



Will children get the help they need?

An analysis of effectiveness of policies for children in the worst poverty in 2018

*A background paper prepared for
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Introduction

This report is written to accompany the Child Poverty Action Group (CPAG) report released in February 2018: [Progressive universalisation of Working for Families. Policy measures for the children in the worst poverty.](#)¹ It provides further technical analysis to show how much is needed for very low income families to be lifted over particular poverty lines. [A glossary](#) can be found in the Appendix.

CPAG welcomes that the new government has placed child well-being at the heart of what it does, and has set goals for child poverty reduction. Following a decade of neglect much needs to be done and needs to be done quickly.

The most recent statistics on child poverty (low income) from the Ministry of Social Development (Perry, 2017) are shown in Table 1.

¹<http://www.cpag.org.nz/assets/180412%20CPAG%20IWTC%20backgrounder%20FINAL.pdf>

Table 1: Numbers of poor children in New Zealand: Rolling two-year averages from 2008 below selected poverty lines before (BHC) and after (AHC) housing costs.

HES year	BHC			AHC				
	BHC 'anchored line (2007)'	BHC 'moving line'		AHC 'moving line'			AHC 'anchored line (2007)'	
	50% (07 ref)	50%	60%	40%	50%	60%	50% (07 ref)	60% (07 ref)
2001	225,000	120,000	250,000	115,000	215,000	310,000	285,000	380,000
2004	175,000	150,000	265,000	115,000	200,000	285,000	240,000	320,000
2008	130,000	135,000	210,000	105,000	190,000	260,000	180,000	250,000
2009	115,000	130,000	225,000	120,000	210,000	285,000	195,000	265,000
2010	105,000	135,000	240,000	130,000	210,000	295,000	185,000	265,000
2011	120,000	145,000	245,000	125,000	210,000	305,000	190,000	270,000
2012	115,000	135,000	230,000	130,000	210,000	285,000	200,000	260,000
2013	105,000	125,000	220,000	135,000	205,000	275,000	185,000	245,000
2014	-	135,000	230,000	-	210,000	280,000	180,000	240,000
2015	90,000	145,000	235,000	130,000	215,000	300,000	170,000	240,000
2016	75,000	140,000	215,000	140,000	210,000	290,000	155,000	220,000

Note: 40% of median AHC income poverty figures and 50% of median BHC figures are not reported for HES 2014 because of data issues for some beneficiary incomes – see Section A for details.

Since the peak of the recession (row 2011, Table 1), and post-earthquakes, as the economy recovered, child poverty numbers fell, not only on the anchored, or fixed line measures², as is to be expected, but also on both the [before housing costs \(BHC\)](#) and [after housing cost \(AHC\)](#) 60% moving line measures. But in the same period (2011-2016) there was no significant fall in the numbers of children under the 50% BHC and AHC moving lines. Since 2001/2004 there has been a significant rise in numbers under the very low 40% AHC line with numbers for 2016 likely to be an underestimate as discussed below.

This report focuses on the families with children that fall under the 50% AHC moving line, and under the very low 40% moving AHC line. How are they faring in 2018 and will they be helped sufficiently when announced policies come in?

Table 1 data have a range of limitations: they are based on limited sample sizes; refer only to incomes up to 2015/2016; and survey data also includes only those with a formal residential address. The 2016 survey also under-represented sole parents, implying that the reported figures for 2016 are likely to be under-estimated (Perry 2017, p 22-25). Another less visible but very important caveat to the reported figures is that [equivalence scales](#) (shown in Table 5 below) are contestable, especially their use for determining AHC thresholds.³ They assume strong economies of scale and thus poverty rates maybe an under-estimate.

The most recent data in Table 1 is based on 2015/2016 incomes, and is thus two years behind. There is a need for more timely evidence from a range of current sources, such as foodbanks, charities and budgeting services. The overall picture is that, in spite of the \$25

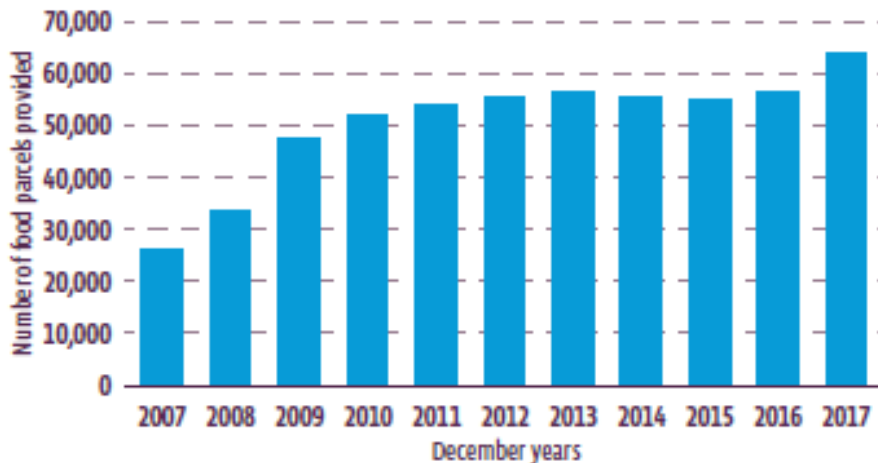
² This CPAG report does not further examine the 2007 anchored line poverty measures.

³ The economies of scale assumed in the benefit system are also contestable especially in the assumptions made about couples versus singles sharing.

per week increase in benefits for families in 2016, very low-income families are experiencing increasing stresses including hunger.⁴

Foodbanks around the country are reporting increased demand, for example see reports from the Salvation Army⁵ and the Auckland City Mission⁶ and the Wellington Mission⁷. The State of the Nation report from the Salvation Army gives evidence of the claim of increased social stress.⁸ For example, Table 2 from the report shows a 12% jump in foodbank demand in 2017.

Table 2: Food parcels distributed by the Salvation Army



Regionally, many social services are reporting increased demands, for example the manager of the Salvation Army's community services in Whangarei, Marlene Bowers, reports the number of people coming through their doors had doubled in the new year.⁹ The foodbank figures (Table 2) from the Salvation Army show that the 12% increase is not just an Auckland phenomenon but recent increased demand is reflected in its branch statistics throughout New Zealand.

At the same time, the pressures families are under is also reflected in the rapid growth in supplementary assistance, and in hardship payments from Work and Income shown in Table 3. Tellingly, along with increased foodbank use there has been a 50% growth in demand for food grants from Work and Income over the last two years.

⁴ See for example ['Things have got away on us' - Salvation Army says poverty in New Zealand at its worst since the last recession](#) and recent reports from the charitable sector: [KidsCan founder Julie Chapman says NZ kids are worse off than ever](#).

⁵ [Rise in working people relying on charities for food as living costs soar](#) and

⁶ [Food bank supplies run low as Auckland hits peak poverty, and it's not even winter](#)

⁷ See [Rising living costs seeing more families turning to food banks](#)

⁸ See The State of the Nation report February 2018

<http://www.salvationarmy.org.nz/sites/default/files/uploads/20180214tsastateofthenation2018.pdf>

⁹ [Food bank supplies run low as Auckland hits peak poverty, and it's not even winter](#)

Table 3: Quarterly data March 2016 and March 2018: hardship assistance (MSD 2018)

	Hardship assistance by reason granted in the quarter- last 5 years (all ages)		% growth	Hardship assistance amount by reason granted in the quarter- last 5 years (all ages)		% growth
	Mar-16	Mar-18		Mar-16	Mar-18	
Food	93,178	143,986	55	\$9,925,627	\$14,786,536	49
Accommodation Related	23,023	26,385	15	\$13,281,786	\$16,874,579	27
Medical and Associated Costs	16,157	18,469	14	\$5,983,683	\$7,125,186	19
People Affected by Benefit Stand Downs	5,240	9,896	89	\$558,458	\$1,123,335	101
Electricity and Gas	4,798	7,164	49	\$2,221,746	\$2,958,527	33
School Education Costs	19,953	24,278	22	\$4,062,222	\$5,266,230	30
Re-establishment Grants	2,468	2,881	17	\$850,116	\$984,211	16
Driver Licence	2,316	2,738	18	\$236,139	\$275,203	17
Health Related	1,360	2,158	59	\$118,597	\$193,706	63
Long-Acting Reversible Contraception	52	51	-2	\$10,567	\$10,208	-3
Emergency Housing Grant		6,138			\$6,574,733	
Other	45,964	75,613	65	\$15,788,877	\$24,649,484	56
Total	214,509	319,757	49	\$53,037,818	\$80,821,935	52

On 1 April 2018, some families got some relief from rising housing costs from the increases to the [Accommodation Supplement \(AS\)](#), but this reflects the rapid rise in cost of their housing. Budgeting and advocacy services also report many families have had offsets to their AS in deductions from their [Temporary Additional Support Payments \(TAS\)](#). Families will get no other extra income from the Families Package until July.

This report is written in mid-April 2018 with a sense of dread of what the next two and half months will be like for the very low income families, and then the long winter that follows, if there are no immediate and significant further policy changes. The figures in this report are indicative only, but suggest that while current policy measures should reduce child poverty overall, they will be insufficient to stem the tide of growing, very low income, family distress.

Redistribution through increased tax credits for children can reduce overall measured poverty, but the detail of how families at different levels of low income are affected can be quite different for different family circumstances, and detailed analysis is required to get the full picture. In 2007, after the introduction of [Working for Families \(WFF\)](#), the statistical measures showed that overall child poverty fell significantly (see Table 1). What was not so clear, was that this reduction had been achieved for only those families who were in work.

The WFF package had little impact on the poverty rates for children in workless households. Perry, (2017 p148).

While benefits for those with children increased in 2016, there were offsets to their other assistance and there seems to have been little impact on reducing foodbank demands and hardship grants. Other changes, such as the increase to the [In-Work Tax Credit \(IWTC\)](#) and the [Parental Tax Credit \(PTC\)](#) also bypassed the very worst-off families.

The new Families Package due July 2018 will help as the increased [Family Tax Credit \(FTC\)](#) will go to all children. While much of the new spending is an inflation catch-up reflecting the lack of adjustment since 2012 there are welcome changes for low-income working families, and new spending for families with babies. Government can also point to the new Winter Energy Payment which gives a small de facto benefit increase. But, despite the very significant fiscal cost, the Families Package appears insufficient for the very worst-off children.

The purpose of the report is to highlight the plight of that very lowest income group that has been left behind. In 2007, an MSD report "[Pockets of hardship](#)" identified this group as falling below the "very stringent 40% after housing costs poverty line where there is nothing in reserve". In 2016 there were at least 140,000 children under this line (see the under 40% AHC 2016, Table 1).

Background

In 2017 both major parties went into the election with family income packages to address child poverty.

National's package

By 2015 National had realised that child poverty was a major issue. In 2016 they made a one-off increase of \$25 per family on a benefit and some small changes to work-related tax credits for children. By 2017, mounting evidence of a widespread crisis of homelessness and hunger spurred the announcement of a new [Families Package for 2018](#), but this was to be implemented only if National were re-elected.

While National's package did not formally acknowledge that financial support for low income families had been seriously undermined over the last nine years¹⁰, clearly the impact both of actual cutbacks and of neglect needed to be addressed. The major tools used by National to enhance family incomes were:

1. Tax cuts
2. Increases to the FTC
3. Increase in abatement to 25%
4. Increases to the Accommodation Supplement

Treasury calculated that 49,000 children would be lifted out of poverty on the preferred 50% BHC measure. This was a modest improvement in the overall poverty rate but the package was not a step change for the 140,000 children below the 40% AHC line. For example, the one child family was to have a \$9.25 increase in their FTC after more than six years of no adjustment for inflation.

Some serious flaws in National's package included the increase to the [effective marginal tax rates \(EMTRs\)](#) of the low-income working families earning above \$35,000. The combined effect of the abatement of WFF (25%) and the Accommodation Supplement (25%) and tax would have perpetuated strong work disincentives on the low-income working families and created unacceptable poverty traps.

Labour's Package

[The Families Package](#), due to be implemented 1 July 2018 comprises

1. No tax cuts
2. Increases to the FTC
3. Increases to the threshold for abatement to \$42700 and rate of abatement to 25%
4. Increases to the Accommodation Supplement
5. A Winter Fuel Payment

Labour's Families Package was expected to reduce the numbers of children below the 50% BHC line by 88,000.

¹⁰ See CPAG,(2018) [Further fraying of the social safety net](#)

In early 2018 Treasury announced there was an error in their projections. On 31 March 2018 [new calculations](#) were released that showed the projected impact of both National and Labour's packages were overstated.

Treasury re-estimations show that Labour's package would lift around only 54,000 children above the 50% BHC line, a 27% reduction by 2021. National's package would lift only 27,000 children above the 50% BHC line, a 17% reduction by 2021.

The [Government's stated three-year targets](#) include reducing the proportion of children in low income households (50% BHC moving) by six percentage points by 2020/21 - a reduction of around 70,000 children. Together with other policies it is hoped that these targets will assist the reaching of [10 year goals](#) to more than halve child poverty. While the 40% AHC line is one of the supplementary measures, goals have not been set for the reduction in child poverty on this measure.

Equivalised income for 2018

In order to do the analysis we work with the framework as set out in Perry 2017.

Table 4 updates the 2016 [equivalised income](#) figures from Perry (2017) by applying an adjustment of 3% to give estimated current 2018 figures. Table 4a shows the BHC data and Table 4b shows the AHC data. For the reasons set out in Perry (2017, p.16), this report uses AHC as the basis for analysis in the later sections.

Table 4a: 2018 Median [disposable income](#) (BHC) for different household types in ordinary and equivalised dollars

Household (HH) Type	Median disposable income for the HH type (ordinary)	Median disposable income for the HH type (\$ per equivalent adult)
One person, 65+	23,278	23,175
Couple, 65+	47,998	31,209
One person, under 65	41,303	41,303
Couple, under 65	88,477	57,474
Sole Parent (SP) , 1 child	46,968	30,282
SP, 2 children	46,659	24,102
SP, 3 or more children	41,818	18,849
Two parents (2P), 1 child	86,005	43,157
2P, 2 children	86,211	39,552
2P, 3 or more children	82,915	32,548
Other family HHs with children	99,910	36,977
Family HHs, all <65-no children	103,412	46,247
Family HHs, at least one 65+ -no children	82,915	43,878
Whole population	78,486	39,037

Table 4b: 2018 Median disposable income (AHC) for different household types (HES 2016) in ordinary and equivalised dollars

HH Type	Median disposable income for the HH type (ordinary)	Median disposable income for the HH type (\$ per equivalent adult)
One person, 65+	20,085	20,085
Couple, 65+	42,848	27,810
One person, under 65	26,986	26,986
Couple, under 65	68,083	44,290
Sole Parent (SP) , 1 child	29,973	20,291
SP, 2 children	24,102	13,493
SP, 3 or more children	23,175	11,433
Two Parents (2P), 1 child	66,126	33,784
2P, 2 children	63,963	29,458
2P, 3 or more children	61,697	24,926
Other family HHs with children	75,602	27,501
Family HHs, all <65-no children	85,387	38,419
Family HHs, at least one 65+ - no children	78,486	37,801
Whole population	59,946	29,973

The whole population median equivalised incomes is the basis of setting thresholds or poverty lines (see Table 6 in section 4). The simple ratio of AHC/BHC medians derived from Table 4 for the whole population is 77%, suggesting that 23% of income is spent on housing at the median.

Table 5 shows for each household type the percentage of that groups BHC median that represents housing costs in the AHC measure.

Table 5: Actual housing costs as a percentage of BHC income

HH Type	2018 median disposable income AHC as a fraction of BHC income	% BHC spent on HC
One person, 65+	0.87	0.13
Couple, 65+	0.89	0.11
One person, under 65	0.65	0.35
Couple, under 65	0.77	0.23
Sole Parent (SP) , 1 child	0.67	0.33
SP, 2 children	0.56	0.44
SP, 3 or more children	0.61	0.39
Two Parents (2P), 1 child	0.78	0.22
2P, 2 children	0.74	0.26
2P, 3 or more children	0.77	0.23
Other family HHs with children	0.74	0.26
Family HHs, all <65-no children	0.83	0.17
Family HHs, at least one 65+ -no children	0.86	0.14
Whole population	0.77	0.23

Table 5 show that older people spend significantly less on their housing costs as a fraction of BHC than do parents at the median for each group. The household types with very low median equivalised income (Table 4) are sole parents with children who pay the highest fraction in housing of between 33-44% of their BHC income. They are indeed under housing stress.

Older people also have low BHC equivalised [median income](#), but only 11-13% of that income is spent on housing costs and fewer will be living in AHC poverty.

2018 dollar figure for various AHC poverty lines for different households in 2018

Table 6: Dollar value of poverty lines for different household types, AHC 2018

Poverty line % median	Equiv. income \$ Per adult	Income for families and households of various types in 'ordinary dollars'						
		*(1,1)	(1,2)	(1,3)	(2,1)	(2,2)	(2,3)	(2,4)
		**1.40	1.75	2.06	1.86	2.17	2.43	2.69
40%	\$11,989	\$16,785	\$20,981	\$24,698	\$22,300	\$26,017	\$29,134	\$32,251
50%	\$14,987	\$20,981	\$26,226	\$30,872	\$27,875	\$32,521	\$36,417	\$40,314
60%	\$17,984	\$25,177	\$31,472	\$37,047	\$33,450	\$39,025	\$43,701	\$48,376
100%	\$29,973	\$41,962	\$52,453	\$61,744	\$55,750	\$65,041	\$72,834	\$80,627

*Row shows number of adults and children in each household e.g. (1,1) is one adult and 1 child**Row gives the adjustment factor (equivalence scale) e.g. the (1,1) household needs 1.4 x the income to have the same standard of living as the adult alone (1,0).

From Table 6, a sole parent with three children for example requires \$24,700 AHC to be at the 40% line, \$30,880 to be at the 50% line, and \$37,050 to be at the 60% line. A couple with three children requires \$29,134, \$36,417, \$43,701 respectively.

Tables 7 and 8 show the dollar increments needed to lift families of different composition from the 40% line to the 50% line, from the 50% to 60% line and from 40% to 60%.

Table 7: Additional annual income needed to reach 50% and 60% lines in 2018, starting from an income at the 40% line

Poverty line % median	Additional income needed to reach % poverty line						
	(1,1)	(1,2)	(1,3)	(2,1)	(2,2)	(2,3)	(2,4)
	1.40	1.75	2.06	1.86	2.17	2.43	2.69
40%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
40 % to 50%	\$4,196	\$5,245	\$6,174	\$5,575	\$6,504	\$7,283	\$8,063
50%- to 60%	\$4,196	\$5,245	\$6,174	\$5,575	\$6,504	\$7,283	\$8,063
40% to - 60%	\$8,392	\$10,491	\$12,349	\$11,150	\$13,008	\$14,567	\$16,125

Table 8: Additional weekly amount needed to reach 50% and 60% lines in 2018, starting from an income at the 40% line

Poverty line % median	Additional income needed to reach % poverty line						
	(1,1)	(1,2)	(1,3)	(2,1)	(2,2)	(2,3)	(2,4)
	1.40	1.75	2.06	1.86	2.17	2.43	2.69
40-50%	\$81	\$101	\$119	\$107	\$125	\$140	\$155
50-60%	\$81	\$101	\$119	\$107	\$125	\$140	\$155
40-60%	\$161	\$202	\$237	\$214	\$250	\$280	\$310

The Child Poverty Reduction Bill has the 50% AHC and 60% AHC moving lines as two of the key supplementary measures. One half of all children below the 60% line, fall below the very low 40% line and two thirds of those below the 50% AHC moving line, fall below the 40% line.

Tables 7 and 8 suggest that for sole parent families at the 40% line, another \$80 per family is needed, with additional increments for extra children of \$20 per child to reach the 50% line, and another \$160 per family at the 40% line plus \$40 per additional child to reach the 60% line. **The reality is that many families are well under the 40% line.**

Families on benefits

In this section the question is asked: What is the relationship of benefits to the poverty lines? To answer this we use several scenario families to illustrate.

This report focuses on AHC poverty lines, so that the hypothetical calculations in this section also require that housing costs be estimated. Some families are entitled to an Accommodation Supplement (AS) so this needs to be included. Table 9 shows the maximum AS as at 1 April 2018.

Table 9: Housing costs: Maximum Accommodation Supplement (AS)

Area 1	Area 2	Area 3	Area 4	
\$235	\$155	\$105	\$80	2 person family
\$305	\$220	\$160	\$120	3 or more person family

The figures below are based on some strong, conservative assumptions¹¹.

The major one is that the benefit is received for the full year, at the full rate. Many beneficiaries in reality, face stand-downs and harsh sanctions and get a reduced rate of benefit, sometimes only for a certain length of time, others more permanently, such as for failing to name the father of the child.¹²

¹¹ The analysis is prior to the Families Package, Winter Fuel Payment and Best Start and takes no account of any means-tested supplementary payments.

¹² Benefit sanctions for those with children make up 28% of sanctions issued in the March 2018. For the year ended March 2018 there were 18,189 sanctions for families representing an estimated 36,000-40,000 children (MSD, March quarterly figures, 2018)

For illustrative purposes in Table 10 we first take a sole parent with 1, 2, and 3, children on a full sole parent support benefit, living in Auckland or area 1. The threshold for the AS is \$107 a week, the AS is 70% of rent paid above this up to the maximum.

To receive the full AS as a sole parent with one child of \$235, the rent must be at least \$443 per week. In practice the rent can be higher but it is assumed here that she pays \$443. Her net housing cost is \$208 per week after the AS.

Larger sole parent families are entitled to a maximum of \$305 in Area 1: to receive this, the rent must be at least \$543 a week. The reality is that larger families will need bigger houses and therefore may pay a higher rent. The AS formula is rather insensitive to family size.

Table 10 shows that the [disposable income](#) after housing costs for sole parents is only 25-27% of the median AHC line. There must be some families who do not get full benefits and whose rents are higher who are even worse off.

Table 10 also shows the disposable income after housing costs for couples on the jobseekers benefit with 1-4 children paying typical Auckland rents of that entitles them to the max AS. For couples with children the threshold is \$119 per week, and the rent to qualify for the maximum AS of \$305 is \$554 per week. Table 10 shows that couples are even worse off than sole parents, reflecting the punitive benefit rates that apply for married persons in the welfare system.

Table 10. Families on benefits entitled to maximum Accommodation Supplement Area 1.

Sole parent families	Household type		
	1,1	1,2	1,3
Sole Parent Support net benefit	\$17,371	\$17,371	\$17,371
FTC	\$4,784	\$8,164	\$11,492
Accommodation Supplement	\$12,220	\$15,860	\$15,860
Total disposable	\$34,375	\$41,395	\$44,723
Annual rent	\$23,021	\$28,221	\$28,221
Actual disposable without rent	\$11,353	\$13,173	\$16,501
Equivalent income per adult	\$8,109.61	\$7,527.69	\$8,010.42
100% Median equivalised AHC	\$29,973	\$29,973	\$29,973
% median	27	25	27

Couples on jobseeker benefit	Household type			
	2,1	2,2	2,3	2,4
Jobseekers Net Benefit	\$19,994	\$19,994	\$19,994	\$19,994
FTC	\$4,784	\$8,164	\$11,492	\$14,872
Accommodation Supplement	\$15,860	\$15,860	\$15,860	\$15,860
Total disposable	\$40,638	\$44,018	\$47,346	\$50,726
Annual rent	\$28,845	\$28,845	\$28,845	\$28,221
Actual disposable without rent	\$11,793	\$15,173	\$18,501	\$22,505
Equivalent income per adult	\$6,340.25	\$6,992.10	\$7,613.52	\$8,366.12
100% Median AHC	\$29,973	\$29,973	\$29,973	\$29,973
% median	21	23	25	28

Families on benefits fall well below the 40% line and will need a substantial boost to reach the 50% AHC line let alone the 60% AHC line.

In 2014 Boston and Chapple¹³ analysed the amount needed to lift families on benefits to various poverty lines as below in Table 11. Using Table 10, these figures are updated for the 50% and 60% AHCs lines in Table 12.

Table 11: Additional weekly family income needed on top of current welfare benefits in 2012 to get over four poverty lines (Boston and Chapple 2014).

	BEFORE HOUSING COSTS		AFTER HOUSING COSTS	
	50% of 2012 median	60% of 2012 median	50% of 2012 median	60% of 2012 median
Sole parent, one child	\$0	\$30	\$82	\$148
Sole parent, two children	\$0	\$78	\$111	\$194
Couple, one child	\$0	\$69	\$156	\$244
Couple, two children	\$0	\$110	\$184	\$286

¹³ Boston and Chapple (2014) Child Poverty in New Zealand, Bridget Williams Books

Table 12. Additional weekly income needed on top of 2018 benefits to get over the AHC poverty lines.

Household type	After housing costs	
	50% 2018 median	60% 2018 median
Sole parent, one child	\$185	\$266
Sole parent, two children	\$251	\$352
Couple, one child	\$309	\$416
Couple two children	\$334	\$459

Even allowing for an inflation adjustment from 2012 and possible different assumptions - the deterioration shown in Table 12 compared to Table 11 is stark. It is acknowledged for example that Table 12 is based on Auckland or area 1 rents.

Table 13 shows the same methodology as Table 12 for finding how far families fall below the median equivalised income in areas 2, 3 and 4.¹⁴

Table 13: Families on Benefits on Max Accommodation Supplement Areas 2,3,4

Area 2

	Household type				Household type			
	1,1	1,2	1,3		2,1	2,2	2,3	2,4
SPS	\$17,371	\$17,371	\$17,371	Jobseekers	\$19,994	\$19,994	\$19,994	\$19,994
FTC	\$4,784	\$8,164	\$11,492	FTC	\$4,784	\$8,164	\$11,492	\$14,872
AS	\$8,060	\$11,440	\$11,440	AS	\$11,440	\$11,440	\$11,440	\$11,440
Disp inc	\$30,215	\$36,975	\$40,303	Disp Inc	\$36,218	\$39,598	\$42,926	\$46,306
pa rent	\$17,078	\$21,907	\$21,907	pa rent	\$21,907	\$21,907	\$21,907	\$21,907
AHC disp	\$13,136	\$15,068	\$18,396	AHC disp	\$14,311	\$17,691	\$21,019	\$24,399
Median AHC	\$41,962	\$52,453	\$61,744	Median AHC	\$55,750	\$65,041	\$72,834	\$80,627
% median	31	29	30	% median	26	27	29	30

¹⁴ Area 1 includes regions such as Central Auckland, Northern Auckland, Arrowtown urban area, Waiheke Island, Wanaka urban area, Helensville South area unit and Western Auckland Urban Zone. Area 2 includes Matakana area unit, urban areas of Te Kauwhata, New Plymouth, Kawau, Whangarei. Area 3 includes urban areas of Otaki, Twizel, Rotorua, Picton, Dunedin, Coromandel. Area 4 represents any part of New Zealand that has not been included in Area 1, 2 and 3

Area 3

	Household type				Household type			
	1,1	1,2	1,3		2,1	2,2	2,3	2,4
SPS	\$17,371	\$17,371	\$17,371	Jobseekers	\$19,994	\$19,994	\$19,994	\$19,994
FTC	\$4,784	\$8,164	\$11,492	FTC	\$4,784	\$8,164	\$11,492	\$14,872
AS	\$5,460	\$8,320	\$8,320	AS	\$8,320	\$8,320	\$8,320	\$8,320
Disp inc	\$27,615	\$33,855	\$37,183	Disp Inc	\$33,098	\$36,478	\$39,806	\$43,186
pa rent	\$13,364	\$17,450	\$17,450	pa rent	\$17,450	\$17,450	\$17,450	\$17,450
AHC disp	\$14,251	\$16,405	\$19,733	AHC disp	\$15,648	\$19,028	\$22,356	\$25,736
Median AHC	\$41,962	\$52,453	\$61,744	Median AHC	\$55,750	\$65,041	\$72,834	\$80,627
% median	34	31	32	% median	28	29	31	32

Area 4

	Household type				Household type			
	1,1	1,2	1,3		2,1	2,2	2,3	2,4
SPS	\$17,371	\$17,371	\$17,371	Jobseekers	\$19,994	\$19,994	\$19,994	\$19,994
FTC	\$4,784	\$8,164	\$11,492	FTC	\$4,784	\$8,164	\$11,492	\$14,872
AS	\$4,160	\$6,240	\$6,240	AS	\$6,240	\$6,240	\$6,240	\$6,240
Disp inc	\$26,315	\$31,775	\$35,103	Disp Inc	\$31,018	\$34,398	\$37,726	\$41,106
pa rent	\$11,507	\$14,478	\$14,478	pa rent	\$14,478	\$14,478	\$14,478	\$14,478
AHC disp	\$14,808	\$17,296	\$20,624	AHC disp	\$16,540	\$19,920	\$23,248	\$26,628
Median AHC	\$41,962	\$52,453	\$61,744	Median AHC	\$55,750	\$65,041	\$72,834	\$80,627
% median	35	33	33	% median	30	31	32	33

Thus, even outside of Area 1, sole parent families on benefits with children sit at only 29-35% of the median and couples with children sit at only 26-33%.

In understanding these figures there are some obvious explanatory factors: the escalation in rents in all areas even with the 2018 adjusted Accommodation Supplement; the marked undermining of Working for Families including a lack of indexation, benefits that have fallen further behind median wage growth, and the fact these families do not get the full package of WFF tax credits.

It is likely that many families below the 40% AHC line get supplementary assistance such as TAS from Work and Income and other grants to alleviate their hardship. They may access additional hardship assistance from Work and Income, but where that is repayable on a weekly basis it can make the budgets even tighter. The data in Table 14 from an OIA, 17th August 2017 shows the average recoverable debt of beneficiaries.

Table 14: Debt to WORK AND INCOME by age group as at 30th June 217, (MSD OIA)

Age group	Mean debt	90th Percentile	99th Percentile
18 to 24 years	\$1,161.51	\$2,701.56	\$7,591.44
25 to 34 years	\$2,390.80	\$5,064.89	\$24,545.04
35 to 44 years	\$3,408.06	\$7,230.16	\$44,509.46
45 to 54 years	\$3,343.06	\$6,992.98	\$46,433.71
55 to 64 years	\$2,621.43	\$4,969.90	\$40,080.20

Other solutions to the untenable position families find themselves in maybe in working part-time if that is possible. However at low wages and with childcare costs this may yield little reward. The clawbacks for earning over \$100 for sole parents and \$80 for couples are discouraging. Some families will fall behind in rent payments and become homeless, shift in with others or rent garages, with all the associated problems such as over-crowding, ill health and school transience for their children.

Assessing current policies

Is the Families Package going to be sufficient?

Some very low-income families will get a Best Start payment of \$60 per week if they have a new-born, but this applies only to babies born after 1 July 2018. It is welcome that Best Start replaces the discriminatory Parental Tax Credit and treats all new-borns in low-income families the same, however its universal character makes it expensive. When Best Start is fully phased in it will eventually deliver the extra \$60 per week until the child is three. This will be very helpful for low-income families with very young children on benefits.

There will also be a Winter Energy Payment of \$700 a year for couples and sole parents with children. It is not received in full until the 2019/2020 year, but for that year will be equivalent to an extra \$13.50 per week. [For 2018/2019 it is equivalent to an addition of only \\$8 per week](#). While this too is helpful it does not significantly plug the gaps identified in Section 5 of this paper. As a payment that goes to all superannuitants as well, it too is costly.

Table 15 shows the increases in child tax credits (FTC) in the Families Package, not due until 1 July 2018. There is only another \$20 a week FTC to a one child family, and only an extra \$47 for a family with 2 children aged under 13, or \$38 if one aged over 13.

Table 15: Changes to the Family Tax credit 1 July 2018

Eldest child			
Age of children	Current	From 1 July 2018	Weekly increase
0-15 years	\$92.73	\$113.04	+\$20.31
16-18 years	\$101.98	\$113.04	+\$11.06
Second or subsequent child			
Age of children	Current	From 1 July 2018	Weekly increase
0-12 years	\$64.44	\$91.25	+\$26.81
13-15 years	\$73.50	\$91.25	+\$17.75
16-18 years	\$91.25	\$91.25	Nil

As CPAG (2018) said in its Progressive Universalisation paper ¹⁵

If this Government is serious about lifting 100,000 children out of poverty and really wants to deal with the pockets of hardship problem ignored for so many years IT CANNOT CREDIBLY DO THIS BY LIFTING [just]THE FAMILY TAX CREDIT.

The reason is that the FTC increases go to all low and middle-income children leading to the dilemma of either an unsustainable fiscal cost or draconian clawbacks and low abatement thresholds for the working poor. Governments may also be tempted to save money by failing to index properly on an annual basis.

It is important to emphasise that the figures in Tables 12 and 13 are indicative only, but they suggest an order of magnitude of needed extra assistance for those below the 40% AHC line that greatly exceeds the Families Package.

Recommendations for immediate reduction of severe income poverty



This report has discussed how there comes to be families who find themselves at or below the 40% AHC line. Families are likely to try to earn extra, or may borrow and/or cash in assets to relieve the extreme pressures of trying to live and support children on an income that is too low. They are likely to apply for additional assistance and hardship relief and also ask for foodbank and charitable help.

The increased use of supplementary assistance makes the system complex to administer. It is time-consuming and inefficient for people to have to access these top ups and to have to use charities and foodbanks for the basics. It suggests that benefits are too low. The charitable sector needs immediate relief from the excess demands they face.

This report suggests that the Families Package is quite insufficient for these very low income families and is coming in far too late. Poor children should not be waiting for action on the Welfare Expert Advisory Group report in 2019 for any extra relief.

Some of the suggestions below can be implemented with little delay.

- Ensure all families get their full entitlements immediately

¹⁵ See CPAG, (2018) [The Progressive Universalisation of Working for Families](#)

- Stop all sanctions in the benefit system for families with children pending a more general review of their use.
- Deliver substantial new money to the very lowest income families AND to confine it to them alone for fiscal credibility.
 - Raise core benefits for all beneficiaries by 20%.
 - Another obvious tool to use is to join is the IWTC of \$72.50 per week to the first child payment. It would go to only those who have the least income as they are the ONLY ones who don't get it currently.
- Index all aspects of WFF and benefits annually to average wages and prices along the lines of New Zealand Superannuation (NZ Super).
- Fix punitive design features of the benefit system
 - Allow beneficiaries to work at least 10 hours at the minimum wage before any abatement e.g. \$165 per week for singles and \$165 for each person in a couple.
 - Align single and married rates of all benefits by lifting the married rate as part of the increase to benefits
- Encourage beneficiaries to use gifts and loans from family without penalty.
- Toughen policy on loan sharks and institute a debt forgiveness programme for Work and Income debt.
- Urgently [reform the taxation of housing](#) to reduce speculation in housing and reduce rent and house prices.
 - Build and rent more state houses at controlled rents of no more than 25% of before housing costs disposable income.
 - Progressively shift assistance from AS to WFF and to increased benefits to reduce overlapping abatements
 - Improve stability of tenure and tenant protections

Main reference

Perry, B. (2017). *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2016*. Wellington: Ministry of Social Development. Retrieved from <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

Appendix 1: Glossary

AHC	After Housing Costs: AHC income is disposable household income after deduction of accommodation costs.
AS	Accommodation Supplement: a non-taxable but targeted benefit to assist with accommodation costs.
BHC	Before Housing Costs: BHC income is disposable income before deducting accommodation costs.
Disposable income	Gross income of an individual or household less direct taxes (such as PAYE, income tax) plus - tax credits and other welfare assistance.
Equivalentised income	Equivalentised income is ordinary household income adjusted for family size and reflects economies of scale as household size increases.
EMTR	Effective marginal tax rate: The sum of tax and other losses as a fraction of the extra dollar earned.
Equivalence scales	Equivalentising is a means of standardising household incomes in terms of household size and composition so that the relative material wellbeing of households of different sizes and compositions can be more sensibly compared. Most equivalence ratios assume that children cost less than adults. "While considerable research has been undertaken to try to estimate appropriate values for equivalence scales, no universally accepted 'correct' set of equivalence ratios has emerged" (see Perry 2017).
FTC	The Family Tax Credit is a per week per child payment, for caregivers for families with dependent children. It is paid regardless of source of income.
IWTC	The In-Work Tax Credit is part of WFF tax credits, worth \$72.50 pw for 1-3 children and an extra \$15 pw for additional children. It is only for families with dependent children who work the required hours each week.
Median Income	Median income is the income of households at the midpoint of the distribution: half have income above that amount, and half have income below that amount.
MFTC	The Minimum family tax credit (MFTC) is paid to families earning up to \$26,156 (from 1 April 2018) or less after tax to ensure a minimum family income of \$503 a week after tax. To get this payment, at least one parent must be working for salary or wages for a minimum number of hours each week.
PTC	The Parental Tax Credit is available for families with a new-born baby who don't receive paid parental leave or a Work and Income benefit. It is replaced by Best Start 1 July 2018.
TAS	Temporary Additional Support is a non-taxable means tested supplementary payment that can be paid for a maximum of 13 weeks. It helps with regular essential living costs.
WFF	Working for Families refers to the package of tax credits paid to the caregiver for his/ her children. There are four types of Working for Families Tax Credits: the FTC, the IWTC, the minimum family tax credit (MFTC), and PTC.

