 per week increase

7. A \$25 per week per adult increase to main benefits from 1 July 2021 would:
 - cost \$544m in 2021/22;
 - benefit 457,000 households, with an average gain of \$23 per week when factoring in flow-ons to other assistance such as the Accommodation Supplement;
 - reduce the number of children living in poverty:
 - on the before housing cost primary measure (BHC50) by 9,000 ($\pm 5,000$) in 2021/22;
 - on the after housing costs primary measure (AHC50) by 14,000 ($\pm 7,000$) in 2021/22.

Option 2: impacts of a one-step \$50 per week increase

8. A \$50 per week per adult increase to main benefits from 1 July 2021 would:
 - cost \$1,099m in 2021/22;

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- benefit 472,000 households, with an average gain of \$45 per week when factoring in flow-ons to other assistance;
- reduce the number of children living in poverty:
 - on the before housing cost primary measure (BHC50) by 20,000 ($\pm 5,000$) in 2021/22;
 - on the after housing costs primary measure (AHC50) by 25,000 ($\pm 7,000$) in 2021/22.

Option 3: impacts of a two-step \$50 per week increase

9. A two-stage \$50 per week per adult increase (1 July 2021, 1 April 2022) would:

- cost \$544m in 2021/22 and \$1,109m in 2022/23;
- benefit 457,000 households in 2021/22, with an average gain of \$23 per week, and 472,000 households in 2022/23, with an average gain of \$45 per week;
- reduce the number of children living in poverty:
 - on the before housing cost primary measure (BHC50) by 9,000 ($\pm 5,000$) in 2021/22 increasing to 18,000 ($\pm 5,000$) in 2022/23;
 - on the after housing costs primary measure (AHC50) by 14,000 ($\pm 7,000$) in 2021/22 increasing to 25,000 ($\pm 7,000$) in 2022/23.

Implications for child poverty targets

10. The changes would not have any impact on progress towards the first round of intermediate targets (the first three-year period ends in June 2021), but they would allow you to set more substantial targets for the second three-year period, which covers the 2021/22, 2022/23, and 2023/24 years. The changes would also make a larger contribution towards the ultimate achievement of the ten-year targets.
11. A benefit increase in 2021 and/or 2022 would be well timed for the second round of targets, as shown in Annex 2. Given the data timeliness issues, which means that income support impacts are only seen partially at first, it makes sense to 'front-load' any poverty reduction initiatives earlier in the target period. In order to have a full impact on the second round of targets, any income support changes need to be implemented by July 2022 – after that, the impact on the reporting on final year of the target period is progressively more partial.
12. You may wish to consider the contribution these impacts will make towards the second three-year targets you set. For instance:
 - A reduction of 11,000 children is equivalent to one percentage point on measured rates.

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- When a \$25 increase is combined with the abatement change¹, the impact is likely to be equivalent to a reduction of around 1 ppt (~11,000) on BHC50 and 2 ppt (~20,000) on AHC50.
 - A \$50 increase would raise this to around 2 ppt (~22,000) on BHC50 and 3 ppt on AHC50 (~31,000).
 - Material hardship cannot be modelled, but we expect that any reductions are likely to be lower than on the income measures, as rates are influenced by a wider range of factors than income.
13. It is also useful to consider your second three-year targets in the context of the pathway towards your ten-year targets. For instance:
- At the time the long term targets were set, the required reductions in simple linear terms over the full ten years for the two low income primary measures worked out to an average of 3-4 percentage points, or 30/40,000 children, every three-year period. The average reductions required for material hardship were smaller – around 2-3 percentage points, or 20-30,000 children, each period.
 - There is also the progress that has already been made to date. The modelling we received from Treasury in July last year is attached as Annex 3, and at that time indicated that reductions of a further 5-6 percentage points on BHC50 and 7-10 percentage points on AHC50 were required over the remaining two target periods. We will be in a much better position to provide an update on progress towards the targets in March, when we will have the HES 2019/20 rates from Stats NZ, including the full impact of the Families Package. We will also have updated modelling from Treasury for 2020/21 rates, which will include estimates of the economic impact of COVID-19 and the policy measures in response.

Implications for Working for Families and the benefit/work interface

14. The extent to which “work pays” remains an important policy consideration in the context of increases to benefit payments. As noted in past advice, evidence suggests that financial incentives to work are one factor that affects employment decisions, alongside others such as availability and suitability of work, childcare, and other in-work costs.
15. For those without children, steady growth in wages relative to benefits have meant there are now strong financial incentives to work, compared to say two decades ago. The gap between paid work and income support is usually smaller for those with children, particularly

¹ On its own, the abatement changes are estimated to reduce child poverty by around 2,000 (+/- 3,000) on the BHC50 measure and 6,000 (+/- 3,000) on the AHC50 fixed line measure in 2021/22. As standard practice, officials have decided to express child poverty impacts as a range wherever possible, which for abatement results in the slightly counterintuitive situation where the modelling indicates that a slight increase in measured poverty is possible. This is because the policy change may impact on the median slightly (raising the poverty threshold), and because the statistical method used to calculate the range assumes that standard errors are symmetric around the midpoint.

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sole parents who have higher income support levels and may face childcare costs from working while on a single income. The Minimum Family Tax Credit (MFTC) usually guarantees² that work pays when working part-time (at 20 hours for sole parents), combined with the In-Work Tax Credit (IWTC), but the gain diminishes as hours increase due to a combination of abatement and childcare costs. This pattern is similar for a secondary earner in two-parent families (where the threshold is 30 hours).

16. As outlined in recent advice³, main benefit increases impact entitlement to many other financial assistance payments, such as the Accommodation Supplement and Temporary Additional Support, and have implications for the MFTC. In order to fully assess the impacts and the flow-on implications of a \$50 per week benefit increase on the MFTC and other financial assistance payments, we recommend further detailed advice from joint agencies.
17. The recent benefit increase, and proposals to further increase main benefits and the benefit abatement threshold, are seeing the MFTC play a greater role in Working for Families settings, despite it being a payment with significant issues. We expect that the review of Working for Families will have a focus on the design of in-work assistance, including the MFTC, the IWTC, and the Independent Earner Tax Credit. We expect to provide an initial report in mid-2021.

Next steps

18. This advice has taken a relatively narrow focus on matters related to your child poverty reduction portfolio. If you wish to consider either of the \$50 options further, we recommend subsequent advice be provided to relevant Ministers by joint agencies, including the Child Poverty Unit, the Ministry of Social Development, Inland Revenue, and Treasury. This could include, for example:
 - revised costings and distributional impacts using MSD data;
 - fiscal affordability within the context of Budget 2021;
 - impacts on incentives and the student/benefit interface;
 - financial incentives to work;
 - associated policy decisions, such as for the MFTC, as well as on the complementary policy changes included in recent joint agency advice; and
 - implementation considerations.

² The guarantee that work will pay more than a main benefit will hold for sole parent but not two-parent families for 2021/22, given Cabinet agreement to a partial MFTC increase for the 2021/22 tax year [CAB-20-MIN-0512 refers].

³ DPMC-2020/21-456 refers.

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Annex 1: Benefit rates, Fiscal Costs, and Child Poverty Impacts

Benefit rates for each option

Benefit	Type	TY22				TY23			
		Status Quo	\$25	\$50	Two stage	Status Quo	\$25	\$50	Two stage
JSS	Couple	\$204.71	\$229.71	\$254.71	\$229.71	\$208.93	\$234.44	\$259.96	\$259.44
	Couple Parent	\$218.42	\$243.42	\$268.42	\$243.42	\$222.92	\$248.44	\$273.95	\$273.44
	Single	\$255.88	\$280.88	\$305.88	\$280.88	\$261.15	\$286.67	\$312.18	\$311.67
	Single at Home	\$179.08	\$204.08	\$229.08	\$204.08	\$182.77	\$208.29	\$233.80	\$233.29
	Single youth	\$217.47	\$242.47	\$267.47	\$242.47	\$221.95	\$247.47	\$272.98	\$272.47
	Sole Parent	\$382.86	\$407.86	\$432.86	\$407.86	\$390.75	\$416.27	\$441.78	\$441.27
SLP	Couple	\$252.69	\$277.69	\$302.69	\$277.69	\$257.90	\$283.41	\$308.93	\$308.41
	Couple Parent	\$266.39	\$291.39	\$316.39	\$291.39	\$271.88	\$297.40	\$322.91	\$322.40
	Single	\$313.44	\$338.44	\$363.44	\$338.44	\$319.90	\$345.42	\$370.93	\$370.42
	Single youth	\$258.50	\$283.50	\$308.50	\$283.50	\$263.83	\$289.34	\$314.86	\$314.34
	Sole Parent	\$431.16	\$456.16	\$481.16	\$456.16	\$440.05	\$465.56	\$491.08	\$490.56
SPS	Sole Parent	\$382.86	\$407.86	\$432.86	\$407.86	\$390.75	\$416.27	\$441.78	\$441.27

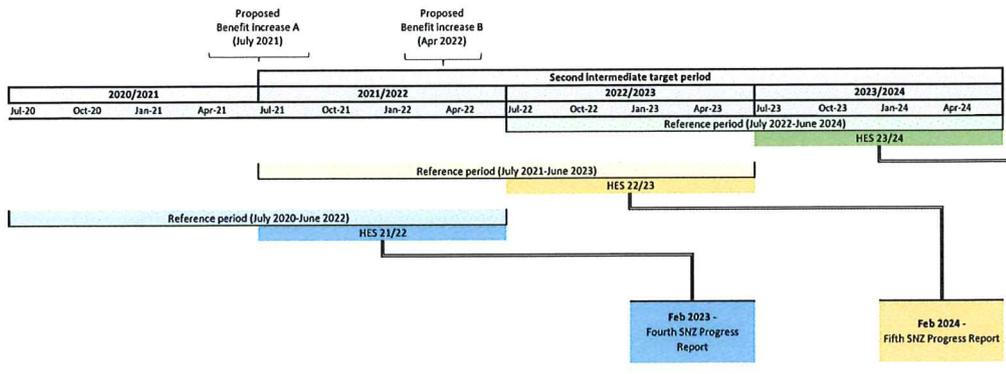
Fiscal costs

		2021/22	2022/23	2023/24
Cost of benefit increase	\$25 increase on 1 July 2021	\$544m	Not yet modelled with TAWA	
	\$50 increase on 1 July 2021	\$1,099m	\$1,121m	\$1,101m
	Two-stage increase 2021, 2022	\$544m	\$1,109m	\$1,090m

TAWA modelling of child poverty impacts

		2021/22	2022/23	
Abatement threshold changes	BHC50	2,000 (±3,000)		
	AHC50	6,000 (±3,000)		
Additional impact of benefit increase (over and above abatement)	\$25 increase in 2021	BHC50	9,000 (±5,000)	
		AHC50	14,000 (±7,000)	
	\$50 increase in 2021	BHC50	20,000 (±5,000)	
		AHC50	25,000 (±7,000)	
	Two-stage increase 2021, 2022	BHC50	9,000 (±5,000)	18,000 (±5,000)
		AHC50	14,000 (±7,000)	25,000 (±7,000)

Annex 2: Second three-year target period: data and reporting timeframes

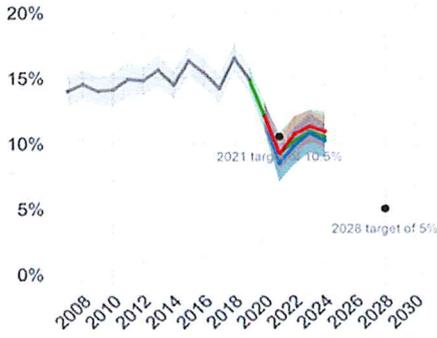


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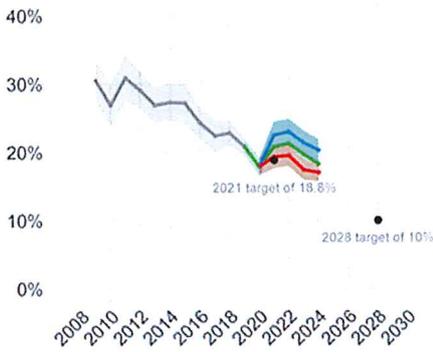
Annex 3: Progress to ten-year targets: modelling from July last year

Before housing cost primary measure (BHC50)



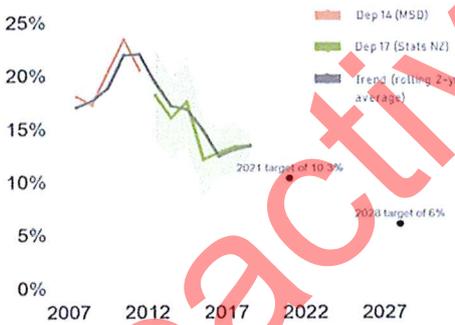
16.5% baseline	14.9% 2018/19 rate (Stats NZ)	10.5% 2020/21 target	10-11% 2023/24 projections (TSY)	5% 2027/28 target	5-6% Approx remainder to achieve
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After housing cost primary measure (AHC50)



22.8% baseline	20.8% 2018/19 rate (Stats NZ)	18.8% 2020/21 target	17-20% 2023/24 projections (TSY)	10% 2027/28 target	7-10% Approx remainder to achieve
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Material hardship measure



13.3% baseline	13.4% 2018/19 rate (Stats NZ)	10.3% 2020/21 target	N/A 2023/24 projections (TSY)	6% 2027/28 target
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