MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 13 November 2020 **Security Level:** IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Advice on different options for increasing main benefits

Purpose of the report

1. This report responds to a request for further advice on different options for increasing main benefits, including considering the impacts of these options on other financial assistance and the Government's child poverty reduction targets.

2. There are two other reports going to Ministers shortly which interact with this advice. These reports relate to increasing benefit abatement thresholds and the Minimum Family Tax Credit (MFTC). It is important to note that there are a complex set of interactions across both papers that need to be considered further regarding the MFTC.

Executive Summary

There are several key considerations and trade-offs for increasing main benefits

3. Your vision is for a welfare system that ensures people have an adequate income and standard of living, are treated with respect, can live in dignity, and are able to participate meaningfully in their communities. In this context, you have choices around how much you want to increase main benefits by for different groups. As well as considering improvements to income adequacy and reducing poverty, you may want to consider more equitable levels of support for families in different circumstances.

4. When adjusting for household size and composition, single people with no children have the lowest average after-housing-costs (AHC) incomes. This is partly driven by recent increases in financial assistance benefiting families with children by more than people without children. Couples with children also have relatively lower AHC incomes than sole parents, which is partly a result of recent increases occurring on a 'per-family' basis.

5. Nevertheless, income adequacy issues still remain for families with children. Continuing to improve their incomes is important for improving child wellbeing and development, and increases should also be considered within the context of achieving the Government's ten-year child poverty reduction targets. These targets have become more challenging due to COVID-19 and are likely to require regular increases in income support over time.

6. Increasing benefit incomes also has trade-offs with financial incentives to work and fiscal costs. Main benefit increases, combined with changes to abatement settings and any consequential impacts on MFTC, can reduce the financial incentives to work. This is concerning for families who currently have weaker incentives to work, such as sole parents moving from part-time to full-time work.

7. In addition, COVID-19 has had significant impacts on government revenue and expenses. The proposals in this paper need to be considered alongside other priorities, both within welfare (e.g. manifesto commitments and other Budget 2021 initiatives) and across other government priorities (e.g. health and education). Treasury advise that the fiscal position may place limits on income support packages of this quantum.

Officials have modelled several options for increasing benefit incomes for different groups

8. You have expressed an interest in doing another set of $25 per week increases, as well as further advice on other options. MSD's view is that the current rate structure disadvantages singles relative to couples, as well people without children relative to those with children.

9. To address these issues, MSD recommend that $25 per week increases to main benefits are done on a per adult basis to ensure every adult receives the same dollar increase. This option is well targeted to those with the lowest residual incomes, single people without children and couples. It is a relatively simple way to rebalance relativities, while still ensuring almost all beneficiaries gain.

10. We have also modelled an option to increase main benefit rates by 10 percent. However, this option is not preferred by MSD as it doesn't reduce the disparities in rates identified or target increases to those with the lowest residual incomes.

11. s 9(2)(f)(iv) [redacted]

12. s 9(2)(f)(iv) [redacted]

There are also options to address the flow-on impacts of main benefit increases on other financial assistance

13. Main benefit increases impact entitlement to many other financial assistance payments. These interactions are mostly designed to ensure the appropriate targeting of financial assistance. Two key flow-ons from main benefit increases considered include reductions in Accommodation Supplement (AS) and Temporary Additional Support (TAS). For most AS and TAS recipients, they receive an increase in income close to the level of the main benefit increase.

14. In a small number of instances, these flow-ons can have unintended impacts and make people financially disadvantaged. The main reasons why people may be financially disadvantaged are due to interactions with the disability exception component in TAS and reductions in Childcare Assistance.

15. There are options to address the flow-on impacts noted above. The earliest we could implement these options are 1 July 2021. MSD recommend:

- s 9(2)(f)(iv) [redacted]
- removing the cliff-face abatement currently in place to qualify for the disability exception in TAS and allowing the disability exception amount to fully meet the first $100 of excess disability costs (rather than a partial subsidy). These two changes combined will prevent many people from being worse off.
- changing the definition of income for Childcare Assistance to exclude other supplementary payments as income. This would prevent people from being worse off

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s 9(2)(f)(iv) [redacted]

due to flow-ons to Childcare Assistance, simplify settings and ensure consistency with other supplementary assistance. As part of Budget 2021, we will provide you with further advice on updating wider Childcare Assistance settings.

16. A full summary of all the options modelled is provided in the table below. Note the costings come from Treasury's TAWA model to allow comparisons across benefit s 9(2)(f)(iv) [redacted] **They also include the costs of increasing the benefit abatement thresholds, estimated at $170m** – the cost of the benefit increase options on their own are likely to be around $600-650m. The cost of the abatement change from TAWA is likely to be an overestimate as the underlying data overestimates the number of earning beneficiaries affected by this proposal (an overestimate of around $70m). The costings will be refined as the proposals are further developed.

Option	Average gains	Annual Cost (2021/22)	Child Poverty Impacts (and associated errors)
$25pw main benefit increase for each adult	525,000 households gain by $28pw	$768m (incl. abatement)	BHC50: 15,000 (±7,000) AHC50: 21,000 (±6,000)
10% main benefit increase	523,000 households gain by $31pw	$836m (incl. abatement)	BHC50: 18,000 (±7,000) AHC50: 25,000 (±6,000)
Increase main benefits by $25 per week per adult for those without children; and s 9(2)(f)(iv) [redacted]	s 9(2)(f)(iv) [redacted]	[redacted] (incl. abatement)	s 9(2)(f)(iv) [redacted]
Increase main benefits by $25 per week per adult for those without children; and s 9(2)(f)(iv) [redacted]	s 9(2)(f)(iv) [redacted]	[redacted] (incl. abatement)	s 9(2)(f)(iv) [redacted]
$25 per week main benefit increase; and s 9(2)(f)(iv) [redacted]	s 9(2)(f)(iv) [redacted]	[redacted] (incl. abatement)	s 9(2)(f)(iv) [redacted]
Smaller scale changes			
Changes to TAS disability exception	Not yet modelled	$1.5m (based on earlier MSD modelling)	No impact
Changes to Childcare Assistance	Not yet modelled	$2m (based on earlier MSD modelling)	No direct impact

There are different implementation timeframes depending on your choices

17. A decision is also required on when to implement any benefit increase. If Cabinet decisions are made on 7 December 2020, MSD could implement a main benefit increase on 1 April 2021. If you would like to make complementary changes to s 9(2)(f)(iv) [redacted] TAS disability exception and/or Childcare Assistance, the earliest we would be able to implement these changes is on 1 July 2021.

Next Steps

18. Depending on which main benefit rate and/or complementary option you wish to progress, further advice on the cumulative operational and policy implications of all the options will be provided. This advice will consider whether a Transitional Assistance Payment would still be required.

Recommended actions

It is recommended that you:

1 **Indicate** which of the following options you would like to progress for Cabinet consideration:

1.1 Increase main benefits by $25 per week per adult — Yes/No

1.2 Increase main benefits by 10 percent — Yes/No

1.3 Increase main benefits by $25 per week per adult for those without children; and s 9(2)(f)(iv) [redacted] — Yes/No

1.4 Increase main benefits by $25 per week per adult for those without children; and s 9(2)(f)(iv) [redacted] — Yes/No

2 **Indicate**, subject to Cabinet agreement, whether you wish to:

2.1 Implement the changes on 1 April 2021 through a Budget pre-commitment; or — Yes/No

2.2 Implement the changes on 1 April 2022 through Budget 2021; — Yes/No

→ put a temp/trans assistance payment in place (so anyone worse off until comp changes can be brought in in July)

3 **Note** if you wish to progress complementary changes to s 9(2)(f)(iv) [redacted] Temporary Additional Support or Childcare Assistance to address flow on impacts, these changes cannot be implemented in time for a 1 April 2021 implementation date

4 **Indicate,** which of the following complementary changes to reduce the flow-on impacts to other assistance you would also like to see progressed for Cabinet consideration:

4.1 s 9(2)(f)(iv) [redacted] — Yes/No

4.2 remove the cliff-face abatement for the Temporary Additional Support disability exception and allow the Temporary Additional Support disability exception amount to fully meet the first $100 of excess disability costs (instead of a partial subsidy) — Yes/No

4.3 changing the definition of income for Childcare Assistance to exclude other supplementary payments as income. — Yes/No

5 **note** we will provide more detailed implementation advice, including the cumulative operational and policy implications, to reflect the decisions made in this paper and any interactions with decisions made on benefit abatement and the Minimum Family Tax Credit papers, to inform a draft Cabinet paper for consideration on 7 December 2020

6 **Agree** to forward a copy of this report to the Ministers for Child Poverty Reduction, Finance and Revenue — Yes/No

7 **Agree** to forward a copy of this report to the Minister for Children given the consequential decisions required on rates of Foster Carers Allowance, Orphan's Benefit and Unsupported Child's Benefit. **Yes/No**

13/11/2020

Fiona Carter-Giddings
General Manager, Welfare System and Income Support

Date

15/11/20

Hon Carmel Sepuloni
Minister for Social Development and Employment

Date

Background

19. Income support and employment policies are significant policy levers in helping to improve income adequacy and reduce poverty. In particular, increasing main benefit rates provides targeted income increases to low-income individuals and families.

20. This advice should be considered in the context of the Government's child poverty targets, as well as analysis undertaken by the Welfare Expert Advisory Group (WEAG) which looked at the adequacy of income support settings by considering the circumstances of six example families on low incomes. The analysis showed that many beneficiaries and some low-income working people face significant shortfalls in their incomes compared to both basic costs and the costs of meaningful participation in society.

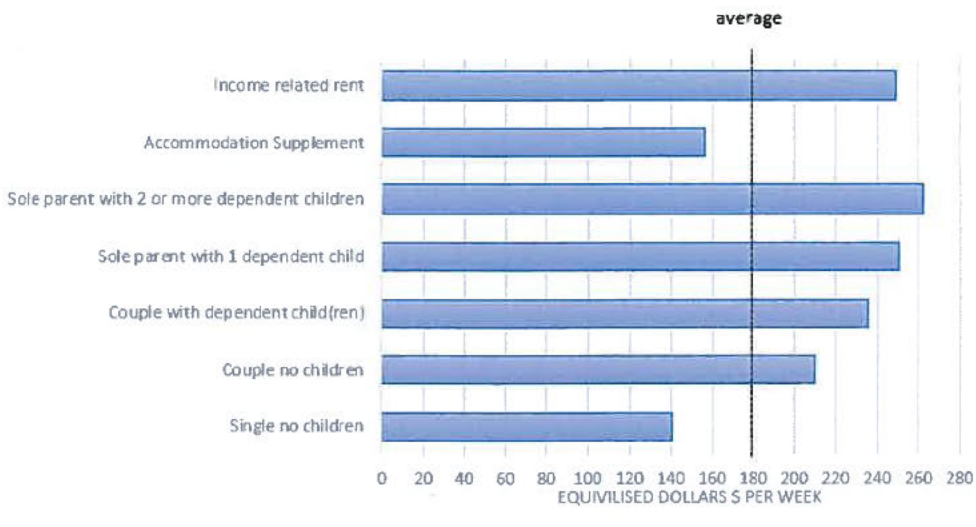
When considering different options for main benefit increases, there are several objectives and trade-offs that need to be considered

21. You have choices around how much you want to increase benefits by for different groups. As well as considering improvements to income adequacy and reducing poverty, you may also want to consider the following factors when increasing main benefit rates:
    - the relative levels of support for different family types
    - improvements to child wellbeing
    - the impact on work incentives, and
    - fiscal costs.

Some family types have lower residual incomes than others...

22. In response to recommendation 5 from Whakamana Tāngata and to and support its stewardship role of the welfare system, MSD has created a new unit record dataset that records payments, earnings and housing costs of all people in receipt of income-tested main benefits.[2]

23. Initial draft results from this analysis show that there is a lot of variation in incomes for different families, particularly by family type and housing costs. People receiving the Accommodation Supplement (AS) have significantly lower average AHC incomes than people in Public Housing. When adjusting for household size and composition, single people with no dependent children have the lowest average AHC incomes. The chart below summarises average AHC incomes for different families and types of housing assistance.



[2] Our aim is to provide Ministers with some early indicative findings from this analysis in early 2021, with a more expansive publication later next year.

24. The findings from the new dataset are broadly consistent with the findings of the WEAG. The WEAG analysis suggested that some groups have greater income adequacy issues than others – particularly single people without children and couples, and those with relatively higher housing costs receiving the Accommodation Supplement.

...this difference in incomes is partly driven by recent increases in financial assistance benefiting some family types more than others...

25. Recent increases in income support - such as the Families Package, the $25 per week increase to main benefits and the indexing of these benefits to the average wage – have delivered larger gains to families with children. This means that, in real terms:
    - families with children now have substantially higher average AHC incomes compared to the mid-2000s, and
    - single people with no dependent children have average AHC incomes that are around the same level as the mid-2000s, as the gains they have received have been eroded by increased housing costs over his period.
26. We have updated the 2018 analysis undertaken by the WEAG by applying the latest levels of income support and costs to the assumptions used by the WEAG. While there have been improvements in circumstances for all the example families on benefit, shortfalls in incomes (compared to basic costs and costs for meaningful participation in the community) remain for the example families on benefit observed.

...however child wellbeing and development remain important considerations

27. While main benefit recipients without children have lower residual incomes than those with children, continuing to improve the incomes of those with children is important for both improving child wellbeing and reducing child poverty.
28. Household income is positively associated with many dimensions of child wellbeing. Available evidence indicates children who experience poverty have worse cognitive, social-behavioural and health outcomes, in part due to lower family incomes.[3] Experiences of poverty during childhood, particularly where it is severe and extended, negatively influences later life course outcomes including adult employment, education, income, health and cognitive outcomes.
29. Evidence indicates an increase in family income from cash transfers can positively affect outcomes for both children and adults. In particular, a marginal increase in income has a larger impact on low-income compared to high-income families.
30. In terms of child poverty, the ten-year child poverty targets are to halve the 2017/18 rates, which have become more challenging due to COVID-19. Reaching the targets is likely to require regular and significant increases in income support over time.
31. The Government has not yet set its child poverty targets for the second period (covering the 2021/2022, 2022/23 and 2023/24 years), but a key consideration in setting those targets is any income support increases for those on the lowest incomes.
32. On current reporting methods, any benefit increases would will need to be implemented by April 2022 in order to have a full impact in the reporting on the second target period. This means they either need to be in Budget 2021 or as an early pre-commitment on Budget 2022. Initiatives implemented after April 2022 would have only a partial impact.

There are also trade-offs with financial incentives to work...

33. Another factor to consider is the impact of increasing main benefits on the financial incentives to work. Financial incentives are only one factor that affects work decisions, however, empirical evidence suggests that changes to financial incentives can have small but significant impacts on people's decisions to work.

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[3] Rapid Evidence Review: The impact of poverty on life course outcomes for children, and the likely effect of increasing the adequacy of welfare benefits.

34. For Jobseeker Support recipients without children, there are strong financial incentives to work. This has been driven by the stronger growth in wages than benefits over a long period of time.

35. Financial incentives for sole parents to enter part-time work (on low/minimum wage) are also strong due to the combined impact of the Minimum Family Tax Credit (MFTC) and the In-Work Tax Credit (IWTC). Part-time work may be more appropriate for many sole parents due to their caregiving responsibilities.

36. However, sole parents currently have the smallest gap between their income while receiving a benefit and their income in full-time low paid work. This is because they have higher levels of income support in the benefit system and may face childcare costs from working while on a single income.

...and fiscal costs to consider

37. Fiscal affordability is another important consideration, particularly in the context of COVID-19 and its impact on government revenue and expenses. As you know, there are trade-offs between alleviating hardship, maintaining or improving incentives to work and managing fiscal costs.

38. Any main benefit rate increase should be fiscally affordable and align with wider Government priorities, both within welfare (e.g. other Budget 2021 initiatives) and across other government priorities (such as health and education).

There are two main options for increasing main benefit rates

39. You have expressed an interest in doing another set of $25 per week increases and have requested further advice on other options.

40. MSD's view is that the current rate structure disadvantages singles relative to couples, as well people without children relative to those with children. To address these issues, MSD recommend that $25 per week increases are done on a per adult basis to ensure every adult receives the same dollar increase (e.g. couples get $50 per week). Singles without children and couples would gain by relatively more under this approach, which means this option would be relatively well targeted to groups with the lowest residual incomes while still ensuring all individuals and families gain.

41. An alternative option is a 10 percent increase. However, we do not recommend this option as it doesn't reduce the disparities in rates identified or target increases to those with the lowest residual incomes. Some family types, such as sole parents or Supported Living Payment recipients, would gain by more in absolute terms, reflecting the current higher rate of payment. A 10 percent increase, for example, would increase rates of Sole Parent Support by $38 per week, the single rate of SLP by $31 per week, and the rate of JS by $25 for single and $20 (each) for couples.

Main Benefit Options	Rationale for change	Distributional impacts	Annual Cost (2021/22)	Child Poverty Impacts
$25pw increase for each adult	Singles and couples would gain by relatively more under this approach, so would be relatively well targeted to groups with the lowest residual incomes.	Around 525,000 households gain by $28pw on average.	$768m (incl. abatement of ~$170m)	BHC50: 15,000 (±7,000) AHC50: 21,000 (±6,000)
10% increase	Sole parents or SLP recipients, would gain by more in absolute terms, reflecting the current higher rate of payment and higher costs faced by these families.	Around 523,000 households gain by $31pw on average.	$836m (incl. abatement of ~$170m)	BHC50: 18,000 (±7,000) AHC50: 25,000 (±6,000)

42. Increases to main benefits of this magnitude can reduce the gap between benefits and work, and therefore reduce the financial incentives to work. Officials note that increasing

main benefits, combined with increases to abatement thresholds[4] and any flow-on implications to the MFTC, can mean some sole parents with children costs are financially worse off when moving from part-time to full-time work.

43. While acknowledging part-time employment may be appropriate for many sole parents, officials' view is that settings should not disincentivise movement from part-time into full-time work for those who wish to do so. Preventing movement into fulltime work could negatively impact their long-term employment trajectories and lifetime earnings, along with the wellbeing of their children.

44. Your manifesto commitments to expand flexi-wage and reinstate the Training Incentive Allowance will help support broader employment outcomes, however cash transfers for working families are equally important in helping to ensure that work pays. We also recommend increases in Childcare Assistance to support labour market participation by helping low- and middle-income families to meet the costs of childcare.

s 9(2)(f)(iv)

[redacted]

[4] Your Government made a manifesto commitment to increase abatement thresholds to $160 and $250 per week.

With benefit increases comes flow-on reductions in other supports

49. The welfare system is complex, and the component parts are often interdependent. Changes in one type of assistance often cause a change in entitlement to other assistance. For example, increasing main benefit rates can affect other entitlements such as AS, Income Related Rent Subsidy, and TAS.

50. These interactions are mostly appropriate and intended to ensure targeting of supports. However, it means that the additional amount in the hand that families receive will likely be less than the increase in benefit rates. It can also create unintended impacts and make people financially disadvantaged.

Flow-on impacts mean some will receive smaller increases than the rise in main benefit rates...

51. In most cases, beneficiaries receiving the AS and/or TAS will receive a lower increase in income than the amount of the benefit increase. Most AS and TAS recipients will still receive an increase in assistance close to the main benefit increase itself.

52. AS recipients are expected to use 25 percent (or 30 percent for homeowners) of their main benefit s 9(2)(f)(iv) [redacted] to meet their housing costs. Therefore, any increases to benefit rates s 9(2)(f)(iv) [redacted] may flow through to a lower AS payment for those not receiving the AS maxima. People receiving both a main benefit and AS will still be better off overall as the increase in their benefit payment is only partially off-set by the associated increase in the entry threshold for AS.

53. TAS recipients also receive a lower increase in assistance. TAS[5] essentially provides for a guaranteed minimum level of income after regular essential costs are taken into account. Beneficiaries not receiving the TAS upper limit are likely to see a reduction in their rate of TAS to reflect an increase in their income. The reduction is not dollar for dollar for main benefit increases (unlike some other policy changes), because the TAS formula assumes that people's core costs, such as food and electricity, are equal to 70% of main benefit rates.

... while a small group of people will be financially disadvantaged by the changes

54. There are two main ways that people can become financially disadvantaged from increases to main benefits.

55. TAS recipients with high disability costs can receive additional support over and above the upper limit through an additional top-up called the disability exception. Some people will lose their disability exception as a result of increases to rate of benefit or other supplementary assistance, resulting in them moving off the TAS upper limit and becoming ineligible for the Disability Allowance exception.

56. Increases to financial assistance could also lead to some families receiving Childcare Assistance seeing a reduction in their financial assistance. This is because the Accommodation Supplement, and other supplementary assistance, is considered income for determining eligibility for Childcare Assistance.

57. Initial modelling shows that around 100 people (depending on the option progressed) will receive around $10 per week less financial assistance as a result of the TAS disability allowance exception and Childcare Assistance.

There are also a range of other flow-on implications that should be noted

58. There are additional flow-on impacts which are not expected to have a substantial impact on the decisions made in this paper:

    - Child Support – the living allowance is increased in line with rates of Supported Living Payment and Sole Parent Support

[5] This also affects a small number of Special Benefit recipients as well.

- the rates rebate scheme – social assistance payments are considered income for the scheme
- Increases in the benefit population - an increase in main benefit rates increases the income cut-outs at which people can receive a main benefit, therefore increasing the eligible benefit population. This also results in more people being eligible for the Winter Energy Payment.
- the Community Services Card – AS recipients automatically qualify for the Community Services Card
- Income Related rents - Public housing tenants pay an Income-Related Rent which limits the amount of rent they pay to generally be no more than 25% of their after tax income. As such, an increase in benefit rates may result in a higher rate of Income Related Rent payable for those in public housing.

You have asked for advice on options to avoid increases reducing other supports

59. If you wish to compensate those who are financially disadvantaged by increases to main benefits, a Temporary Additional Payment through a Ministerial Welfare Programme could provide for this. This would be consistent with previous major reforms such as the Families Package and the $25pw main benefit increases. However, this requires significant operational work and only resolves the issues on an ad-hoc basis.

60. An alternative approach is to make improvements to the design of the underlying settings to ensure increases in assistance flow to other supports and/or to prevent people from being financially disadvantaged.

s 9(2)(f)(iv)

[redacted]

67. We do not propose consequential changes to settings for people in public housing, as they generally have higher incomes after housing costs compared to AS recipients. However, it is important to note that Income Related Rent reviews have been paused due to COVID-19 which means the recent $25 per week and wage indexation increases are not yet reflected in the Income-Related Rent paid by beneficiary tenants. Once these reviews recommence and if main benefits are further increased, people in public housing may face a substantial rent increase.

...or changes to the TAS DA exception...

68. There are options to amend the TAS formula to prevent people from being financially disadvantaged from future changes and to ensure the TAS disability exception better reflects disability costs. However, it is important to note that this change is technical in nature and will be challenging to communicate.

69. Depending on the final option progressed, it may only significantly reduce the number of people of disadvantaged rather than eliminate all loses entirely. Further modelling is required once we know which main benefit increase option you are interested in progressing further.

70. The TAS formula could be amended to remove the double counting and the cliff-face abatement. To prevent people from receiving significantly less TAS, this change would need to coincide with any increase to main benefit rates and supplementary changes to the TAS formula to increase the proportion of disability costs included in the disability exception amount.

71. To do this, we recommend allowing the disability exception amount to fully meet the first $100 of excess disability costs (currently all costs are partially subsidised at 30 percent). An abatement free zone will offset the reduction in the disability exception amount resulting from removing the cliff-face abatement. The remaining costs would continue to be subsidised at the current co-payment rate of 30 percent.

72. Based on previous modelling, this option is estimated to cost over $6m over four years in benefit payment expenditure and a $0.42m in operational costs. This would take a minimum six months to deliver.

...as well as changes to Childcare Assistance settings

73. As noted earlier, some benefit assistance is taken into account when considering eligibility for Childcare Assistance. If you want to prevent this issue from occurring, officials recommend changing the definition of income for Childcare Assistance to exclude other supplementary payments as income. This would simplify the system and ensure consistency with most other supplementary assistance.

74. There is currently a Budget 2021 bid for improving Childcare Assistance which includes changes to the definition of income. This component of the bid is estimated to cost $2m per year and provide greater support to low-income working families with children, particularly sole parents. This could be progressed alongside increases to financial assistance instead of part of the wider package of improvements.

75. However, it would not be possible for this change to be implemented on 1 April 2021 as this is insufficient time for the required changes to MSD's IT system. It would be possible to implement this change on 1 July 2021.

A decision is also required on implementation timeframes

76. As well as decisions on which options to progress, a decision is also required on when to implement the benefit increase. We understand that you are intending to take a paper to Cabinet on 7 December 2020. If a Cabinet decision is made on 7 December:

- The earliest we would be able to implement a main benefit [redacted] s 9(2)(f)(iv) increase is 1 April 2021.
- If you would like to make complementary changes to [redacted] s 9(2)(f)(iv) TAS DA exception or Childcare Assistance, the earliest we would be able to implement is on 1 July 2021.

77. The above will require a Budget 2021 pre-commitment. An alternative option is to seek a Budget 2021 decision to implement the changes on 1 April 2022.

We also recommend considering interactions with wider priorities and initiatives

Increases to main benefits need to be considered alongside any changes to benefit abatement thresholds

78. Your manifesto notes a commitment to increase the benefit abatement thresholds to $160 and $250 per week. Under current settings, increases in benefit rates and benefit abatement settings generally translate to an increase in the level of the MFTC.

79. Officials are currently preparing advice for you on whether to increase the MFTC based on the benefit increase that occurred earlier this year in response to COVID-19. We will also be seeking decisions for the MFTC for income support options currently under consideration (the benefit options in this paper and the abatement changes in your manifesto).

80. The MFTC currently works to maintain a margin between benefit and work, but there are a number of matters that need to be considered further in regard to the decision of whether to increase MFTC in the usual way. In particular, increases to the MFTC can reduce the incentives to move from part-time to full-time work, increase fiscal costs and/or pre-empt the wider review of Working for Families. Changes to the in work payments, such as the MFTC, are likely to be a key focus of any wider review of Working for Families.

If main benefits are increased, consequential decisions are also required on whether to increase rates of Foster Carers Allowance, Orphan's Benefit and Unsupported Child's Benefit

81. s 9(2)(f)(iv) [redacted]

82. Ministers may also want to consider allowing increases to main benefits flow through to higher payment rates for OB/UCB/FCA, as they did in July this year. Increasing these rates would support broader goals of improving child wellbeing, in particular, supporting whānau to care of these highly vulnerable children. s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted]

83. Similarly, further consideration is required on the interactions with rates of student support to ensure that appropriate incentives to study. These increases to main benefits are likely to more closely align rates of main benefit and student allowances, however some rates of main benefit may become higher than student allowances, particularly if you progress a 10 percent benefit increase. This could disincentivise movement from benefit into study. Officials can provide further advice on this interaction.

If main benefits are not increased by $25 per week on 1 April 2021, it is still expected that main benefits will increase by more than inflation

84. As you know, since April 2020 main benefits have been indexed to average wages, rather than inflation. This change was made to ensure that main benefits are maintained relative to wages in society. As wage growth is generally higher than inflation, increasing benefits by wage growth delivers additional support for families.

85. The latest September 2020 quarter data shows annual wage growth of 2.3 percent compared to inflation at 1.2 percent (when excluding cigarettes and tobacco). Annual

wage growth is expected to remain higher than inflation in the December 2020 quarter, the quarter used for the Annual General Adjustment.

86. If Cabinet decides not to increase main benefits on 1 April 2021 and inflation is higher than wage growth, it is possible to increase main benefits by inflation through an Order in Council. For the April 2021 adjustment, officials recommend using the existing Order in Council mechanism if the CPI increase in greater than average wages.

87. s 9(2)(f)(iv) [redacted]

88. s9(2)(f)(iv) [redacted] Stats NZ is currently redeveloping the survey and the new design will be implemented from next year. This will affect the April 2022 adjustment to rates of NZS/VP and main benefits. Further advice on these impacts will be provided next year.

Next Steps

89. Depending on which main benefit rate and/or complimentary option you wish to progress, further advice on the cumulative operational and policy implications of all the options will be provided. This advice will consider whether a Transitional Assistance Payment would still be required.

90. The next steps for more structural changes to benefits rates could consider levels of income support for those with a health condition and disability s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted] These changes would be more fundamental, and therefore require wider considerations. In particular, advice would need to consider relativities with s 9(2)(f)(iv) [redacted] s 9(2)(f)(iv) [redacted] the review underway on eligibility and financial support for people with health conditions and disability. We can provide further advice on these options as part of the medium to longer-term welfare overhaul work programme.