



Report

Date: 26 March 2021

Security Level: BUDGET SENSITIVE

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

CC: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction

Increases to beneficiary incomes as a result of recent income support changes and the proposed Budget 2021 benefit rate increase

Purpose of the report

- 1 Your office has asked the Ministry of Social Development (MSD) to compare the proposed rates of main benefits for 1 April 2022 with:
 - benefit incomes if policy settings from 2017 had remained in place;
 - historical rates of main benefits; and
 - benefit rates recommended by the Welfare Expert Advisory Group (WEAG) in nominal and real terms.

Recommended actions

It is recommended that you:

- 1 **note** the contents of this report
- 2 **agree** to forward a copy of this report to the Minister of Finance and Minister of Revenue.

AGREE / DISAGREE


Polly Vowles
Policy Manager
Income Support Policy

26-3-2021
Date


Hon Carmel Sepuloni
Minister for Social Development and
Employment

28/3/21
Date

Benefit incomes relative to 2017 policy settings

- 2 The proposed two-staged benefit increase of \$50 per week per adult follows on from a suite of income support changes already implemented since early 2018. These changes include the introduction of the Families Package, the \$25 per week increase to main benefits on 1 April 2020 and the indexation of benefits to average wages.
- 3 MSD has estimated the weekly increases in benefit incomes from these policy changes by comparing the rates of payment under current settings against what the rates would have been without any policy changes since late 2017. For example, inflation increases to main benefits and the Family Tax Credit (FTC) would have occurred anyway so are not included in the income increases.
- 4 Using the latest 2020 rates of income support, before the Budget 2021 changes, MSD estimates that compared to 2017 policy settings:
 - 384,000 **beneficiaries** were on average \$57 per week better off, this increased to \$104 per week during the 2020 winter period (a period that includes the temporary doubling of the Winter Energy Payment (WEP)).
 - 111,000 **beneficiaries with children** were on average \$109 per week better off, this increased to \$172 per week during the 2020 winter period.
 - 95,000 **beneficiary sole parents** were on average \$105 per week better off, this increased to \$169 per week during the 2020 winter period.
- 5 When including the upcoming changes to the benefit abatement thresholds on 1 April 2021 and the Budget 2021 proposal to increase main benefits by \$50 per week in two stages, MSD used current forecast to estimate that on 1 April 2022:
 - 384,000 **beneficiaries** will be better off by on average \$121 per week, increasing to \$144 per week during the 2022 winter period.
 - 111,000 **beneficiaries with children** will be better off by on average \$185 per week, increasing to \$216 per week during the 2022 winter period.
 - 95,000 **beneficiary sole parents** are estimated to be better off by on average \$176 per week, increasing to \$208 per week during the 2022 winter period.

Table One: Estimated income increases by payment type as at 1 April 2022 compared to late 2017 policy settings

Family type	Number of Families	Family Tax Credit	Best Start	Main Benefit	AS	TAS	Total ¹	WEP	Total in winter period
With children									
Couple with Children	15,000	\$52	\$24	\$149	\$21	-\$8	\$238	\$31	\$270
Sole Parent	95,000	\$43	\$17	\$98	\$27	-\$8	\$176	\$32	\$208
Without children									
Couple no Children	18,000	-	-	\$142	\$14	-\$6	\$149	\$30	\$179
Single no Children	256,000	-	-	\$90	\$3	-\$3	\$91	\$20	\$111
All beneficiaries									
Total	384,000	\$13	\$5	\$97	\$10	-\$4	\$121	\$24	\$144
With children	111,000	\$44	\$18	\$105	\$26	-\$8	\$185	\$32	\$216
Without children	273,000	-	-	\$94	\$4	-\$3	\$95	\$20	\$115

¹ This does not include the impact of income related rent subsidy or the removal of the Section 192 deduction. The numbers are based on clients as at February 2021. The average gains from WEP may be below actual rates because a very small number of beneficiaries do not receive the payment.

- 6 This analysis is done on a before-housing-cost basis. In the three years between 2018 and 2020, MSD administrative data shows that weekly rental costs have increased by on average \$37 for main beneficiaries receiving the Accommodation Supplement (AS).
- 7 These rent increases have also partly contributed to average weekly AS payments increasing by \$35 over this same period. Any increases to these payments due to rising housing costs is not reflected in the table above if they would have occurred anyway under previous policy settings (i.e. they would only be included if the recipient would have gained from the Families Package increases to the AS maxima).
- 8 Analysis of beneficiary housing costs suggests that even when accounting for any increases to housing costs, beneficiaries are on average, still likely to be substantially better off since 2018.

Comparison of benefit rates over time

- 9 It is also useful to consider how these proposed benefit rate increases compare to historical rates of benefits, including rates before the 1991 benefit cuts. Appendix One provides graphs of benefit incomes over time. In summary:
 - All benefit rates (plus FTC) would be higher on 1 April 2022, in inflation adjusted terms, than before the 1991 benefit cuts. They will be between \$11 per week and \$164 per week higher depending on the benefit rate.
 - The recent and proposed increases between 2018 and 2022 are the largest increases in benefit incomes since the 1940's. This is true when comparing rates in either percentage terms or dollar terms.
 - The recent and proposed increases between 2018 and 2022 follows a period of relatively steady incomes for beneficiary families without children and modest income increases for families with children since 1991 in real terms.
 - Relative to wages, benefit rates will remain significantly lower than net average wages. The proposed increases bring the relativities of benefits compared to wages back to the levels seen in the late 1990's / early 2000's. Going forward, this gap will be maintained over time for families without children due to the wage indexation of benefits, though for families with children their overall incomes will not keep pace with wages as the FTC remains indexed to inflation.

Table Two: Change in core rates of benefits + FTC between 1990 and 2022 (expressed in 2020 dollars to account for inflation)

Benefit rate	April 1990	April 2022	Change
Jobseeker Support/Unemployment Benefit - single 25+	\$256	\$307	\$51
Jobseeker Support/Unemployment Benefit - couple	\$398	\$511	\$113
Jobseeker Support/Unemployment Benefit - 20-24 years	\$257	\$268	\$11
Jobseeker Support/Sickness Benefit - no children	\$289	\$307	\$18
Jobseeker Support/Sickness Benefit - couple	\$485	\$511	\$26
Jobseeker Support/Unemployment Benefit - couple one child (<12)	\$533	\$648	\$115
Jobseeker Support/Unemployment Benefit - couple two children (<12)	\$571	\$735	\$164
Sole Parent Support/Domestic Purposes Benefit - one child (<12)	\$455	\$544	\$89
Sole Parent Support/Domestic Purposes Benefit - two children (<12)	\$522	\$632	\$110
Supported Living Payment/Invalid's Benefit - single, no children	\$289	\$365	\$76
Supported Living Payment/Invalid's Benefit - couple, no children	\$482	\$607	\$125

- 10 It is important to recognise that:
 - This analysis only considers the base level of assistance for beneficiaries (main benefits and the FTC) and does not show other supplementary supports – most notably, AS, TAS, WEP and Best Start. These additional payments have played an increasingly important role in the social security system in recent decades, particularly since the 1991 benefit cuts.

- The CPI does not perfectly capture changes in the cost of living for beneficiaries over time, particularly housing costs. We would caution using the long-run graph to make firm conclusions about base benefit levels being more or less adequate than in other decades, though it can be used to compare trends over time, and the magnitude of recent increases with other increases/decreases in previous decades.

Comparison of benefit rates compared to WEAG recommendations

- 11 The WEAG recommended increases in main benefits of between 12 and 47 percent from early 2019 levels.
- 12 Previous advice [REP/21/3/268] did a comparison to WEAG rates by assuming, as a counterfactual, that the WEAG recommendations were implemented immediately, and have been indexed in the same manner as actual rates (firstly by CPI, then by wage inflation from April 2020). This approach was used because it also adjusts for the separate recommendation made by the WEAG to index main benefits to wages.
- 13 In response to a request from your office, we have also compared the proposed benefit rates on 1 April 2022 with that recommended by the WEAG in early 2019 on a nominal and inflation adjusted basis.
- 14 In nominal terms, it is estimated that main benefit rates will be between 32 and 48 percent higher compared to early 2019 levels (when comparing the equivalent rates used for the 12 to 47 percent WEAG recommendation). The single and most couple rates of benefits are estimated to be higher than that recommended by the WEAG, except for the Jobseeker Support (without children) couple rate and the youth rates.
- 15 When adjusting the WEAG rates to account for inflation² between early 2019 and 1 April 2022, the Sole Parent and Supported Living Payment couple with children rates are estimated to be higher than that recommended by the WEAG, but the single, youth and most couple rates of benefits would remain lower. Comparing rates on an inflation adjusted basis is useful as they allow the rates to be more easily compared over different time periods.
- 16 A full comparison against the WEAG rates is provided in the table on the next page, but in summary:
 - At the time, the Jobseeker Support rates recommended by the WEAG were for increases of 47 percent for single people, 49 percent for couples without children, and 76 percent for youth (18-24).
 - If adjusted for inflation, the WEAG recommended increases are estimated to be 54 percent for single people, 57 percent for couples without children, and 85 percent for youth (18-24).
 - With the \$50 per week increase, Jobseeker Support rates will have increased by 48 percent for single people, 47 percent for couples without children, and 55 percent for youth since the WEAG's recommendations were released.
- 17 The above analysis does not consider increases to the FTC. When also considering changes to the FTC recommended by the WEAG:
 - Incomes for sole parents with one or two children would be higher in nominal terms, but below the values recommended by WEAG when adjusted for inflation.
 - Incomes for couples with children on benefit would be lower than that recommended by the WEAG in both nominal and real terms.

² Using the change in the Consumers Price Index (all groups) between March 2019 quarter and March 2022 quarter.

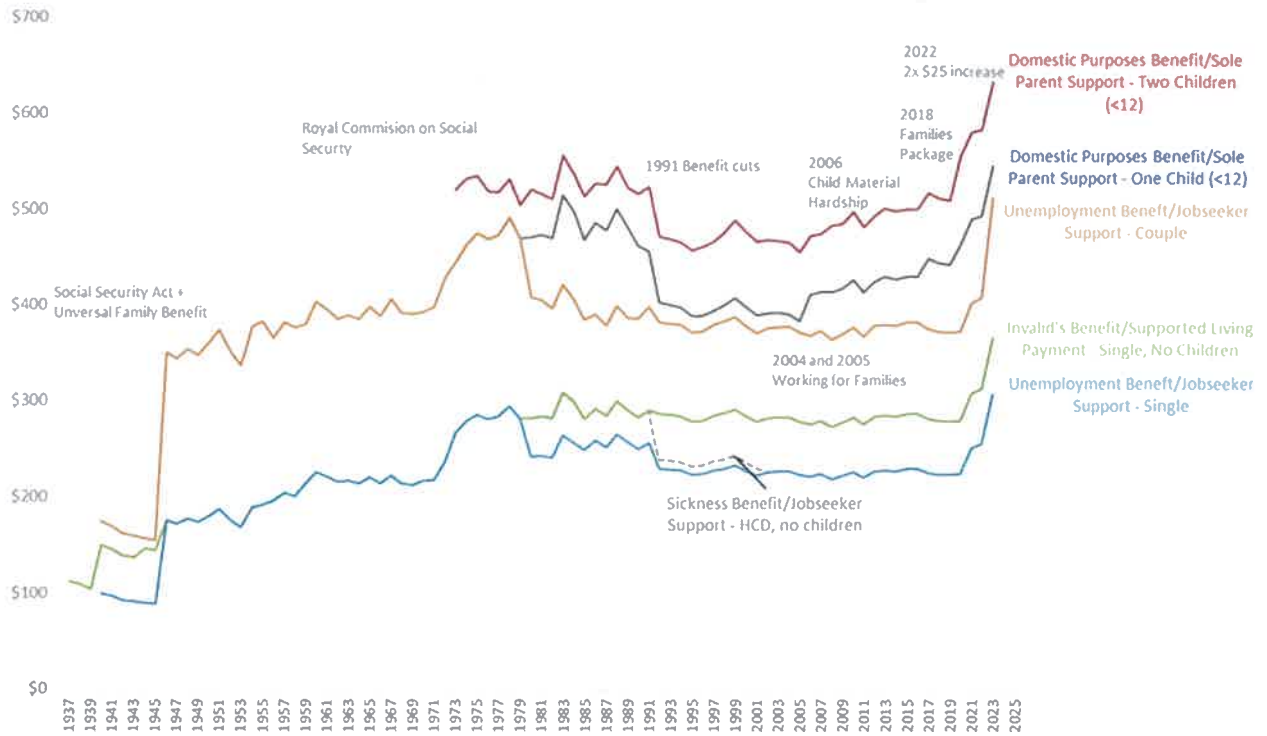
Table Three: Comparison of benefit rates compared to WEAG recommendations

	Rates when WEAG was released (February 19)				Estimated rates for April 2022		
	Actual	WEAG	Diff with WEAG		Estimated April 2022 rates	% diff	WEAG (inflation adjusted)
			\$ diff	% diff			
Single adults							
JS, Single, 25+	\$215	\$315	\$100	47%	\$317	48%	\$332
SLP, Single, 18+	\$269	\$359	\$90	33%	\$377	40%	\$378
Sole Parents							
Sole Parent Support	\$334	\$374	\$40	12%	\$450	35%	\$394
SLP, Sole Parent	\$379	\$399	\$20	5%	\$500	32%	\$420
Couples, without children							
JS, Couple (total)	\$359	\$536	\$177	49%	\$528	47%	\$565
SLP, couple (total)	\$449	\$610	\$161	36%	\$628	40%	\$642
Couples, with children							
JS, couple with Children (total)	\$385	\$536	\$151	39%	\$557	45%	\$565
SLP, couple with Children (total)	\$474	\$610	\$136	29%	\$657	39%	\$642
Youth rates							
JS, Single, 18-24yrs	\$179	\$315	\$136	76%	\$277	55%	\$332

Appendix One: Benefit rates over time

Inflation-adjusted value of core benefits since 1939 (\$2020 dollars)

Includes Benefit + Family Benefit/Family Support/Tax Credit. Does not include WEP/AS and Best Start



Comparison of core benefits and average wages per week (\$2020 dollars)

Includes Benefit + Family Benefit/Family Support/Tax Credit. Does not include WEP/AS and Best Start

