
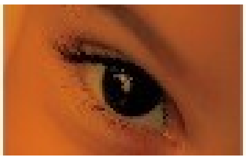
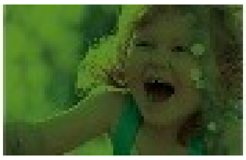
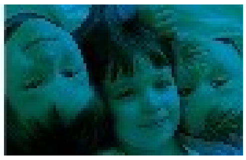

The Accommodation Supplement:

The wrong tool to fix the house

Child Poverty Action Group Report

Janet McAllister, Susan St John and Alan Johnson

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About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent charity that strives to achieve the elimination of child poverty in Aotearoa New Zealand. We work to provide evidence about the causes and effects of poverty on children and their families, and to inform the public, policymakers, media and politicians of the changes to policy needed to reduce child poverty. CPAG believes that New Zealand's high rate of child poverty is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in. Our vision is for an Aotearoa where all children can flourish, free from poverty.

If you would like to support CPAG's work, please visit our website: www.cpag.org.nz

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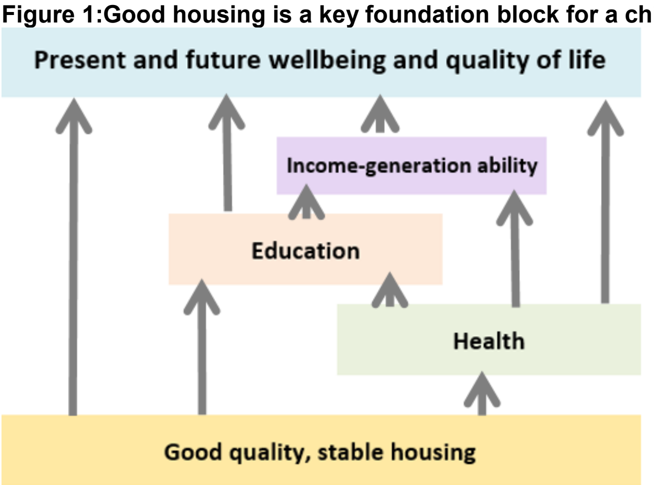
Preface

Child Poverty Action Group (CPAG) believes that good housing policy is of utmost importance to child wellbeing. Alongside caregivers' love and good nutrition, housing that is warm, secure and affordable is a fundamental prerequisite for the development of a child's potential. Everything else – good health, education and general quality of life – builds on the foundation of secure, affordable, safe warm and dry housing (Figure 1).

Figure 1:Good housing is a key foundation block for a child's lifelong wellbeing



CPAG has produced many commentaries outlining the links between poor housing and poor health and education outcomes for children, and also what can be done to guarantee healthy housing even for our least well-off families (for example, Asher, 2016; Dale, O'Brien, & St John, 2014; many others can be found at www.cpag.org.nz). In 2003, the CPAG report *'Room for Improvement: Current New Zealand housing policies and their implications for our children'* (Johnson, 2003) sounded the alarm bells. In that report, 15 years ago we said:

> *Growing inequality in New Zealand has particularly affected young children, and far too many of them are growing up in deprived circumstances…. Giving families access to stable accommodation… should be the birthright of every child, but that is far from the case in New Zealand today. Unless society gets housing right, other attempts to address child poverty are bound to disappoint and to be only a temporary bandaid.*
>
> *Years of market-driven reforms in housing and welfare generally have left a sector in turmoil and a generation of children deprived of the chance to fully develop their potential. The experiments with the Accommodation Supplement have not been successful, and the moves away from an emphasis on home ownership and third sector involvement in housing have been disastrous in their impact." (Johnson, 2003)*

Since 2003, the housing situation for low-income New Zealand families has worsened into a chronic crisis of unhealthy houses, and homelessness on a scale that shocks many if not most New Zealanders.

A speculative housing bubble, first apparent in cities like Auckland has been spreading to the regions. Its sustenance and its possible collapse have vast ramifications for low-income children and their families. The genesis of this crisis can be found in many policy failures, such as the rise of housing as an investment commodity, the failure to tax housing investment appropriately, the divestment of the state from state housing, and the lack of support for social housing of all kinds.

This report examines the rise of the flagship housing policy of the Accommodation Supplement since the early 1990s. An uncritical acceptance of the Accommodation Supplement as the primary way to help low-income families access housing amid the housing crisis has seen sky-rocketing expenditure on this supplement with little impact on housing affordability. CPAG believes it is past time for a rigorous examination of the Accommodation Supplement, both its failures in design and its role in intensifying house prices and rent rises.

Many other critical housing policy issues are examined elsewhere. CPAG members have lobbied hard for a net equity tax approach for all residential property (for example, St John, 2018; St John & Johnson, 2018), and for the restoration of state ownership and shared equity models (for example, Johnson, 2018) as well as for improved standards for rental accommodation (Asher, 2016; Dale et al., 2014).

CPAG endorses the conclusion that we need to do housing policy differently and reverse the expansion of the Accommodation Supplement by increasing core incomes. This report has been timed to complement the work of the Welfare Expert Advisory Group who reported in early 2019.

Executive Summary and Recommendations

The Accommodation Supplement (AS) has dominated New Zealand housing policy over the last 25 years. It operates as a cash subsidy based on actual housing rents or home ownership costs.

In the absence of adequate complementary housing interventions, this subsidy has largely failed to assist people into adequate housing and has failed to keep them there: in September 2016, approximately half (48.9%) of all 290,000 AS recipient households were deemed to be in “severe housing stress” by the Ministry of Social Development (Rea & Thompson, 2017). Yet the AS is expensive. Costing $1.2 billion in 2016, it is set to cost the government $1.5 billion in 2018/19 (Johnson, 2018) – money that mostly goes toward rent to private landlords. Therefore, unlike subsidies that go towards state rentals or towards buying first homes, the AS does not build or support an asset base for the state or for low-income tenants. AS payments are made to 25%-30% of private sector tenant households and these payments cover the cost of approximately 10% of the $10 billion to $12 billion estimated rents paid into the private rental market. Thus the AS represents a significant government subsidy of the private rental market (Johnson, 2018). In addition, the AS formula is overly complex and cumbersome, leading to confusion and inefficiencies in AS take-up.

Whether the government has been led by National or Labour, the AS has become ever-more entrenched since its introduction in 1993.[1] As a country, we have bet the house on one mechanism – and lost. There is wide consensus on the need for change, including Treasury (Wong & Morrissey, 2016) and commentators (Boston, 2018). Treasury gave the following advice to then-Minster of Finance Bill English in November 2016:

> *Officials consider that the existing housing subsidy structure (income-related rent subsidy (IRRS), accommodation supplement, and temporary additional support (TAS))* ***is not fit-for-purpose****. AS does not adequately alleviate housing stress, and IRRS and TAS have poor work incentives and are increasingly costly. One of the key factors driving increases to TAS is the increasing inadequacy of AS to cover housing costs…. We think that a more ambitious welfare package could include a significant review of the Accommodation Supplement, with a view to at least simplifying its structure and improving targeting of payments, or perhaps* ***reconsidering it altogether****. (Wong & Morrissey, 2016, Pars 58 and 65, our emphases)*

We agree with this Treasury advice – and we also reconsider whether the AS is necessary, in Chapter 3 of this report. We argue that the state needs to pull back from its over-reliance on the AS in order to ensure income adequacy for all New Zealand families and to more effectively invest social welfare funding so that less of it is simply going towards this week’s (private) rent. This requires two new strategies: first, a step-change up to *serious* investment in other housing mechanisms that, unlike the AS, actually address the root causes of the

[1] Both parties went into the 2017 election with family packages that included significant increases to the AS. The Green party alone sought to improve incomes without further reliance on the AS.

housing crisis (a shortage of houses at affordable rents); and second, a shift of AS income support into other less distortionary, more equitable means of income support.

The first strategy (for example building many more affordable homes) will take some time to bear fruit.[2] This report addresses the second strategy and provides background to and recommendations for improvements to accommodation-related income subsidies.

Our recommendations, while inspired by the specific failures of the AS, are actually wide-sweeping, based on the idea that primary income should cover basic needs in all but extraordinary circumstances. We recommend increases in minimum wages, Working for Families tax credits and income-tested benefits to cover basic needs without requiring supplementary assistance such as the AS; the AS and its associated problems can then be removed for the majority of current recipients. The main aim is to reduce poverty by increasing income support; and to increase the number of people who are receiving the support they need by reducing complexity in the welfare system.

These recommendations are not a one-off fix. It will take prolonged effort, commitment and investment to restore the financial health of those affected by chronic underfunding of the welfare system over at least 25 years since the benefit cuts of the early 1990s. For over a generation, governments have been running surpluses and reducing their own debt at the expense of wellbeing of our poorest citizens. The cumulative effect has left the worst-off families and individuals in entrenched poverty with high rates of personal debt and few assets. The ripple effects have created huge pressure on health education and the legal system, and undermine our preparedness for the demographic change associated with a rapidly ageing population. If the government truly wants to reduce poverty in New Zealand, then bold new long-term thinking and substantial new funding are both required.

Designed to work together, a step-change up to serious investment into other housing mechanisms and the removal of the AS in favour of increased core incomes are necessary shifts that are long overdue.

Recommendations

1. That income-tested benefits and Working for Families be designed and resourced so that benefit recipients can cover all basic necessities (for example, housing, food, power, clothing, transport and social inclusion) without requiring supplementary income assistance in all but the most extraordinary circumstances.
2. That the minimum wage and Working for Families be increased so that wage-earners can cover all basic necessities (for example, housing, food, power, clothing, transport and social inclusion) without requiring supplementary income assistance in all but the most extraordinary circumstances.
3. That all income support mechanisms for low-income working families have an abatement rate structure that reduces poverty traps by ensuring that effective marginal tax rates for all families are not excessive.

[2] Alan Johnson has written about the options for other housing-related mechanisms elsewhere, for example "Beyond Renting: Responding to the Decline in Private Rental Housing" (Johnson, 2018)

Report structure

To place the rise of the AS in context, Chapter 1 briefly outlines the range of possible housing policy interventions and examines the historical trends in the nature of housing assistance in New Zealand since the 1930s. The watershed for New Zealand housing policy in 1991-1993 resulted in the rise of the AS as the dominant housing policy.

Chapter 2 outlines how the current AS actually works and the problematic consequences that arise from its current design and dominance.

Chapter 3 offers our recommendations for action in detail, and an example of implementing those recommendations.

The Appendices contain reference data and explanations of modelling used. Some tentative costings are included.

A list of abbreviations used can be found at the end of this report.

1. A History of Housing Policy in New Zealand

To put the discussion of the Accommodation Supplement into context, this chapter briefly describes the various policy tools that might be used to meet government's objectives in housing. These objectives themselves have changed over time and this chapter explains how the foundational values for housing policies gradually evolved from decent housing as a citizen right in the 1930s to the idea of housing as a commodity in a free market in the 1990s. Apart from the one significant exception of the reintroduction of income-related rents, 1990s housing policies generally continued into the 2000s and 2010s, precipitating the housing crisis that New Zealand experiences today.

Housing policy mechanisms

A complex combination of policies is needed to meet the housing goals of any government. For example, a reasonable goal could be that 'all residents have access to secure, warm, healthy, appropriate housing that they can afford' (this hypothetical goal is informed by the Human Rights Commission (2010) and United Nations (2019)). Achieving this goal would rely on at least five factors:

- an adequate quantity of housing for the population;
- of an adequate quality;
- in appropriate configurations and sizes;
- in appropriate locations; and
- people having sufficient income to afford housing.

Each of these factors is influenced by a range of policies: the quality of dwellings will be affected by building regulations and landlord requirements e.g. to insulate; sufficient income to afford housing might require financial subsidies (e.g. income-related or rent-related subsidies, and/or home loans on generous terms) or a fairer distribution of income.

Historically, as discussed below, New Zealand has used a range of policies to achieve housing objectives, including:

- State construction of housing (to increase housing supply and quality)
- State management of rental housing (to increase housing quality for those houses, and the ability to house those facing discrimination in the private rental market)
- State regulation of private rental housing quality (warrant of fitness)
- State sales of housing to tenants (can increase housing stability by ensuring future governments cannot terminate the lease for these tenants)
- State finance of housing purchase (can increase housing supply indirectly, and can increase housing stability)
- State housing subsidies, both in the form of income-related rents, and as private rental and home ownership subsidies such as the AS (to increase a family's ability to afford housing).

This report largely focusses on this last type of financial mechanism, but first we place this in the overall context of government interventions in the housing market.

1936-1949: focus on homes owned by the State

Coming to power in 1935 during the housing and poverty crisis triggered by the Great Depression, the first Labour Government viewed "the right to live in a decent dwelling on the same level as the right to education, sanitation, to good and abundant water, to an adequate road system and to a certain amount of medical care" (Firth, 1949). Undersecretary of Housing John A. Lee was explicit that those rights included children. In 1937 (within the prevailing discourse of the 'deserving poor') Lee wrote:

> *"Whatever we may say of parents, we would surely agree that children were as much entitled, as children, to decent housing as to decent education…. Houses cut to a certain minimum standard will cost nearly the same everywhere in New Zealand, but the incomes of the various families that will inhabit those houses will differ. But the State does not carry a lower-grade education in a State school to a child because the parent has a lower income standard. And the old-age pension couple is entitled to a decent housing standard rather than to be left in a degraded locality at the end of a useful life. A widow on a pension, with children at school – that family also is entitled to decent housing."* [3]

Lee also saw widespread access to "the best possible housing that the industrial resources of the country can afford" as safeguarding health, and saving costs in health and other areas:

> *"Even if rentals were not such as to make such housing economic, the indirect saving to the State in health expenditure, the probable reduction in the rate of juvenile delinquency, would be well worth the effort to house decently…. If the State considers it necessary to carry a health service to all the people, it is as important that we should carry that health service to the people through a decent home that conforms to a high health standard as through medicines that adhere to the standard laid down by the British Pharmacy Regulations" (Lee, 1937).*

Thus, the government was not interested in offering the bare minimum to the worst-off as a residual intervention. Instead, they had plans on a grand scale – in 1936 Prime Minister Michael Joseph Savage said: *"We have visions of a new age, an age where people will have beauty as well as space and convenience in and about their homes"* (Forlong, 1946).

Building state houses to rent at (relatively) low rates was the main strategy Labour used to start realising this vision, along with offering a smaller number of state-financed home loans for home ownership at modest interest rates. As such, the government itself directly ensured housing quality, supply, home-ownership finance, and good quality rental affordability for state house tenants.

The government could exploit economies of scale to build houses (via private construction firms) more efficiently than the private sector (Schrader, 2007). State housing promised

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[3] Lee's faith in the equality of New Zealand's education system is no longer realistic, if it ever was: UNICEF ranks the country at 33 out of 38 for inequality in the classroom (Chzhen, Gromada, & Rees, 2018).

lifelong convenience and security for tenants, making secure state tenancy for life an alternative to home ownership. Nevertheless, Labour also assisted those who wanted to own their own home. To encourage private development, in 1936 Labour fully nationalised the Mortgage Corporation (which was already partially owned by the state), renamed it the State Advances Corporation of New Zealand and authorised it to grant loans on generous terms. By August 1939, loans totalling £3,509,462 had been granted to 3849 applicants and the government boasted that it was “one of the largest institutions of its kind in the British Empire” (Centennial Branch, 1940). In this way, the state helped finance the building of new houses for private use.

Still, Housing Undersecretary Lee saw the state as the only agency capable of guaranteeing housing as a right; the private market could not be trusted to do so:

> *“slum landlordism is most profitable and slum landlords never demolish of their own accord. Where... the slum landlord has to choose between excess profit and humanitarian considerations he [sic] generally refuses to interfere with his profit” (Lee, 1937).*

But in fact, marginalised groups – including Māori and those on the lowest incomes – were excluded even from state housing support. Māori were blocked by officials with racist perceptions – as a result, some had their living conditions reduced to “tents and shacks made of rusting corrugated iron and discarded packing cases” with primitive sanitary conditions (Schrader, 2007). In 1944, the government started earmarking state houses specifically for Māori. Very few houses were placed in the Māori pool, however, and the houses were not necessarily culturally appropriate; for example washing machines were put next to the kitchen sink in some houses, violating the separation of tapu and noa (Schrader, 2005). Meanwhile, not all non-Māori could afford state rent – although state houses were within reach of some of those on lower-than-average incomes, they were not within reach of the worst-off, as the rent was partially linked to the cost of building good-quality state houses (Schrader, 2007).

Energy and resources were re-directed during late World War II away from construction, and the war effort proved fatal to the realisation of the government’s grand vision of construction on a massive scale and state tenancy as an option for all. Approximately 4000 state houses were built during 1942 but no houses were built at all during 1944 (Figure 2). Although the numbers rallied to some extent in the late 1940s, the post-war high-water mark never quite reached 3500 a year (Schrader, 2005). In 1939, the state house waiting list was 10,000; by 1945 it had ballooned to 30,000. Military camps were turned into emergency housing (Schrader, 2007).

1949-1990: focus on homes owned by the occupier

The National Party won the 1949 election and, during its term, started selling state houses to tenants on generous terms, encouraging the long-held “Kiwi dream” of home ownership (Schrader, 2005). State house sales did settle down somewhat after the mid-1950s; state house construction levels, however, swung back and forth over the next 50 years. The rough pattern was that National Governments decreased state house construction and Labour Governments increased it.

Figure 2: Construction and Sale of State Houses, 1938-2002

Source: (Schrader, 2005)

The 1950s National Government also offered an income supplement for those in need that could be used to pay ongoing rent if necessary, thus acknowledging housing stress in the private rental market. This supplement was not uniquely housing-related but it is a very early antecedent of the Accommodation Supplement (McKenzie, 2017).

While the next Labour Government 1957-1960 reduced state house sales, it did not entirely stop the sales, nor did it fully arrest the erratic but definite 25-year decline in state-house building that started in the late 1940s and did not end until the early 1970s (Figure 2). However, the second Labour Government did have one lasting legacy: in 1958 it introduced the capitalisation of the universal Family Benefit for those buying houses in particular circumstances (meaning families could forego weekly family benefit payments in order to receive the subsidy in one lump sum). This meant that many families could buy a house (from any seller, not just the state) without first having to save up for a deposit, assisting them into owner-occupier status. Although the value of the Family Benefit was not indexed to prices and eventually eroded over time, the option to capitalise it continued until 1986 (McKenzie, 2017).

Overall homeownership rose from around 50% in 1936 to around 70% in the late 1950s, where it hovered for 20 years (Johnson, 2018), but for Māori, the story was different: from 1951 to 1981, the rate of Māori homeownership declined from 54.2% to 45.4% (Thorns, 1988); urban migrants often left rural home ownership for city rentals (Flynn, Carne, & Soa-Lafoa'i, 2010). Rates of Māori use of state housing had increased by the mid-1970s, and state housing policy had changed from dispersing Māori-reserved housing throughout non-Māori suburbs in order to encourage assimilation, to allowing Māori communities to develop in general state housing areas, such as those in Ōtara, Porirua and Aranui (Schrader, 2013).

The neo-liberal 'Rogernomics' transformation, which would find full fruition under a National Government in the 1990s, shifted the provision of many services from the public to private realm with an associated 'user-pays' ethos. This process began in the mid-1980s with a shift away from policies that favoured owner-occupiers to policies that encouraged private rental tenants and landlords. The state-owned Housing Corporation withdrew from being a major housing lender and became a lender of last resort for groups who could not obtain mortgages elsewhere (Thorns, 1988). Until 1984, the highest amount any state tenant could be asked to pay was about half the market rent for an equivalent private property; but from 1984, high-income-earning state tenants were asked to pay market rents for state housing (as rents were set at 25% of a tenant's income or market rent, whichever was lowest) (McKenzie, 2017). Income supplements for those renting in the private market grew more important: accommodation assistance was renamed the Accommodation Benefit in 1981, and the numbers of recipients rose almost five-fold 1982-1991 from 31,000 to 115,000 (Dodson, 2007).

These are small shifts compared to what was happening in other policy areas, however, and Treasury wanted to introduce further neo-liberal housing reforms: it lobbied to remove income-related rents in favour of an accommodation supplement. However, Prime Minister David Lange chose Helen Clark to be Minister of Housing after 1987, partially to stop the right wing of the party from meddling with housing (Campbell, 1999; Dodson, 2007). And indeed, the number of state houses grew to its highest ever level (approximately 70,000) under Clark's watch (Schrader, 2005), and the Labour Government did not abolish income-related rents.

Another bright note was the rise in Māori homeownership rates. By 1983, the rates had reversed their decline for the first time since records began in 1926 and, although they were still much lower than the rates for the general population (which were around 75% in the late 1980s), by 1991 Māori home ownership rates were above 50% for the first time since the mid-1960s, at 54.1% (Flynn et al., 2010; Johnson, 2018).

1991-1999: A watershed

In its first term of office, among other radical neo-liberal changes such as cutting main benefits, the 1990-1999 National Government instigated a programme of housing reform which overturned long-held cultural and governmental assumptions and aims that had stood for over 40 years. Where previous governments had treated secure housing as the basis of a flourishing society (albeit with the state playing an increasingly residual role), now Housing Minister John Luxton introduced the reforms that Treasury had been favouring for most of a decade (Dodson, 2007). The state would treat housing as a private good: the market would provide.

In reality, however, the state did not stop 'interfering' in the housing market. Under the guise of 'tenure neutrality' – that is, treating home owners, state tenants and private tenants in the same way – it swung the balance of governmental financial support away from encouraging people into eventual home ownership, and towards limiting them to lifelong renting in the private sector.

As described below, by 1993 the National Government had:

i. stopped building houses and started selling off many of the ones it had, not just to tenants as in the past, but also to community trusts and private buyers, which was a break from previous practice (Olssen, McDonald, Grimes, & Stillman, 2010);
ii. stopped offering any mortgages and started selling off those it had;

iii. stopped offering income-related rents to state tenants
iv. replaced all these mechanisms with a “single policy mechanism”, the Accommodation Supplement (Campbell, 1999).

Thus, after 1993, a reasonable amount of the public money that had previously gone into building and maintaining state houses, public (income-related) rent subsidies and owner-occupier mortgages ended up in landlords’ pockets via the private rental market.

Reduction of state building

Between 1974 (the first year for which records are available) and 1991, the state was responsible for obtaining 6% of all residential construction sector consents (in 1991 they obtained 1239 consents); after 1992, this dropped dramatically to almost zero, and stayed there for a decade. The government virtually pulled out of the residential building industry, and sought consents to build only 23 houses per annum at the nadir of 1992 and 1993. (Statistics New Zealand, 2018).

Sale of state houses

In 1991, the Housing Corporation owned nearly 70,000 state houses; by 1999, this had fallen to less than 59,000 – a reduction of around 14-16%, depending on which figures are used – due to the sale of approximately one out of every six state houses (Johnson, 2003; Olssen et al., 2010). Some of these had been lying empty – because they had become too expensive for state-house tenants paying market-related rents, even with the AS subsidy. But “the government lost 14 per cent of its capacity to provide direct… housing assistance to individuals experiencing some form of housing need” (Dodson, 2007).

However, the Housing Corporation found a way around that loss of capacity – at a price. In 1995, they started leasing houses from private landlords to then sublet to tenants. This was relatively slow to start however, and the late 1990s represented the lowest amount of housing stock managed by the State relative to population since 1949, at approximately 15.3 state houses per 1000 people, down from 19.9 in 1990 (Figure 3). This provided fewer alternatives for tenants meaning there was greater reliance on private landlords to provide housing – and a greater incentive to invest in rental housing.

Sale of state-owned mortgages

The state-owned mortgage fund was terminated in 1992 with the first sale of $500 million of mortgages to the private sector. By 2000 these sales had reached $4 billion and represented the second largest, but least acknowledged, privatisation of public assets (Johnson, 2003; Murphy, 2000). Government encouragement of first home buyers was over.

Unsurprisingly, from 1991, the withdrawal of state support for home ownership and the reduction of state-owned dwellings were factors leading to the absorption into private rental housing of all of the growth in the number of households in New Zealand between 1991 and 2001. By 2001 one in three households paid rent, compared with one in four households ten years earlier (Johnson, 2003). Children were hardest hit by the reforms. Auckland children were particularly affected: between 1991 and 2001, their numbers living in rented houses rose by over 70%, or 46,000 children (Johnson, 2003).

Abolishment of state (income-related) rent subsidies

The National Government abolished income-related rents for state tenants in 1993 in favour of the (less generous) Accommodation Supplement, arguing that the previous regime offered "substantially different levels of subsidy to people with similar levels of need" because only state house tenants enjoyed income-related rents while other low-income people had to get by on the Accommodation Benefit (Luxton, 1991).

However, as one commentator has put it, even given the horizontal equity issues of a two-tier system, the abolishing of income-related rents for the less generous AS made "a system which was only fairer in the sense that it made people equally poor" (Campbell, 1999). Many people found themselves unable to afford rent anywhere, and they had no choice but to move in with family members, increasing overcrowding (Schrader, 2005).

In addition, the change to market-related rents did not acknowledge that some groups – Māori and Pasifika families, sole parent households, people with mental health issues and possibly people with other disabilities – suffer discrimination in New Zealand's private rental market (Murphy, 1997). Unsurprisingly, such vulnerable groups were well represented among state house tenants – in 1988, 51% of state house tenants were sole parent households (Campbell, 1999).

Early years of the Accommodation Supplement

As mentioned above, in place of all these scrapped and reduced housing support mechanisms, the National Government introduced the Accommodation Supplement in 1993. It was, in essence, a more generous and regionally-sensitive Accommodation Benefit. In fact, elements of the AS formula were already in place for (unnamed) accommodation assistance in 1975: then as now, accommodation subsidy recipients received a percentage of their rent costs over a minimum rent cost, up to a certain maximum ceiling level (see Chapter 2 for explanation of the AS formula). In terms of its internal workings, the changes between the 1988 Accommodation Benefit and the 1993 Accommodation Supplement were not particularly unusual – changes to accommodation-related income subsidies have happened before and since on a reasonably frequent, if not regular, basis. The substantial change was external: that is, the scrapping of income-related rent subsidies and the consequential inclusion of state tenants in the AS, as outlined above.

At the beginning, the main issue with the AS was the government's overreliance on it –both as the government's sole housing support policy mechanism and (unexpectedly) as an inadequate income subsidy for people who were caught out by high unemployment and benefit cuts in the early 1990s (i.e., they found themselves in housing poverty not because of any immediate changes to the housing market but because their income changed, partially due to other government policy).

There were more AS recipients than expected from the beginning. When the housing policy reform was announced in 1991, there were only 115,000 Accommodation Benefit recipients (Luxton, 1991); that increased to 150,000 by the time the AS was introduced in 1993 – an increase of 30% over two years, coinciding with benefit cuts. Most benefits, such as the sickness, Domestic Purposes Benefit (DPB) and unemployment benefits were cut by between 5% and 27% from April 1991 (St John & Rankin, 1998). Meanwhile, the universal

Family Benefit was abolished, and its $6 a week for each dependent child folded into an income-tested family support, putting paid to any future capitalisation (McKenzie, 2017).

The National government in 1991 expected to save $1.27 billion per year from welfare cuts (Baker & Du Plessis, 2012). As it happened, the AS was more expensive than predicted, due both to the higher-than-expected number of recipients and to the government having to increase some maximum AS rates three years in a row 1994-1996 (McKenzie, 2017). It was, in effect, a (still inadequate) shoring-up of income for people on benefits and other low-income households who, before the 1991 cuts, had not been in ‘housing-related’ stress. There was no unusually sharp rise in housing costs between 1991 and 1993 that might explain an accelerated increase in the numbers of people signing up for accommodation subsidies. Instead, it was likely due to the reduction of other income sources such as family support, benefits and wages (if workers found themselves redundant) and increased user-pays charges. In 1993, Treasury analysts were predicting that the number of people or households likely to require an Accommodation Supplement would be around 280,000 by 1996. By 1999/2000 the number had actually risen to 324,000 (Johnson, 2003).

Under pressure from its coalition partner New Zealand First, the National Government in 1997 raised the AS subsidy of 65% of accommodation costs between the entry threshold and maximum rate to 70% (Campbell, 1999; McKenzie, 2017).

2000-2018: Relief for some, crisis for most

The 1999-2008 Labour-led government reinstated income-related rents almost immediately, in 2000. However, because the number of state houses had dropped from 70,000 to under 60,000 in the previous 10 years, the number of people assisted by this move was limited. The reinstatement of income-related rents without an equivalent generous increase in the AS re-created the original unfairness between private and state renters.

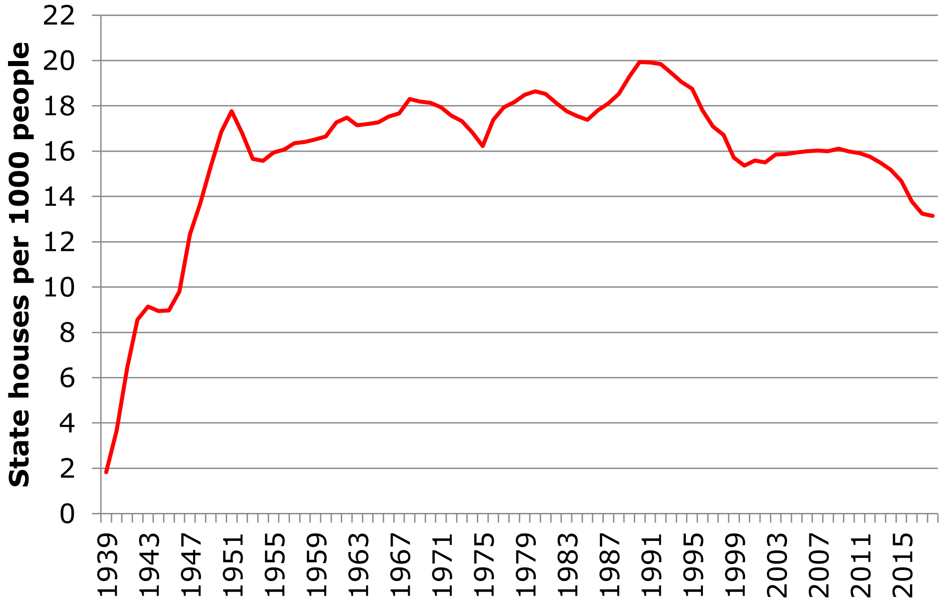
This was very partially mitigated in 2005, when the government increased the maximum AS rates (based on 2003 rents) for the first time since 1997, and increased the number of AS Areas from three to four, allowing for more variation in maximum rates (see next chapter for explanation of the AS formula).

Labour set to work increasing the number of houses managed by the state, and by 2009 they were back up to around 69,000 (including some leased from private landlords so that the increase in all state-managed houses is higher than the number constructed, and also higher than the increase in the number of state-owned houses). With a rapidly growing population, the number of state houses per 1000 people hovered around 16 – still lower than most of the preceding four decades (Figure 3).

State house building did not really recover during the fifth Labour Government, nor were state-owned mortgages reinstated. Central government was responsible for only 1.5% of successful residential building consent applications from 2000-2008, compared to 6% from 1974 to 1991.

Under the National-led Government 2008-2017, withdrawal from construction continued and the number of state-managed houses again declined in raw numbers to 63,276 by 2017 (Housing New Zealand, 2017), and per capita to less than 14 per 1000 people (see Figure 3). Such low per-capita levels had not been seen in sixty years. Some of the decline was due to transfers to social housing providers – however, social housing declined from 4.0% of the national housing stock in 2008 to 3.4% in 2017 (Johnson, 2018). These are particularly grim statistics in a (continuing) period of high inequality in New Zealand.

Figure 3: Estimated total houses managed by the State (incl leases) per 1000 population 1939-2018



Sources: Housing NZ annual reports 2003-2018, Statistics New Zealand population data, 1939-2002 estimates based on Schrader (2005).

While the 2008-2017 National-led Government continued income-related rents, the severe reduction of the nation's supply of state and affordable housing was one of the factors leading to the emerging housing crisis by the second decade of the 21st century.

In addition, successive governments let the real value of the Accommodation Supplement erode: it was both expensive and inadequate. Unlike the entry thresholds which are pegged to benefits (and which decrease AS entitlements with every benefit rate increase), Area inclusions and maximum rates in each Area have been increased infrequently, only on an ad hoc basis. In a period of "cynical neglect" of the AS between 2005 and 2018 (Johnson, 2016), there was no change to the maximum rates, or any review of areas, so that by 2016 the average AS recipient was spending 50% of their income on rent, four percentage points more than they had a decade earlier (Rea & Thompson, 2017).

In 2016, prior to the most recent maximum raise, around 53% of AS recipients were receiving maximum payments, including more than two thirds of Northland and Waikato recipients. Auckland – in Area 1 – had the lowest proportion of maximum AS recipients at 45%, as the maximum available payments were much higher (Johnson, 2016).

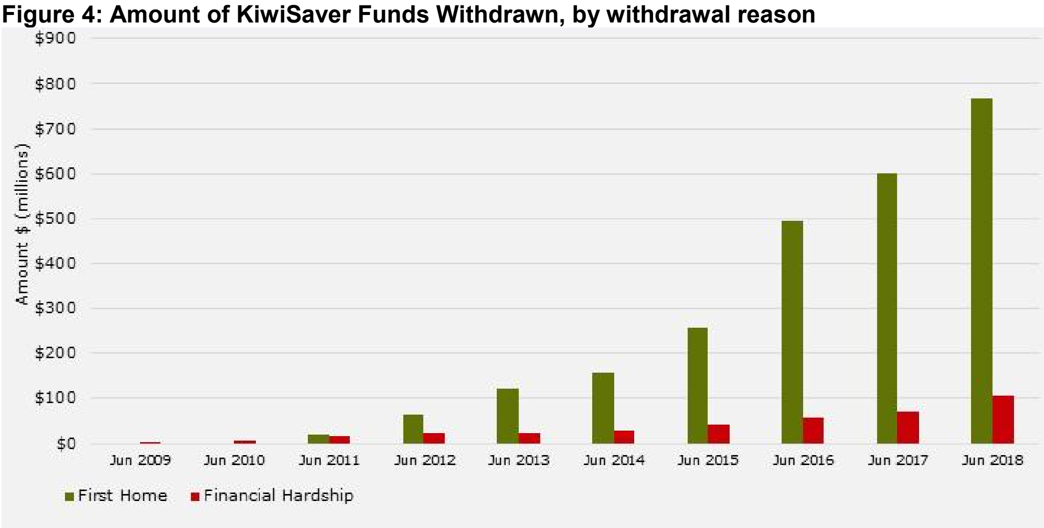
The 1 April 2018 increases – which the National-led government announced in 2017 and the Labour-led government carried out – updated the maxima based on 40th percentile 2016 rents, and categorised a number of locations in more generous Areas – for example urban West Auckland and urban Tauranga were both updated from Area 2 to Area 1. These changes mean that as at 30 September 2018, the percentage of AS recipients receiving the maximum AS rate was 24%, reduced from 53% in 2016 (Wise, 2019).

The rhetoric of the current (2017-) Labour-led government suggests it is taking the housing crisis seriously; whether its policies and budgets will be able to reverse an as yet deepening crisis remains to be seen. In 2017/18, state-managed houses increased by approximately 725 to around 64,000 (Housing New Zealand, 2018). This is the first time raw numbers have not *decreased* in seven years; however it is not enough to keep up with population growth. (61,500 of those 64,000 houses were owned by the state; another 2500 were rented by the state from private landlords.)

Investment in new affordable houses is being encouraged by the government in at least two ways: KiwiBuild and KiwiSaver HomeStart. The first, KiwiBuild, is off to a slow start but the state buys houses, under a set price, from private developers and then sells them on at no profit to buyers who meet (relatively high) income criteria. Under the second, the KiwiSaver HomeStart subsidy offers $3000–$10,000 to first-home buyers meeting certain criteria, with the higher amounts for those buying new builds.

Current KiwiSaver rules also allow first-home buyers to withdraw the current value of their contributions, their employer's contributions, returns on investment, and any member tax credits from the government, provided they leave a minimum balance of $1,000 in their account. Just over 32,000 KiwiSaver members did so in 2017-18 (Financial Markets Authority, 2018). Overtime, use of KiwiSaver for this purpose has increased dramatically with no slowdown in sight see Figure 4.

Figure 4: Amount of KiwiSaver Funds Withdrawn, by withdrawal reason



Source: (KiwiSaver, 2018)

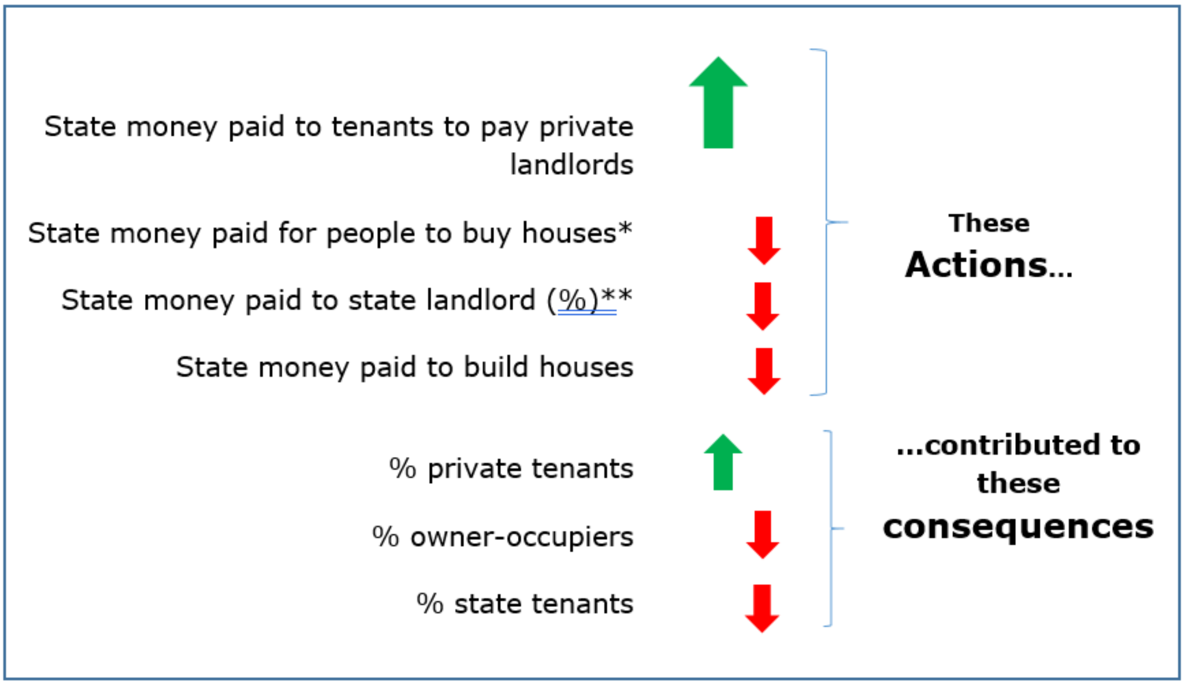
The government is also considering funding shared-equity schemes – in which the government would own a share of the home – but this has not yet been formally announced. Additionally, the government's Welcome Home loan scheme underwrites people on mid-level incomes buying a house with only 10% deposit saved (ostensibly people on low incomes may be eligible but it is unlikely any of them could save even 10% deposit).

The HomeStart subsidy costs around $100 million annually, a tiny fraction of the expected $2.4 billion to be spent on the AS and income-related rent subsidies in 2018-19. As a corollary, it is very limited in its ability to increase new house builds – its maximum of $10,000 is a drop in the bucket for an individual, given the country's median house price at the end of 2018 was $560,000 (REINZ, 2018).

Summary and Outcomes

The short history above shows how from 1936, there were differences between Labour's and National's housing policies, but those differences were a question of degree – until 1990. At that point, National retreated from offering generous mortgages, from building houses and from offering relatively low rents, in favour of subsidising the private rental market with the Accommodation Supplement and reducing the number of state houses (Figure 5 below). Since 2000, there has been some retreat from this unprecedented simplification of housing policies but, we argue, policy settings over the last two decades have continued to severely limit state involvement in housing supply, with serious consequences for many families, and disastrous consequences, such as having to stay in emergency and transitional housing, for some. Too many families, particularly in the mid-2010s, have been forced to live in garages, motel units and sometimes even cars (for example, see Anon, 2018; Sherman, 2017; Wesley-Smith, 2016). The consequential burdens of the failure of housing policy have been inequitably heavy for our most vulnerable citizens: for example, in 2013 about 19% of disabled children lived in crowded conditions, compared with 13% of non-disabled children (Statistics New Zealand, 2016).

Figure 5: Broad trends 1991 – 2017



**The AS is available to home-owners in dire straits to assist with mortgage repayments, but the state itself no longer offers mortgages on more generous terms than the market, nor family benefit capitalisation to assist with deposits.*

***The number of state-owned houses continues to shrink per capita (even more than the number of state-managed houses, some of which the government leases from private investors, as per Figure 3).*

While overall home ownership rates rose from around 50% in 1936 to around 75% in 1986, they flatlined to 1991, and have been falling ever since. They are now estimated to be below 63% (Johnson, 2018). Māori home ownership rates – which, as mentioned above, had risen for the first time between 1981 and 1991 - dropped 13.5 percentage points between 1991 and 2006, while Pasifika rates dropped 14.5 percentage points. Pākehā rates dropped nine percentage points over the same time period (Flynn et al., 2010). Whatever the intentions of successive governments, in practice, housing policy changed from encouraging people into eventual home ownership to limiting many people to one option: lifelong renting in an often unstable market. If tenancy was as secure and rents as stable as they are in a number of European states with strong tenant-protection laws, this may not be a concern. As it is, the reforms since 1991 have increased transience, instability and housing-related anxiety, even for those on reasonably high incomes.

Whereas most pre-1991 young adults could reasonably expect to not only own their own home but to be mortgage-free by retirement, by the late 2010s this was increasingly a pipe dream. In turn, this has fiscal consequences for governments trying to keep a growing, increasingly asset-poor, elderly population out of poverty.

Meanwhile, the erosion of assets (as well as income) over a generation means that the children of the early 1990s now have children of their own who are likely to experience worse housing than their parents, and are therefore collectively facing higher barriers to good health, education and general wellbeing than the generation before them.

This chapter has described the context of the introduction of the Accommodation Supplement in terms of housing policy – showing that from the beginning, the AS was not fit-for-purpose, no matter whether that purpose was defined in terms of housing security or income security. It was given the impossible task of replacing a whole raft of scrapped housing policies, from building state houses to offering state mortgages, even though it was a mere income subsidy. The consequences of its inevitable failures have been dire.

The next chapter explains the cost, recipient groups and complex formula of the AS, and demonstrates how its abatement, when combined with the abatement of other income subsidies, creates deep poverty traps.

2. How the Accommodation Supplement works

> *I live in a caravan with a three month old baby. It is unrealistic to rent and have a good quality of life when relying on welfare payments.*

Anon, 26, Auckland, quoted in (Child Poverty Action Group & Action Station, 2018)

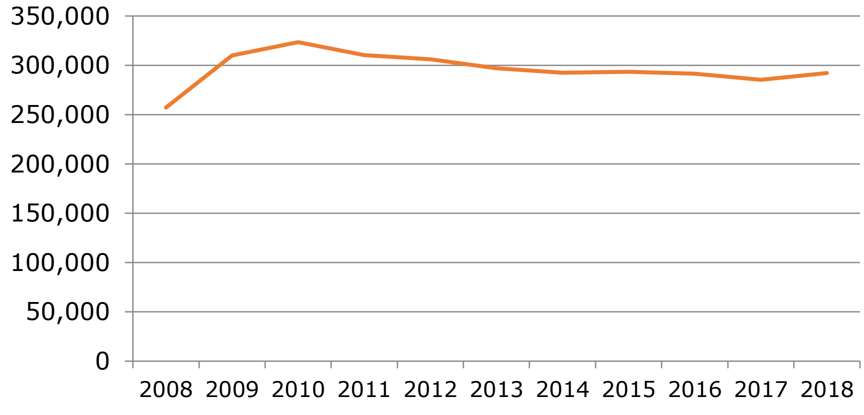
As mentioned in the introduction, in September 2016, the Ministry of Social Development (MSD) found approximately half (48.9%) of all AS recipient were in "severe housing stress" – that is, they were suffering *financial* stress: their after-housing-costs (AHC) income was extremely low (Rea & Thompson, 2017).[4] This rate of severe financial stress will have been reduced somewhat by the increases of maximum AS rates in April 2018 but those increases will not have affected all AS recipients, nor will they have been adequate as the formula remains miserly and complex, as this chapter will show. Some eligible people will be missing out on the financial support of the AS altogether – particularly those not on benefits, and those unable to secure housing – while for those who do receive AS, it is still simply not enough money to ensure that housing-related poverty is not an issue.

AS Recipients

Low-income households with low cash assets who do not receive state income-related rent subsidies are eligible for the AS, regardless of whether they are renting, owner-occupying or boarding, and regardless of whether they receive a means-tested benefit or NZ superannuation, or receive the majority of their income from employment.

The number of Accommodation Supplement recipient households peaked at 330,000 in December 2010 on the back of the 2008 global financial crisis and, since 2013, it has hovered around 280,000-300,000 (Figure 6).

Figure 6: Number of AS recipients 2008-2018 (Sept totals)



Source: (Ministry of Social Development, 2018)

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[4] Rea and Thompson (2017) use an AHC threshold of $180 per week for a single person (and the same amount in equivalised dollars for other family types) as an indicator of severe housing stress; the authors note that this is $50 less than the 50% constant value after-housing-cost poverty line measure for a single person from the Household Incomes Report 2016. Elsewhere in this report we use a different indicator for housing stress: spending 30% or more of weekly income on housing (for the lowest 40% of incomes). MSD also uses this indicator, for example in "Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2017" (Bryan Perry, 2018).

In September 2018, AS recipient households numbered 292,000.[5] This represents a small annual increase (6,500) on September 2017. We expect this increase will continue: retirees are increasing in numbers and those who do not own their houses freehold are likely to need government assistance to pay their housing costs. The percentage of AS primary recipients who are superannuitants increased from 9.3% in 2008 to 14% in 2018 (Ministry of Social Development, 2013; Wise, 2019); the number increased between September 2016 and September 2018 from 38,127 to 40,753, an increase of 6.9% over two years.

Around 28% of all AS primary recipients are Māori (Flynn et al., 2010). Unsurprisingly, as an underprivileged group, children are over-represented among those requiring AS support. In September 2016, the total number of people supported by the AS was 535,123 or 11% of New Zealand's population, including 19% or 194,430 of all children aged 16 and under (it is unclear how many 17-year-olds were also supported by the AS) (Rea & Thompson, 2017).

As shown in Table 1, in 2018, 20% of primary recipients were not in receipt of an income-tested benefit; a small majority of recipients (57%) were single people with no children; and 34% of recipients had one or more children.

Table 1: Accommodation Supplement primary recipients, 30 September 2018

Receiving income tested main benefit	193,396	66%
New Zealand Superannuation or Veterans Pension	40,753	14%
Not on main benefit	57,857	20%
Total	292,006	100%
Area 1	101,165	35%
Area 2	99,432	34%
Area 3	46,994	16%
Area 4	44,415	15%
Total	292,006	100%
Couple no children	22,443	8%
Couple and one child	9,107	3%
Couple with two or more children	15,906	5%
Single person with no children	167,874	57%
Sole parent with one child	38,095	13%
Sole parent with two or more children	38,581	13%
Total	292,006	100%

Source: (Wise, 2019)

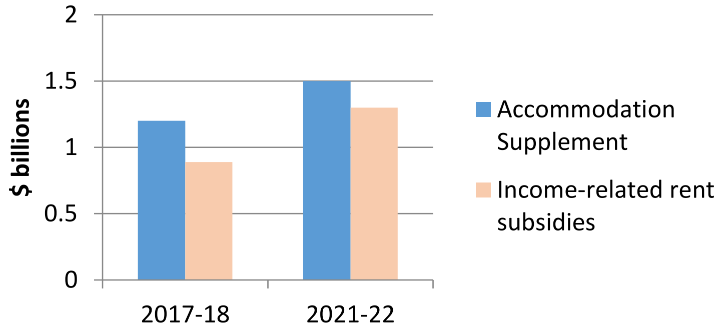
[5] As with working age benefits, the AS goes through an annual cycle of peaks (December) and troughs (March/June). In households containing two adults, only one of them is considered the 'primary' recipient, so the total number of adults within households receiving the AS is higher than the number of primary recipients.

Cost of the AS and income-related rents

Expenditure on AS rose from $1.2 billion in 2017-18 to $1.5 billion for 2018-19, after the April 2018 increases, with forecasts remaining static (that is, falling in real value) for the next few years. In comparison, as Figure 7 shows, forecast expenditure on income-related rent subsidies (IRRS) is expected to rise more sharply, from just under $890 million in 2017/18 to almost $1.3 billion by 2021-22.

In 2017-18, the AS and IRRS together cost nearly $2.1 billion, which will rise to $2.8 billion by 2021-22 on current policy settings. As a mechanism to improve low incomes this is second in size to Working for Families. The AS share of this expenditure of 57.4% will drop to around 53.5% over this time period (Johnson, 2018).

Figure 7: Expected costs for housing-related subsidies



Source: (Johnson, 2018)

AS Formula

The AS formula is complex and the amount that each family is eligible to receive depends on a number of variables including: income (if a non-beneficiary); geographical area; cash assets; ability to secure housing; ability to afford some accommodation costs; and family type and size (however, there is no extra adjustment for more than three persons, leaving couples with two or more children, and sole parents with three or more children with less AS support per person than other households).

The recipient's accommodation costs must be over a certain 'entry threshold' (set at 25%-30% of the relevant benefit rate, whether or not the recipient is a beneficiary)[6] before they can receive any AS subsidy; the subsidy then covers 70% of any costs over that threshold until a maximum subsidy ceiling is reached (the maximum ceiling depends on the geographical location of the housing); see Figure 9 for visual representation of this formula. If the recipient is a non-beneficiary, the AS is abated at 25% over a certain income. All accommodation costs over the max AS ceiling have to be met by the recipient out of non-AS income.

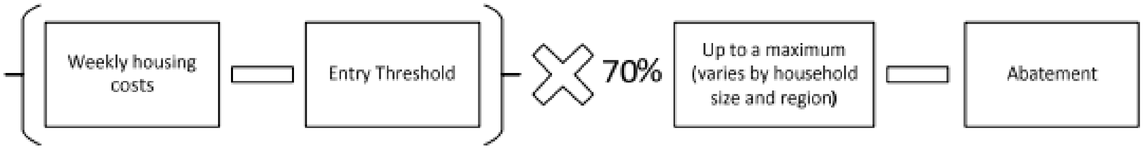
Thus out of their non-AS income, AS recipients are expected to pay the following towards their housing costs: (i) the 'entry threshold' amount, (ii) 30% of rent, home-ownership costs

[6] This includes 25%-30% of the first-child rate of the Family Tax Credit (FTC) for families with children. For renters, the proportion is 25%; for home owners it is 30%. For current rates, see Appendix 1.

or the rent component of board up to their regional maximum, and (iii) 100% of any housing costs over that.

For clarification of this complex formula, below are two different representations of the formula, and examples:

Figure 8: The Accommodation Supplement Formula
A recipient's AS weekly entitlement is equal to:

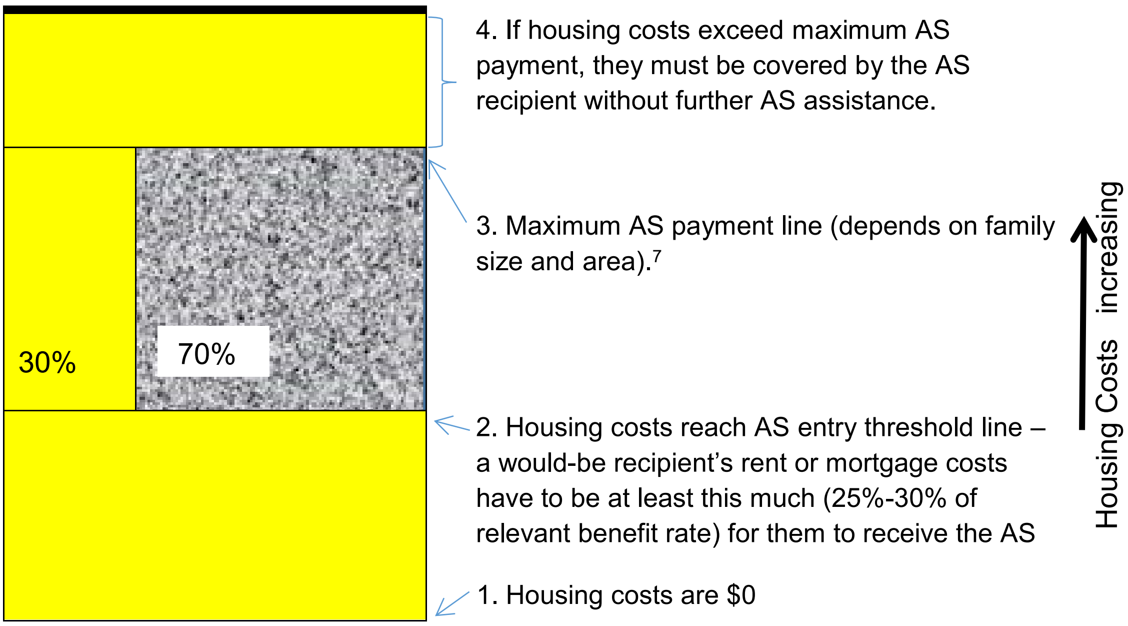


Source: (Treasury, 2017, Appendix 2, par 28)

Figure 9 and the examples below assumes the recipient's AS amount is not abated to account for cash assets or non-beneficiary additional income (explained below). The share of the housing costs covered by the AS entitlement is shown by the mottled square.

This illustration is easiest read bottom-to-top, as the column represents housing costs; the higher the cost, the higher the column.

Figure 9: Housing costs: recipient vs AS coverage



… Housing costs paid by AS recipient out of non-AS income
Housing costs covered by AS (assuming no cash-asset or income abatement)

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[7] Current maximum rates from April 2018 are:

	Area 1	Area 2		Area 3	Area 4
1 person household	$165	$105		$80	$70
2 people	$235	$155		$105	$80
3 or more people	$305	$220		$160	$120

For a table of 2018 benefit rates, Family Tax Credits, AS entry thresholds and AS maximum rates, see Appendix 1.

Here are three examples of the AS formula:

1. Justine's rent costs her $350 a week, and she is on a benefit (so there is no AS abatement). She is a sole parent with one child under 14, so her AS entry threshold is $112 (ie, she must cover the first $112 rent herself). Seventy percent of the rest of the rent is $166.60. If she lives in Area 1, this amount is her AS subsidy, as $166.60 a week is under the maximum Area 1 AS rate for a two-person household of $235. She will have to pay the rest of her rent ($183.40) out of other income.

0.7 X	($350 - $112)	= $166.60 AS entitlement (under the Area 1 max)
Seventy percent of	(accommodation costs minus the threshold)	Up until the maximum ceiling AS rate

As outlined in Table 2 below, sole parent support is $334.05 a week so if Justine is receiving the Family Tax Credit but not any additional discretionary support, her weekly income including the AS will be net $613.65. Justine's housing costs ($350) are 57% of this weekly income, well above the 30% threshold for housing stress. Her after-housing-costs (AHC) income of $263.65 is 32.7% of the equivalised median AHC income (St John & So, 2018) [8]; in order to be lifted to the 60% AHC poverty line, her AHC income would have to almost double (for an explanation of the 60% poverty line using AHC equivalised median income, see appendix 2).

Table 2: Justine Example 1 – Area 1, sole parent, 1 child; beneficiary; rent $350

Weekly net income without AS (Sole Parent Support $334.05 plus Family Tax Credit $113)	$447.05
Weekly rent	$350
AS ([$350-$112] x 70%)	$166.60
Before-housing-costs weekly total income ($447.05 + $166.60)	$613.65
Percentage of total income spent on rent ($350 as % of $613.65)	57%
After-housing-costs (AHC) income ($613.65 minus $350)	$263.65
Percentage of median AHC income adjusted for family size (60% = poverty line)	32.7%

[8] Calculated for a sole parent with 1 child at $41,962 (St John & So, 2018). See Appendix 2 for all equivalised medians.

2. If Justine decides to try and save on housing costs, it won't be easy: lower-quartile rent for a two-bedroom flat in Auckland's Mt Roskill/Wesley area (traditionally a relatively low-income area) was $435 for Aug 2018 – Jan 2019, and she's already only paying $350 ((Tenancy Services, 2019). But let's say she decides the only way she can afford to rent is to share a room with her child – now meeting the definition of overcrowding[9] – in a shared flat, in order to reduce her rent to $225. Her Area 1 AS entitlement reduces from $166 to $79.10, so she's left with $301.15 in the hand. While her rent has decreased by 36%, her AHC income has only increased by 14%. She and her child are still well below the poverty line, at 37% of median equivalised AHC income.

Table 3: Example 4 - Area 1, Sole Parent, 1 child; beneficiary; rent $225

Weekly net income without AS (Sole Parent Support $334.05 plus Family Tax Credit $113)	$447.05
Weekly rent	$225
AS ([$225-$112] x 70%)	$79.10
Weekly total income including AS	$526.10
Percentage of total income spent on rent	42.8%
After-housing-costs (AHC) income	$301.15
Percentage of equivalised median AHC income (60% = poverty line)	37%

3. If Justine and her child live in Area 2, the maximum AS she is permitted for $350 rent (as in example 1) is $155 a week rather than $166.60, so her total weekly income will be less ($602.05 rather than 613.65), and she will only have $252.05 residual income left after housing costs (31.2% of the median equivalised AHC median, even further below the poverty line).

These examples illustrate just how inadequate benefit incomes are, even when subsidised by the AS. They also show that it is difficult for those receiving benefits to improve their financial situation by saving on housing costs – because the AS part of their total income depends to some extent on those very same housing costs.

AS entry thresholds

The entry threshold is accommodation cost that would-be AS recipients must cover before any AS assistance is provided is set in most cases at 25% of the corresponding benefit rate for renters and boarders, and 30% for home owners. (For example, a renting sole parent – whether they are receive a benefit or not – must cover accommodation costs equivalent to

[9] This is using the widely-cited Canadian National Occupancy Standard which is: no more than two people per bedroom; children aged five and over of different genders should not share a bedroom; household members 18 years of age or over should have a separate bedroom, as should parents or couples. There are some situations for which this standard is not culturally appropriate (AHURI, 2017).

25% of the Sole Parent Support benefit plus 25% of the Family Tax Credit amount for the first child, before qualifying for the AS. If they own their own home – whether they receive a benefit or not – they must cover accommodation costs equivalent to 30% of the Sole Parent Support benefit plus 30% of the Family Tax Credit amount for the first child, before qualifying for the AS). People are expected to be able to pay for all accommodation costs below the entry threshold without help from the AS.[10]

The entry threshold does not take expenses into account, only income. So, for example, currently a couple on JobSeeker Support (JSS) with children has to pay the first $124 of any rent cost before receiving any AS whereas a couple on the Supported Living Payment (SLP) with children has to pay the first $147 of any rent cost. That is, currently a household supported by JobSeeker payments gets more AS for the same level of rent as the same household type on the Supported Living payment. This is because the core SLP rate is higher than the core JSS rate, and AS thresholds are based on benefit rate. Given that those on SLP are entitled to a higher benefit due to their higher (non-housing) costs, the current AS formula for this situation is regressive: someone with higher needs receives a *lower* AS.

Another consequence of the entry thresholds being tied to benefit levels is that every time benefits increase, the AS entry threshold increases. For people who receive a benefit, 25%-30% of any benefit increase (depending on whether they are renting or paying a mortgage) returns automatically to the state as AS savings. For example, when benefits for those with children increased by $25 in 2016, at least $6.25 was immediately clawed back by the government from those families receiving the Accommodation Supplement or an income-related rent.

AS recipients who do not receive a benefit, on the other hand, *lose* income every time benefits are raised, because the AS entry threshold rises so AS income decreases but, as they do not receive a benefit, they do not receive the rise in benefit rates.

When the first-child Family Tax Credit (FTC) increases, as it did in 2018, the AS threshold for families with children increases by 25%-30% of that increase also. This rise affects all AS recipients with children in the same way, whether or not they receive a benefit: 25%-30% of their FTC rise is clawed back by the rise in AS threshold.

Portion of rent covered by the AS

The AS rate is 70% of costs above the entry threshold up to a maximum AS rate. The reason for only paying a percentage of costs, and for a maximum subsidy, has origins in the 1991 reforms to encourage families “to find only as much accommodation as they need” (Luxton, 1991).

Maximum AS rates

The maximum AS payment a family can receive depends not only on their rent but also on their family size (up to three people) and which of four AS Areas they live in, grouped not by

[10] The percentage of boarding costs considered to be accommodation-related is 62%. So a boarder paying $200 board would be considered to be paying $124 in rent a week, and the AS formula would apply to that $124.

geography but by nominal housing expense; for example, since April 2018, Area 2 includes Cambridge and Christchurch.[11]

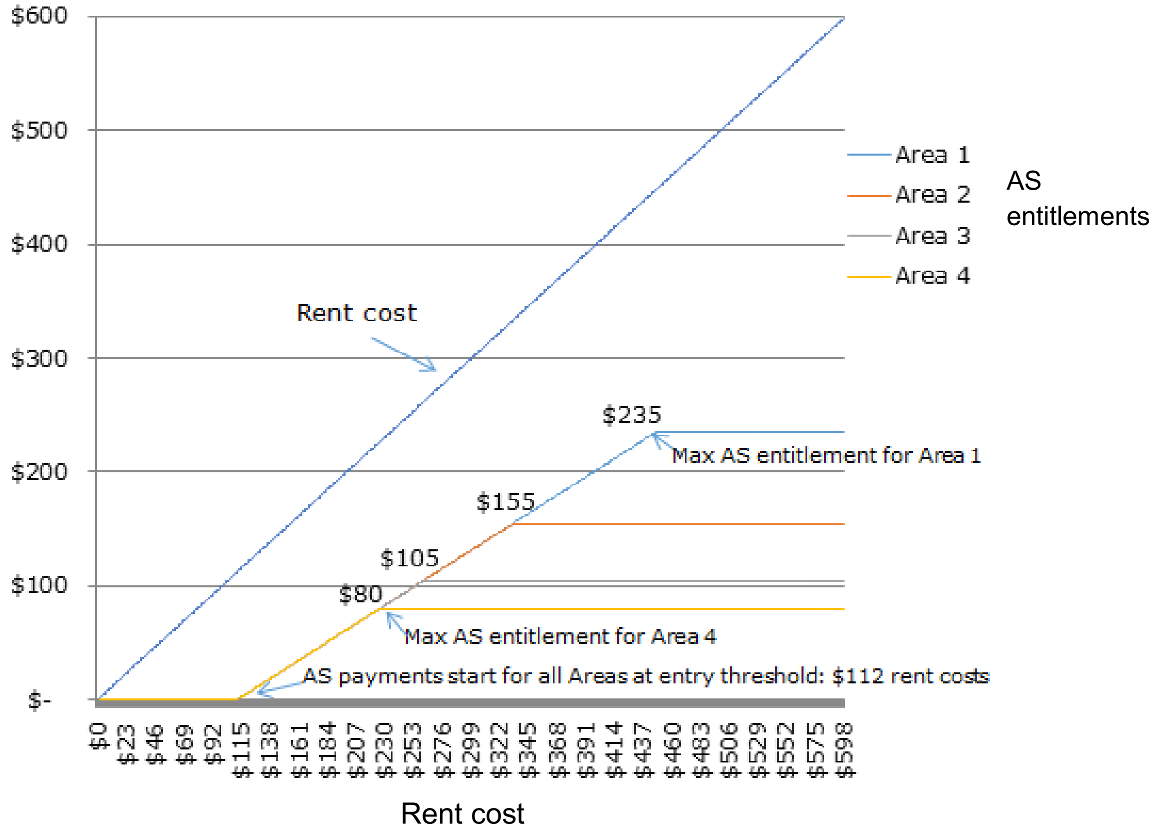
There is no extra adjustment for more than three persons, leaving couples with two or more children, and sole parents with three or more children with less AS support per person than other households. In addition, the maximum rate does not take family *type* into account. Yet family type as well as family size affects the number of bedrooms a family is likely to need (and therefore a family's likely housing costs): a sole parent with a child requires a two-bedroom dwelling to avoid overcrowding according to the Canadian National Occupancy Standard (as explained previously), whereas a couple may only need one bedroom.

Regional variation of maximum AS rates

Figure 10 below shows the amount received in 2018 by sole-parent, one-child families in the four different AS areas and for different levels of rent costs. The maximum AS entitlement for this family type in Area 1 is $235, and to receive this the family has to be paying $447 or more in rent a week; a similar family in Area 2 gets a maximum of $155 for rent of $333 or more; in Area 3 it's $105 for rent of $262 or more; in Area 4 it's $80 for rent of $226 or more.

As Figure 10 shows, the gap between the rent paid and AS entitlements grows rapidly once the AS maximum (horizontal lines) is reached.

Figure 10: AS entitlements for Sole Parent Support recipients, with 1 child, paying rent in all AS areas, post April 2018



[11] For a full list of locations in Areas 1-4, see https://www.msd.govt.nz/about-msd-and-our-work/newsroom/2017/budget-2017.html

AS Abatement: income tests

Since 2004, the AS has not abated for people receiving benefits, even if they are working to supplement the benefit. However, for those not receiving a benefit, the AS abates by 25 cents for every dollar earned (gross) over the amount that would prevent payment of any JobSeeker Support. In 2018/19 for a sole parent with one or more children, the abatement threshold is $558 per week; for couples with one or more children, it is $630 per week.

The Accommodation Supplement is a major contributor to high effective marginal tax rates (EMTRs) for a number of families. For an explanation of EMTRs and abatement, and more detail, see "Abatement rates and interaction with other income assistance schemes" section below.

Cash assets: Cash assets also affect the receipt of AS. Currently, a single person without dependent children has no AS entitlement if their cash assets exceed $8,100; for couples and sole parents the cut-off is $16,200, regardless of circumstances, or whether they are receiving a benefit or not. This maximum has remained the same since November 1988 (when it was used for the pre-AS Accommodation Benefit), and therefore has become a much more stringent test over time (McKenzie, 2017). According to the Reserve Bank online inflation calculator, $16,200 in Q4 1988 adjusted by the CPI, was equivalent to $31,300 in Q4 2018; adjusted for housing it would have been $95,470 in Q4 2018 (Reserve Bank of New Zealand, 2019).

For people who receive a benefit, the tests above are the only cash assets test: if they have $8,099 in cash assets they are eligible for all the same AS entitlements they would be entitled to if they had $0 in cash assets. However, for people who do not receive a benefit the AS abates at 25 cents for every $100 of cash assets over $2,700 for a single person without dependent children, and twice that ($5,400) for couples and sole parents.

These cash asset tests mean that it is impossible to save much for contingencies, let alone a house, while receiving an Accommodation Supplement. Any saved amount over $8,100/ $16,200 (whether for a house deposit or any other reason), has to be used up before any AS is paid.

The class of 'cash assets' is broad-ranging, and the capture of a number of assets seems counter-productive to the stated aim of citizen self-reliance. The most glaring anomaly is that KiwiSaver funds and other retirement schemes accounts can be considered cash assets "if the person is able to withdraw them due to being aged over 65". However, many retirees will need to continue to invest their KiwiSaver funds for an uncertain future, although interest earned could be considered income, and abated accordingly. On the other hand, someone's "home property and the land on which it is situated" is not considered to be an asset (Work and Income, 2018). This means that different types of assets – a house and a KiwiSaver fund – are treated anomalously under the AS cash asset test. In fact, retiree homeowners who have a mortgage can receive the AS to increase their wealth (by assisting with mortgage repayments), whereas those who have saved for retirement in stocks rather than bricks have to deplete their wealth before becoming eligible for the AS.

In addition, the cash asset test is used for weekly entitlement, and as cash assets may vary considerably over the course of the year, the test can be confusing and time consuming to comply with, leading to under- and over-payments.

This section has outlined the complexity of the AS formula – examining each of its multiple factors in turn. The next two sections point to its unfortunate results: inadequate incomes, punitive interactions with other assistance and high effective marginal tax rates.

Effects on benefit incomes

Spending 30% of income on housing is commonly used as an indicator of housing affordability stress for low-income households (for example, see Bryan Perry, 2018). With this in mind, the example graphs below illustrate why AS support is better than nothing – but still inadequate. Given the AS is not accessible until a family is spending an 'entry threshold' amount on rent that is based on 25% of core benefit plus 25% of eldest child Family Tax Credit, the AS cannot stop many of our most disadvantaged families from experiencing housing affordability stress. It does, however, reduce the depth of that stress for some.

Figure 11 below shows that a rent of $223 for an example one-child family on Sole Parent Support represents 50% of their income if they do not receive the AS, but reduces to only 42% of their income if they do receive the AS. A rent of $284 represents 64% of their income without the AS, but reduces to only 50% with it. The weekly rent level would have to be as low as $140 for AS recipients or $134 for non-AS recipients to meet the housing affordability stress test of 30% of their income on rent.

Figure 11: Percentage of Before Housing Costs net income spent on rent by one-child families on Sole Parent Support, Area 1

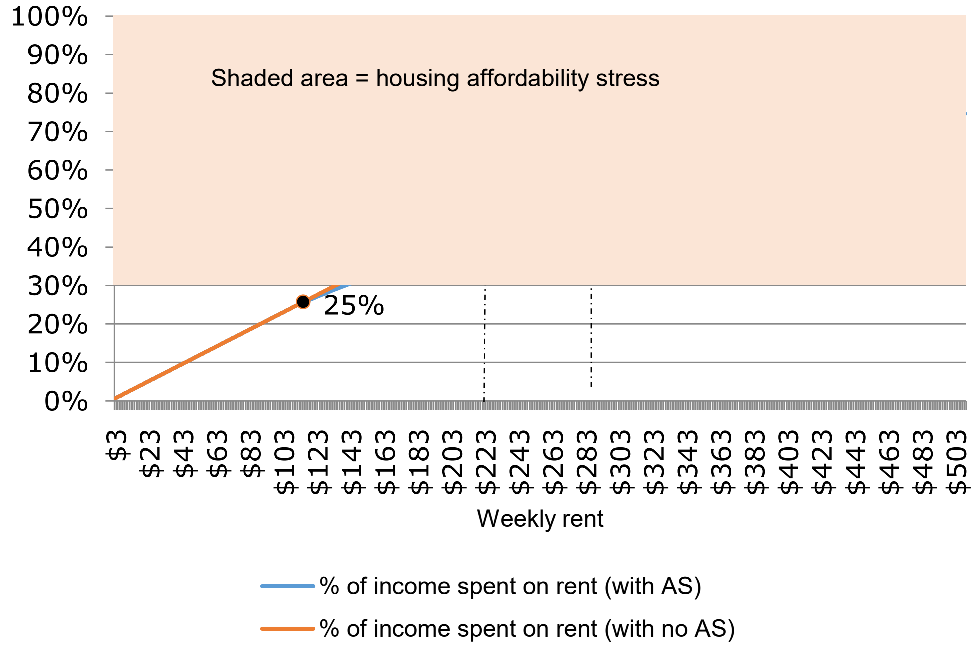
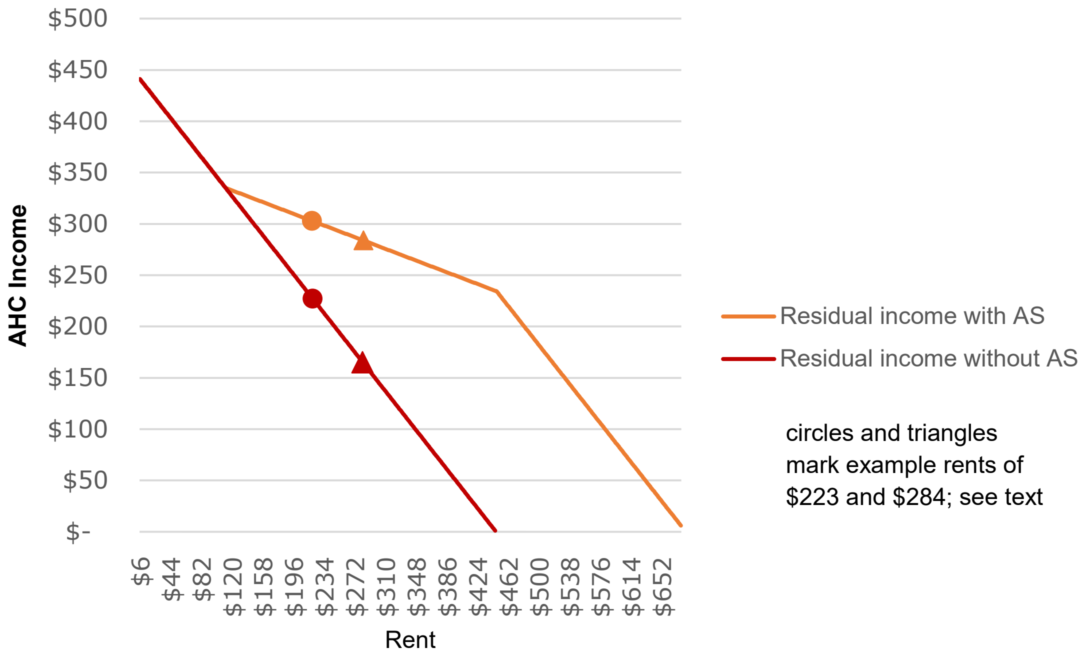


Figure 12 below shows what these income percentages mean in dollar terms. If our example family pays a rent of $223 and receives the AS, they have $302 After-Housing-Costs (AHC) income left in the hand, whereas without the AS, they would only have $224 AHC income left in the hand (Figure 12 round markers). The AS lifts them from 28% to 37.4% of the equivalised AHC income median. Of course, a rent of $223 for two bedrooms is very low for Area 1. If they are paying an arguably more realistic rent of $284, they have $284 left in the hand with the AS, but only $163 AHC income left in the hand without the AS (triangle markers).

Figure 12: Weekly residual (AHC) income for a one-child family receiving Sole Parent Support and Family Tax Credit entitlements, Area 1, with AS vs without AS



Abatement rates and interaction with other income assistance schemes

Abatement explanation: When a benefit or tax credit is reduced because there is other income (such as from employment), it is said to be 'abated'. This 'targets' the benefit or tax credit to low-income people. The income level from which the abatement starts is called the 'abatement threshold'. For example, the AS abatement threshold for a couple with children is $630 gross work income a week. If they earn over that threshold, their AS entitlement is abated at a rate of 25% – meaning for every gross dollar of income earned over $630, they lose 25 cents of their AS, on top of income tax, ACC and whatever other imposts on the dollar there may be such as student loans, child support, and KiwiSaver contributions. If the abatement threshold is a high-income level, and/or the rate of abatement is low, targeting is less severe. Conversely if the rate of abatement is high, particularly when the abatement threshold is low (i.e. reduction starts at a low income), targeting is described as 'tight'.

'Poverty traps' are created when abatement is tight and it becomes difficult, if not impossible, for someone to improve their disposable income by earning more money. For example, a parent on a low income and AS who earns an extra dollar will lose 25 cents of AS as well as another 25 cents Working for Families (WFF) tax credits. The extra dollar is also taxed at 17.5% so that the effective marginal tax rate (EMTR) on that dollar is (25+25+17.5) or 67.5% – far higher than New Zealand's top tax rate of 33%. The parent only receives 32.5 cents in the hand for the gross additional dollar earned. At worst, abatement can be over 100%, meaning for every dollar earned through work, a person loses more than a dollar in income through abatement of benefits and tax credits.

EMTR History: In New Zealand, as shown below, EMTRs for low-income families are high. This problem originated in the neo-liberal tax and welfare reforms of the late 1980s and the user-pays increases and benefit cuts of the 1990s. Ever more social provision (such as student allowances, family tax credits, childcare subsidies and accommodation subsidies) became targeted, and the cumulative effect of overlapping abatements produced high EMTRs over very long income ranges.

The Rogernomics reformists had recognised this would be a problem and the 1991 Budget promised a rationalisation of EMTRs by using a technocratic solution: smart cards to aggregate family entitlements so they could be bled out (abated) at one uniform rate. When this proved impossible, the government quietly swept the EMTR problem under the carpet where it has festered and been made worse by successive governments ever since (St John, 1991, 1993; St John & Johnson, 2018).

AS, Working for Families and effective marginal tax rates

The Accommodation Supplement has been a major contributor to high effective marginal tax rates for a number of families. For families with children who do not receive a benefit, effective marginal tax rates (EMTRs) would already be high without AS due to WFF, but AS can push them to over 83%. This is fifty percentage points higher than New Zealand's current highest tax rate of 33%. Many families also face income-contingent Student Loan repayments, Best Start abatement[12], Childcare Subsidy losses and child support payments.

Figure 13 below shows the financial interaction between various supplementary benefits and work income, for a working sole parent with one dependent child who is receiving the maximum AS in Area 1. Our example parent has no Student Loan, Best Start or Childcare Subsidies, and does not receive or pay child support – in other words, these are the *lowest* effective marginal tax rates that might be expected for this family.

Figure 13 and Table 4 below show the long income ranges over which it is hardly worth the low-mid income sole parent on maximum Area 1 AS earning any extra income.

The graph shows that if such a family earns $830 per week in gross work income (or $43,160 a year), they receive $1041 in the hand a week (diamond point on graph), after paying tax and the ACC levy, and receiving the Family Tax Credit, In-Work Tax Credit and AS. But a sole parent earning $1500 gross work income a week (or $78,000 a year) will receive $1173 a week (asterisk on graph), only $132 more than the family earning $830 gross a week. That is a difference of more than 80% in gross work income, but only 12.7% of net income between these two families.

For everybody earning above $42,700 – and particularly those families earning over $48,000 for whom the EMTR is over 80% – there is little financial incentive to increase work hours for those who are under-employed, unless they are close to the income at which the abatement for Working for Families is finished.

The X axis starts at $600, just over 36 hours on the 2018 minimum wage ($16.50), and nearly 34 hours on the April 2019 minimum wage ($17.70).

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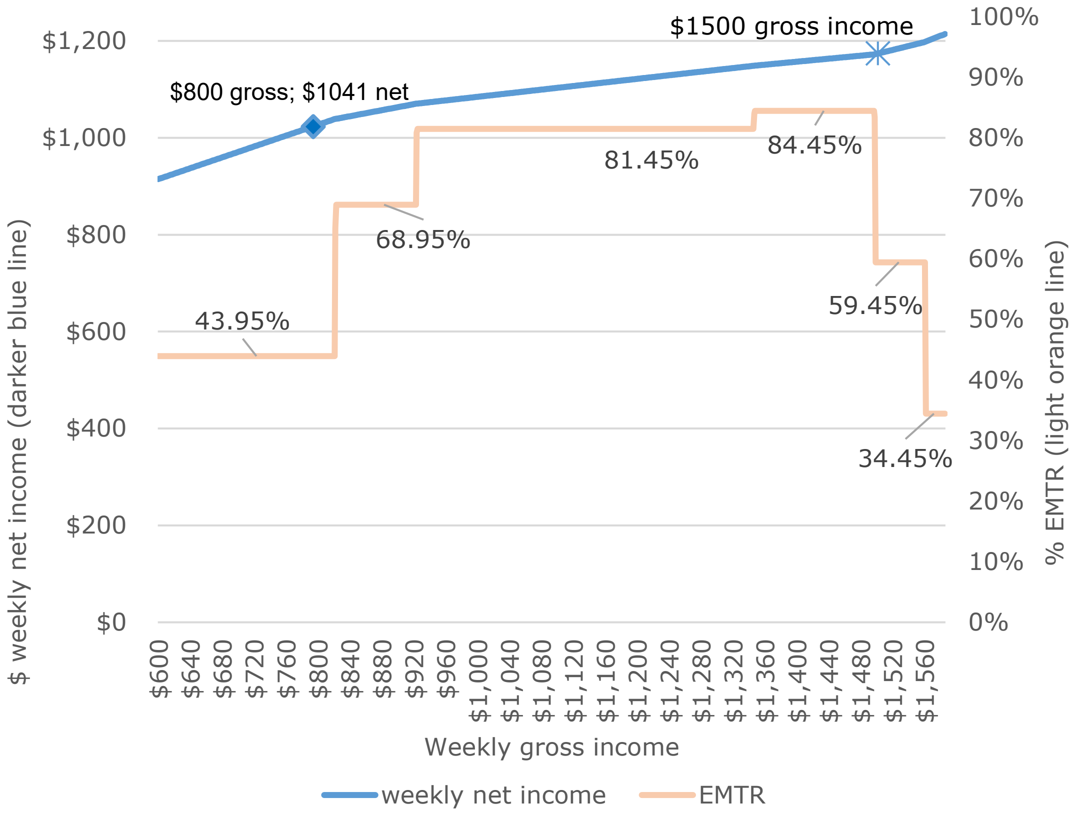
[12] Best Start is available for the first 3 years of a child's life for children born after 1 July 2018; for years 2 and 3, the abatement rate is 21% for families earning over $79,000.

Figure 13: EMTR and net BHC income for working sole parent, one child, receiving max Area 1 AS. EMTR includes income tax, ACC, AS, WFF, but not student loan, KiwiSaver or Child Support. See Table 4 for components of each EMTR rate.



The EMTRs shown in Figure 13 above are also shown below in Table 4, alongside some of the further costs related to earning more income. Parents earning $70,000 to $78,000 a year and who have a student loan – reasonably likely in this tax bracket – have an EMTR of nearly 100% (highlighted below).

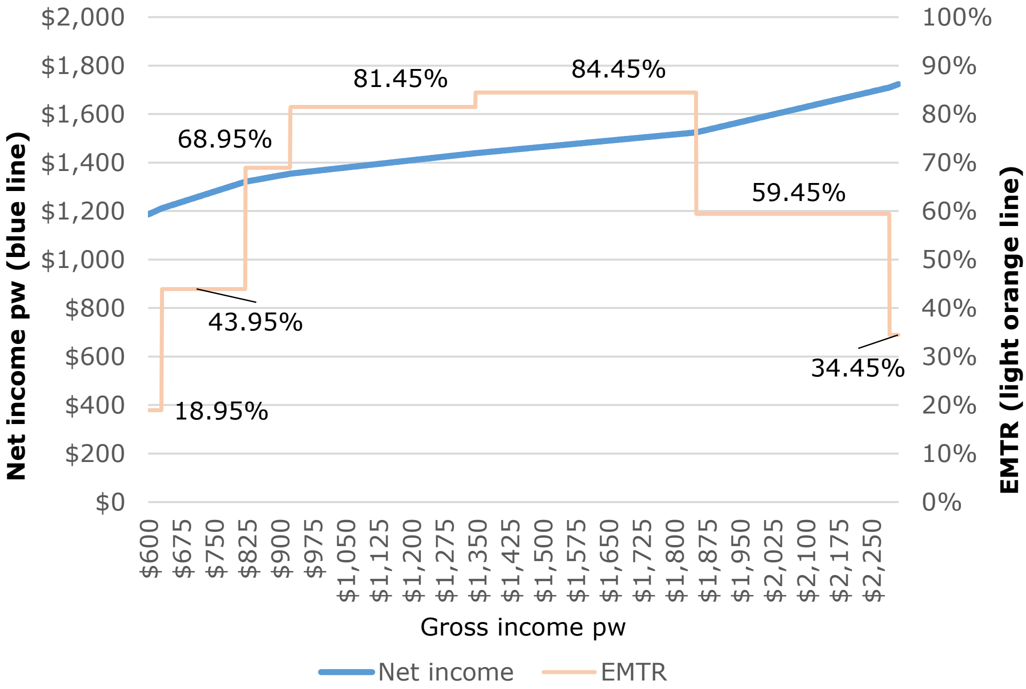
Table 4: EMTR working sole parent, one child, receiving max Area 1 AS (Figure 13 shows the rate in bold: tax + WFF + AS + ACC)

Gross Annual Income	Tax	+WFF 25%	+AS 25%	+ ACC 1.45%	+ student loan 12%	+ KiwiSaver of 3%
From $29,016 to $42,700	17.5%	N/A	42.5%	**43.95%**	55.95%	58.95%
$42,701 to $48,000	17.5%	42.5%	67.5%	**68.95%**	80.95%	83.95%
$48,001 to $70,000	30%	55%	80%	**81.45%**	93.45%	96.45%
$70,001 to $77,896	33%	58%	83%	**84.45%**	96.45%	99.45%
$77,897 to $81,172	33%	58%	N/A	**59.45%**	71.45%	74.45%
From $81,173 (full abatement)	33%	N/A	N/A	**34.45%**	46.45%	49.45%

The high EMTRs across the board will discourage working sole-parent families to contribute to KiwiSaver, which denies them access to the employer 3% subsidy and restricts their long-term wealth relative to others.

The example below in Figure 14 shows the same information as Figure 13 but for a couple with three children on one income – as often happens when children are young – receiving maximum AS in Area 1. As with the sole parent example above, the 80% EMTR kicks in at $48,000pa gross (at that point this five-person family is receiving just over $70,000pa net). In fact, all the EMTRs are the same as for the sole-parent family in Table 5 above, except that the 42.5% (tax+AS) EMTR bracket starts at $32,760 gross ($630 gross a week) and the 58% (tax+ WFF) EMTR bracket starting at $77,897 gross income stretches to $96,252 gross, at which point all WFF subsidies are fully abated.

Figure 14: EMTR and net income for a couple, 3 children, one income, Area 1 Max AS (single earner)*. EMTR incl: income tax, ACC, AS, WFF, but not student loan, KiwiSaver or Child Support



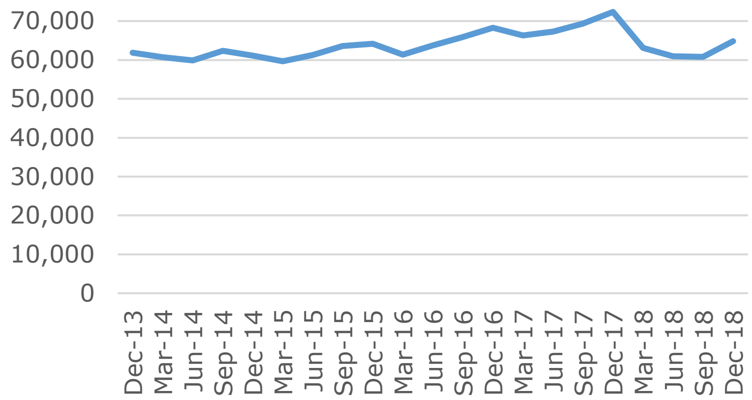
**Abatement thresholds for AS and WFF are based on combined family income, not individual income. If the household has two income earners, the EMTR will be lower for the overall household income than if the household had only one worker earning that same income, as one or both of the contributing workers will be on a lower income tax rate. For example, two workers earning $30,000 each will be on a marginal income-tax rate of 17.5% one worker earning $60,000 is on a marginal income-tax rate of 30%.*

Temporary Additional Support

Unsurprisingly, given the inadequacy of the AS, many AS recipients need additional support. Temporary Additional Support (TAS) is a non-taxable second-tier supplementary benefit that can be paid for 13 weeks (and potentially for longer, on re-application) to help with essential living costs that cannot be met from existing income. Accommodation costs are a “major element” of such living costs and in “virtually all cases” in 2016, TAS recipients also received the Accommodation Supplement (Rea & Thompson, 2017). Treasury sees TAS as part of the “housing subsidy structure" (Wong & Morrissey, 2016). As the real value of AS decreased over time, the number of TAS recipients increased, making up *some* of the shortfall in AS recipients’ budgets. Since TAS is discretionary, piecemeal and supposedly temporary, we argue that it is not appropriate for the government to expect TAS to automatically assist households in a systematic manner.

The TAS abates at 100% of *net* income, meaning if 'disposable income' increases by a dollar, the TAS decreases by a dollar (unless the recipient is still in such need they're still at the maximum TAS ceiling). If the Accommodation Supplement rises by a dollar, TAS reduces by a dollar, meaning that many people received little or no relief from the 2018 AS maximum rises – even if their AS entitlements increased.

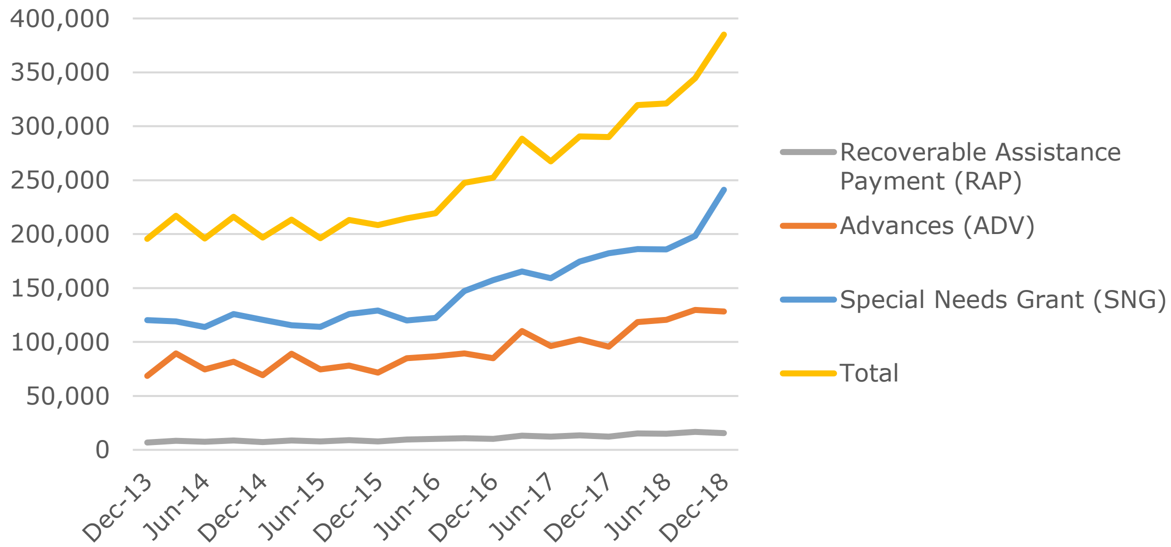
Figure 15: Number of TAS recipients 2013-2018



Source: (Ministry of Social Development, 2018)

With the increase in AS maximum rates in April 2018, TAS recipient numbers fell 11,539 from a December 2017 peak of 72,355 to 60,816 in September 2018 – back to rates similar to those of 2013-early 2015 (Figure 15). However, there was another upswing in December 2018 to nearly 64,800, which coincided with a dramatic increase in hardship grants (Figure 16). In the December 2018 quarter, the government spent $108.9 million on hardship grants for necessities such as food and housing, an increase of 40% over the previous December quarter (Ministry of Social Development, 2018). About half of this total is on non-recoverable grants. Repayment of recoverable loans intensifies the pressure beneficiaries face.

Figure 16: Quarterly hardship assistance grants, Dec 2013-Dec 2018



Source: (Ministry of Social Development, 2018)

This increasing provision of hardship and discretionary supplementary assistance probably points to a more realistic use of discretion from Work and Income under the Labour

Government since 2017; however, longer term it also suggests a growing inadequacy in the original income support policy settings.

This section discussed general effects on outcomes; the next section looks in more detail at the effects of the AS on the incomes of specific example recipient households and finds evidence for widespread income inadequacy that the AS only very partially mitigates.

Incomes of current example Accommodation Supplement households

> *I work around 30 hours a week and receive accommodation support. After bills, I have $130 per week for petrol and food and anything that comes up. I don't ever go out.*
>
> Terri, 58, Auckland

To assess income adequacy for households receiving the AS, this section examines two indicators (the share of income spent on housing, and AHC income) for a range of example households (Table 5), based on the representative households used in a previous assessment of New Zealand's housing policies (Johnson, 2013).

Table 5: Example households, all paying lower-quartile rent (each of these 10 households is to be shown in Area 1 & Area 4, to make 20 examples in total)

	Receiving benefit	Not receiving a benefit and working for 2018 min wage ($16.50)
Sole parent (SP) with 3 dependent children, aged over 3, in a 3-bedrm house	1. On Sole Parent Support (SPS)	2. Working 40 hours a week
Sole parent (SP) with 1 dependent child, aged over 3, in a 2-bedroom house	3. On Sole Parent Support (SPS)	4. Working 40 hours a week
Couple with 2 dependent children, aged over 3, in a 2-bedroom house	5. On JobSeeker Support (JSS)	6. Working a total of 60 hours a week (one parent at 40 hours; one parent at 20 hours)*
Single with no dependents	7. Sharing a 3-bedroom house on JSS 8. In a one-bedroom flat on a Supported Living payment (SLP) 9. In a 1-bdrm flat on NZ Superannuation (NZS)	10. Sharing a 3-bedroom house and working 30 hours a week*

**For asterisked examples, only the Area 1 example is entitled to AS; the Area 4 example does not have high enough housing costs to qualify. They are included for comparison.*

We show each example in AS Area 1 as well as AS Area 4 (the areas with the highest and lowest maximum AS rates respectively) to offer 20 examples in total, 12 households receiving benefits and eight households which do not receive a benefit. Each of the 20 example households pays rent indicative of the lowest quartile of available rents in their AS Area, based on data from Tenancy Services (2019). As we are interested in the adequacy of the AS and other core entitlements, none of our examples are accessing additional piecemeal insecure support such as TAS and/or hardship grants. They access their full entitlements: benefit (where applicable); AS; and Working for Families (comprised of Family Tax Credit and, for families not receiving a benefit, the In-Work Tax Credit). For more detail about the calculations for each of the examples see Appendix 3.

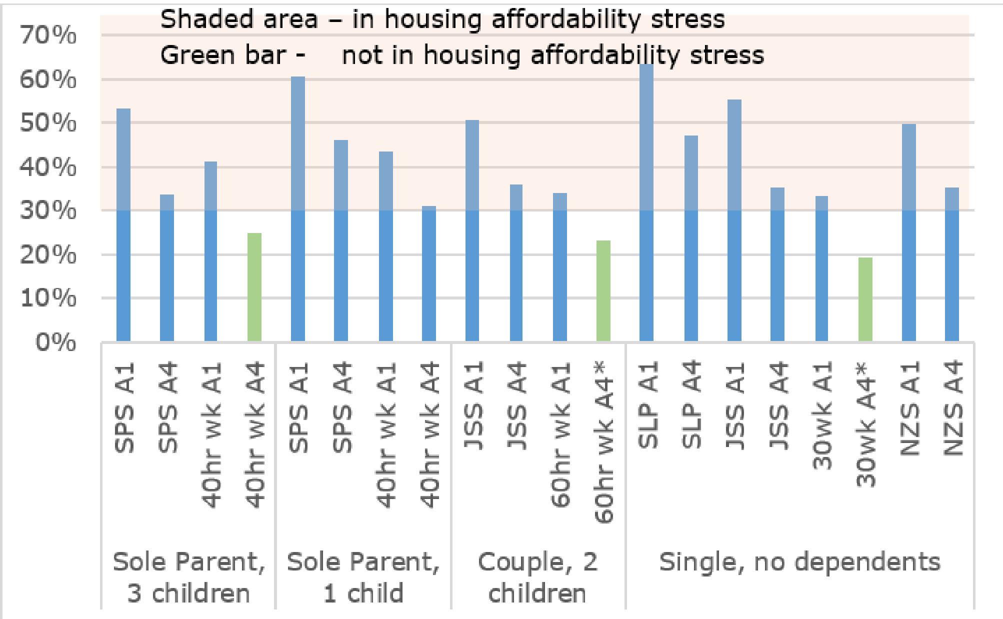
For each example, we calculated two measures of income adequacy:

1. Housing costs as a proportion of before housing costs net income, with the understanding that spending 30% or more net income on housing can be considered ‘housing affordability stress’ for the lowest-income 40% of households.
2. AHC income as a proportion of the median AHC equivalised income, with the understanding that an income more than 60% of the equivalised median is an aspirational goal representing an income sufficient to prevent poverty and allow social inclusion (see appendix 2 for an explanation of the 60% poverty line).

Example households: Housing stress

Figure 17 below shows that all but three of our example households would be in housing affordability stress – that is, all but three are spending 30% or more of their net income on housing. Even five of the non-beneficiary minimum-wage-earning example households are in housing stress, including all examples in Area 1.

Figure 17: percentage of BHC household income spent on housing for 20 example households (paying lower quartile rent)

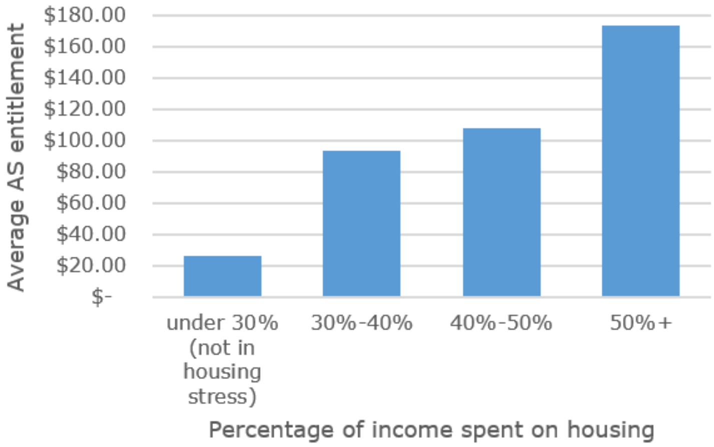


**Asterisked examples are not receiving the AS.*

Those three examples not in housing affordability stress are all working in Area 4 (the area with the lowest rent) and two of them do not qualify for the AS: the single person working 30 hours a week (who does not qualify for AS); the couple with two children working 60 hours a week between them (who also do not receive the AS); and the sole parent with three children working 40 hours a week (who, incidentally, sounds like they are likely to have an extremely busy life). In contrast, the sole parent with one child working 40 hours a week on minimum wage in Area 4 is in housing affordability stress (and still will be – just – on the 2019 minimum wage of $17.70).

Although it does not pertain in all cases, there is a reasonable correlation between AS entitlement and depth of housing affordability stress (Figure 18). In other words, in general, the higher the AS entitlement, the higher the proportion of total net BHC income that a household is spending on housing.

Figure 18: Example households (paying lower quartile rent): average AS entitlement by percentage of total net household income (incl AS) spent on housing



This initially may seem counter-intuitive – a casual observer might expect that the more the state contributes to rent, the more likely it is that a household is spending a relatively low amount on that rent compared to other household bills. However, this correlation is actually built into the AS formula as the AS is partially based on actual accommodation costs. The more AS a household is entitled to, the more they also have to pay towards their rent out of other income. If you live in Area 1, you are more likely to live in housing affordability stress, and also to receive more AS in dollar terms.

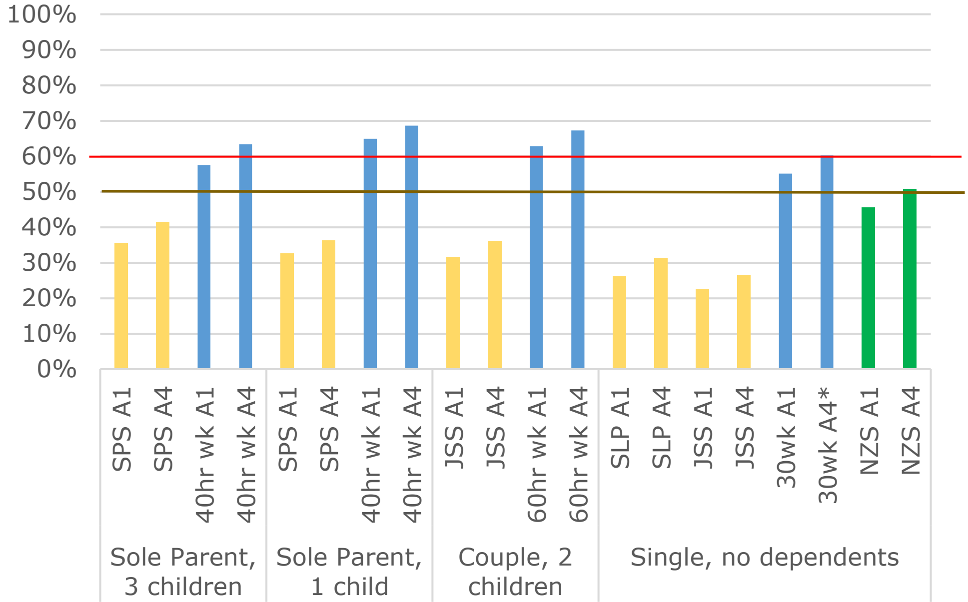
Example households: AHC incomes in relation to poverty lines

Housing affordability stress and poverty are different concepts although one might expect that high housing affordability stress to be highly corelated with income poverty. It is possible however for a household to spend more than 30% of income on housing and be above the 60% AHC poverty line if they earn enough. Conversely a household may spend a low proportion of income on housing or even live rent free and yet be under given poverty lines.

Figure 19 shows the nominal current AHC incomes for all 20 example households as a percentage of the equivalised median (see Appendix 2 for an explanation of equivalised median; see Appendix 3 for Figure 19 data).

Overall, our examples indicate that without additional discretionary support, most AS-recipient households are below the 60% AHC poverty line (the horizontal red line in Figure 19), including some working households which do not receive a benefit, both with children and without. Area 1 non-beneficiary households are more likely to be under the 60% line than non-beneficiary households in Area 4; for example, a single person working 30 hours on minimum wage in Area 1 reaches only 55%, even taking the AS into account, whereas the same person working in Area 4 reaches the 60% line even though they are not entitled to any AS support.

Figure 19: Current household AHC income, as a percentage of AHC median equivalised income received by 20 example AS households (paying lower quartile rent)
Red, higher line showing 60% poverty line; brown, lower line = 50%.
Darker, blue bars = non-beneficiary households; green bars (extreme righthand side) = NZSuper



**For a single adult in Area 4 working 30 hours a week, their income does not include the AS, as this person is not entitled to receive it.*

The bulk of AS recipients (around two-thirds) receive income-tested benefits. The core entitlements for all example families receiving income-tested benefits leave them in severe poverty (just over the 40% line or below it). The couple with two children on JobSeeker Support in Area 1 only have 32% of the AHC equivalised median income; for single people on income-tested benefits, the poverty is even deeper, even if they are sharing accommodation in Area 4.

The additional weekly income required to lift all the example households in receipt of a benefit to above the 60% poverty line is shown in Figure 20 in raw dollars, and in Figure 21, as a percentage of current income.

Figure 20: Additional $ required per week by example beneficiary households (paying lower quartile rent) in order to receive 60% equivalised median AHC income

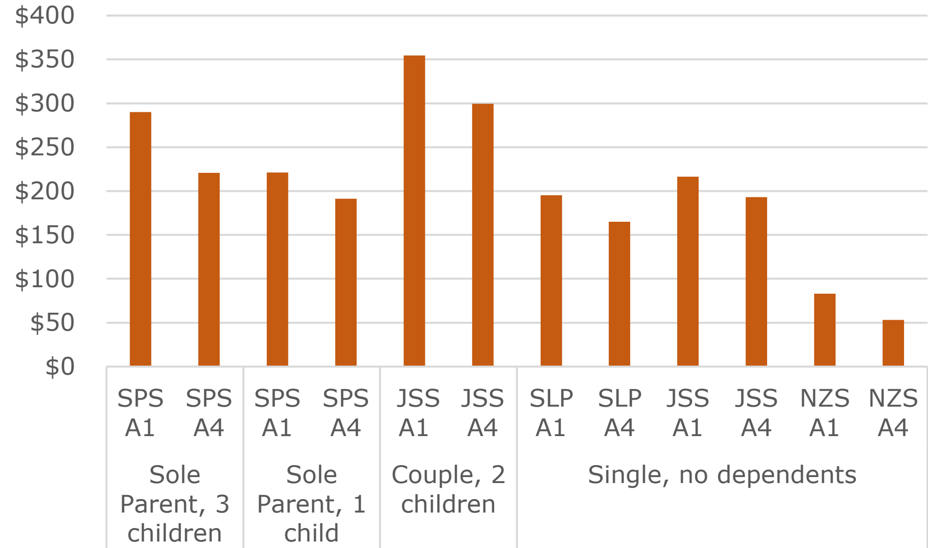
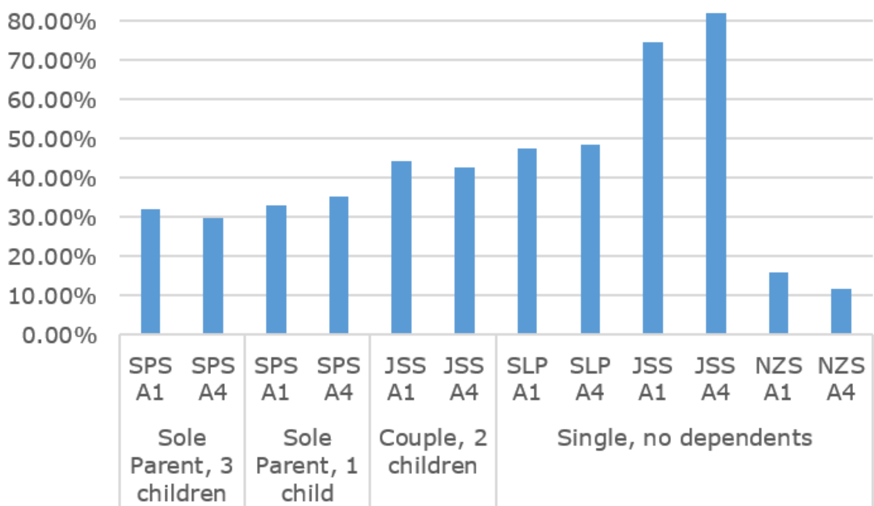


Figure 21 shows that our example benefit-recipient households with children need between 29.8% to 44.2% additional income, in order not to be in poverty – for the vast majority (and probably all) cases, this is far more than any discretionary additional support they may be receiving. Our example single beneficiaries without dependents need up to 82% additional income in order not to be below the 60% AHC equivalised poverty line. Note that while an Area 1 single person receiving Jobseeker support needs a higher amount in raw dollar terms (Figure 20), a single person receiving JobSeeker in Area 4 needs a higher percentage increase in their incomes (Figure 21). This reflects the lower BHC income received by those in Area 4, linked to its lower rents.

Figure 21: Percentage increase required in BHC income of example beneficiary households paying lower quartile rent, in order to receive 60% equivalised median AHC income



The examples above show that the AS, and the income support system in general, have failed to keep incomes close to adequate for many people on low incomes, possibly *everyone* receiving income-tested benefits, as well as some who receive most of their income from wages. Most of our example households are living in housing affordability stress, and all of those receiving benefits are in deep poverty, well below the 60% AHC poverty line which, among other things, explains the heavy demand for hardship grants. People in high-housing-cost regions are entitled to more AS support; but even with this higher support, they are more likely to live in poverty, and in deeper, more entrenched poverty than those living in low-cost housing regions (Figure 19). They *may* have access to discretionary top-ups and private charity – but accessing those may call on resources such as transport and time that vulnerable families do not always have; relying on such insecure support is deeply stressful, and in any case, those piecemeal supports will only ever cover a small fraction of what is required. Moreover, it is unacceptable for an affluent, high-income country to systematically rely on private charity to feed and shelter *any* children, let alone a large proportion of our population.

Accommodation Supplement evaluation – overall summary

Policies are developed in order to respond to a problem or a challenge; thus, they should be assessed on how well they ameliorate or mitigate that problem; on the extent they offer any other benefits; and on their costs, in terms of both outlay and any unwanted consequences. So how does the Accommodation Supplement measure up?

Policy evaluation framework

At the heart of policy assessment is the question: “does this policy make us better off?”.

Figure 22: Policy development framework (St John & Dale, 2012)

1. Clarify the problem.
2. Set clear objectives (aims) for policy; note trade-offs.
3. Make aims measurable or quantifiable.
4. Select policy criteria: e.g. cost-effectiveness, economic efficiency, equity, administrative simplicity; outline theories or models that inform policy development.
5. Assess a full range of policies that might achieve the objectives.
6. Select and design the best policy; project expected costs and outcomes.
7. Implement policy.
8. Measure outcomes against clearly stated, measurable objectives.
9. Review unintended consequences.
10. Evaluate policy against criteria; confirm that the problems and the underlying economic model have been properly conceived; and suggest improvements.

Here, we adapt Susan St John and Claire Dale’s 2012 policy development framework (Figure 22) to evaluate the current housing policy of the Accommodation Supplement:

1. What is the problem that the AS is trying to mitigate or solve?
2. What is the AS policy?
3. What are the measurable objectives of the AS? What are the trade-offs?
4. What are the AS costs and outcomes, measured against these objectives?
5. What is AS performance against policy criteria e.g. cost-effectiveness, economic efficiency, equity, administrative simplicity?
6. What are the unintended consequences?

1. Identifying the problem: housing unaffordability

The problem that the AS is attempting to mitigate is after-housing-costs poverty for many New Zealand households.

2. The policy: Accommodation Supplement

The AS is targeted financial assistance for those not receiving an income-related rent subsidy. The amount paid depends on family income and cash assets, family type (single vs couple, with or without dependents etc), whether the family receives a benefit, demonstrated actual accommodation costs, and location.

3. Accommodation Supplement objectives and trade-offs

It is unclear exactly what the AS objective is. Work and Income describes it as “a weekly payment which helps people with their rent, board or the cost of owning a home” – but “helping” with accommodation costs is not a measurable goal (Work and Income, n.d.). An MSD report on the AS describes it as “a payment to low income individuals and families who have high housing costs” and says it and other such payments “play an important role in protecting the living standards of a significant fraction of low income families” (Rea & Thompson, 2017). Here we take “protecting the living standards of low income families” as a proxy objective for the AS.

4. Accommodation Supplement performance against objectives

The AS has failed to protect the living standards of low-income families, as measured by the 60% AHC poverty line.

Even with the AS, families are regularly spending over 30% of their income on housing; in Area 1 it is regularly over 50% for families receiving benefits (Figure 17).

Overall, our examples indicate that without additional discretionary support, most AS-recipient households are below the 60% AHC poverty line (the horizontal red line in Figure 19), including some working households which do not receive a benefit, both with children and without. Area 1 non-beneficiary households are more likely to be under the 60% line than non-beneficiary households in Area 4; for example, a single person working 30 hours on minimum wage in Area 1 reaches only 55%, even taking the AS into account, whereas the same person working in Area 4 reaches the 60% line even though they are not entitled to any AS support.

Figure 19 above shows that the after-housing-costs incomes of beneficiaries who receive the AS are much lower than the 60% of median equivalised AHC income poverty line – in fact, all our example beneficiary cases were at or below 40% of the line. Non-beneficiaries who receive the AS are also struggling to stay at or above the 60% poverty line, and many are trapped by the high EMTRs that prevent them earning their way out of poverty (Figure 13 and Figure 14).

Cash asset tests that have not changed for over 30 years means no AS recipient can save, even if they are working, let alone accumulate a deposit for their own home.

5. AS performance against policy criteria

Economic efficiency:
The AS contributes to the problem of overlapping abatements. High EMTRS for low- and middle-income families is economically highly inefficient and severely distorts economic behaviour, including decisions to save and work. It helps create poverty traps impossible for low-income working families to escape.

Equity:
The AS is designed to be equitably accessible across different types of tenure. However, it is not available to those who have not been able to secure housing, perhaps because they do not have the cash assets to pay a bond or they are not considered "desirable" tenants by the private market, for example due to discrimination against children, particular ethnicities and those with mental health or addiction issues.

In addition, accommodation subsidies overall do not promote "horizontal equity" in that those households receiving income-related rent subsidies (IRRS) in state or social housing receive higher income subsidies than similar AS recipients. While those on income-related rents are often among our most vulnerable and/or are unlikely to be housed by the private rental market, many other similarly vulnerable households must pay markets rents.

In addition, being "acceptable" to the private market does not mean that AS recipients are better able than IRRS recipients to deal with high housing costs.

Administrative simplicity:
The AS would not pass any reasonable test for administrative simplicity, including low compliance costs. The formula is difficult to understand and complex.

Below are just a few of the many reasons why the rate received by an AS recipient, or their eligibility to receive any AS at all, might change week to week:

- their rent increases
- they move to another dwelling (the rate will change differently depending on whether they're still in the same AS Area or not)
- their income changes because their work hours change
- their income changes because their hourly rate of pay changes
- the number of people in their household changes
- one of their children turns 18
- they move off, or onto, a benefit
- the benefit increases
- Family Tax Credit for the first child increases
- they enrol as students
- they stop being enrolled as students over the summer

A recipient household's entitlement can easily change multiple times a year, and for some – particularly those on casual contracts – they can change multiple times a month. Each change requires an AS recipient to contact Work and Income. Each change brings with it the risk that the recipient will be over- or under-paid, meaning they may have to pay money back, or miss out on their entitlements.

Cost-effectiveness:
In terms of cost in meeting the policy objective, the AS has very low cost-effectiveness. In part this is because it can only ever be an attempt to manage the symptom (deepening poverty) of the current housing crisis, rather than addressing its causes. The financial consequences of 25 years of neglecting housing policies that affect the supply of low-cost housing, such as state construction, state houses and home loans, is significant: there have been few brakes on AS growth.

Around 80% of the current AS spend of $1.5 billion goes to private landlords, instead of going back to the state (through state rentals) or going to owner-occupiers (who get the other 20% of the AS budget).

In the absence of adequate complementary housing interventions, The AS has been moving wealth from the State to the landlord class since its inception. In effect, the State has been renting space from a relatively small number of people without accumulating assets for itself or for a large number of low-income tenants.

The result is more tenants, fewer owner-occupiers, and more landlords with larger portfolios. Landlords are often in the market to make capital gains, and rent security and stability for tenants is not their priority. Private tenants have no option but to continue being private tenants in an increasingly fragmented and uncertain market – and this increases the costs to the government once those tenants retire and either start or continue to need AS.

6. Accommodation Supplement unintended consequences

The eligibility criteria of the AS undermine the ability of families to save and strengthen their balance sheets. It consigns many families to lifelong renting and therefore the state must contribute to those lifelong costs, including during retirement for a number of them, with no end in sight. It fails to build up family assets for financial independence – in fact, given the strict cash asset restrictions, it does not allow recipients to even attempt saving.

Separately, there is some evidence to suggest that a percentage of any increase in AS is absorbed by landlords without any change or improvement in accommodation offered (Hyslop & Rea, 2018; Wong & Morrissey, 2016). A 2015 international literature review commissioned by the Ministry of Social Development found that the most robust literature pointed to such “landlord capture” representing around 30% of any housing subsidy increase (some of the studies suggested up to 70%), although the review also noted that such conclusions are tenuous and based on various assumptions, and in any case, different jurisdictions will produce different capture results as they depend on a wide variety of factors, including elasticity of housing supply (Brackertz, de Silva, & Fotheringham, 2015).

We expect that any such capture is exacerbated because the AS rate is tied to actual accommodation costs; if, on the other hand, an increase in income is not tied to actual housing costs, then it can, theoretically at least, be spent on other goods and services. As it is, the trade-off of trying to meet the AS objective is to subsidise and protect private landlords, in a vicious cycle of increased rents and costs to the government.

Between 2005 and 2018, governments opted to impoverish AS recipients instead, by neglecting to increase the maximum AS rate for 13 years, while the income eligibility threshold for the formula automatically increased with rises in benefits.

Verdict/summary

Viewed as a housing subsidy, in the context of a severe housing shortage, the AS is being called on to substitute for other more direct policies. An income subsidy cannot, on its own, grow more houses or lessen demand for rental properties, and so its expenditure requirements increase because the fundamental problems are not addressed.

In addition, even if it had a more limited role, it is badly-designed: overly-complex and arguably ripe for landlord capture. Meanwhile, as an income subsidy, the AS is woefully inadequate.

Treasury's suggestion in 2016 was that "a more ambitious welfare package could include a significant review of the Accommodation Supplement, with a view to at least simplifying its structure and improving targeting of payments, or perhaps reconsidering it altogether" (Wong & Morrissey, 2016). We recommend that the government takes up this suggestion to reconsider the AS completely. The next chapter suggests ways it can do exactly that.

3. Opportunities for Change

As has been emphasised, the AS cannot cure the housing crisis. In order to reduce housing unaffordability, the government must address the issues of housing supply, use and investment, as discussed elsewhere (Johnson, 2018).

However, in order to address income inadequacy problems, a review of the AS is crucial. In this section we call for a reduction in the use of the AS in favour of much higher core benefits and family tax credits, and a higher minimum wage – and we model the income results and costings of an example of such a reform. We start with our recommendations and their reasons, and then show how the recommendations together could change incomes for the example families whose current incomes we examined in Chapter 2.

> *You're constantly in a state of emergency, it's not like you're never not in an emergency… I really don't understand why the base amount of the benefit isn't enough to live on. They really should raise the base amount so it's enough to live on. And then all those extra bits can be there if you need them.*

Tim Danko, single Dad with lived experience of receiving a benefit (From Welfare Fit for Families Episode 4: "Not Enough")

Recommendation 1: For our worst-off families

Rec 1: That income-tested benefits and Working for Families be designed and resourced so that benefit recipients can cover all basic necessities (for example, shelter, food, clothing, transport, social inclusion and energy) without requiring supplementary income assistance in all but the most extraordinary circumstances.

Reasoning: In effect, we are recommending that income-tested benefits and Working for Families entitlements be increased to the extent that the AS is no longer necessary. This recommendation seeks to ameliorate two major problems with New Zealand's current welfare system:

i. The welfare system **needs to be more generous** overall, because currently even if low-income families are receiving all their entitlements, many of them still don't have enough to live on, particularly families who receive a benefit. For example, even if they live rent-free (that is someone else bears their housing costs), or the AS covered 100% of actual housing costs (not recommended), one-child families on Sole Parent Support would *still* be below the 60% poverty line. That is, their Sole Parent Support, Family Tax Credits and Winter Energy payments together only reach 57.4% of the median equivalised AHC income. In other words, even if housing subsidies covered their entire rent, some households will still fall below a commonly-accepted poverty line.
   The lesson: core benefits need to be increased by a significant percentage – currently they are so low that 'housing' stress cannot be fully alleviated through housing-related subsidies.

ii. The welfare system **needs to be simplified** because current complexity means it is difficult for low-income families to receive all their necessary entitlements. Having to rely on supplementary subsidies such as the AS (which, in turn, is complex in itself), or ad hoc hardship provision for basic necessities, increases insecurity and stress for those requiring assistance.

In addition, removing the link between rates of income support and actual accommodation costs (by removing the AS) will:

- help to dampen down any landlord 'capture' of increased financial support
- give families more financial control and stability, and lessen the risk of accidental subsidy over-payment (and related debt) or under-payment (and related additional financial stress)
- ensure all families a certain level of income even if they have not been able to secure stable housing.

Implementation: If we are to achieve these two goals, we envisage this will involve:

1. significantly increasing working age benefits and WFF entitlements, raising abatement thresholds and reducing high benefit-abatement rates;
2. making the In-Work Tax Credit amount available to all low-income families, regardless of their income source;
3. removing the AS as a supplementary support;
4. and indexing all working-age benefits and other income support payments to changes in wages.

This recommendation specifically excludes superannuitants without dependent children, an increasing minority of whom require additional financial support for accommodation. In September 2018, just over 5% of those receiving New Zealand Superannuation (NZ Super) or 40,750 were also receiving the AS, up from 37,700 in 2016 (Rea & Thompson, 2017; Wise, 2019). The best option to ensure this minority does not fall into (worse) poverty is a means-tested housing subsidy, such as a more generous AS. A reform would also take into account the "living alone" rate that is poorly-targeted to housing need. (Increasing core NZ Super to cover all costs is not recommended as NZ Super is not income-tested, and the majority of superannuitants who own their homes and may have additional sources of income probably do not need any additional support.)

In addition, although we expect its use will be considerably reduced, we are not recommending the removal of Temporary Additional Support as some people may find themselves in extraordinary circumstances that mean their usual income cannot cover usual costs. Ensuring a continuing subsidy for times of pressure gives the system the ability to respond meaningfully and empathetically when required. However, the design of TAS should be reviewed once benefits have been reviewed, to ensure it dovetails with the rest of the system.

Recommendation 2: For low-income workers

Rec 2: That the minimum wage and Working for Families be increased so that wage-earners can cover all basic necessities (for example, shelter, food, clothing, transport, social inclusion and energy) without requiring supplementary income assistance in all but the most extraordinary circumstances.

Reasoning: Similar to Recommendation 1, in effect, we are recommending that, for workers, the AS be removed in favour of increased minimum wages and Working for Families entitlements.

We believe the minimum wage should cover the basic costs of workers without dependents. It is in an employer's interest that their workers can afford appropriate housing easily accessible from their place of work. However, if low wages, legitimised by a low legal minimum wage, are then effectively topped up by government through supplements such as the AS because wages are insufficient to cover workers' housing costs, then the employer has no need to ensure wages cover their workers' basic costs, and can decrease business costs. The classic international example of such corporate capture is Walmart, which was estimated to cost US taxpayers over US$6 billion in 2013, in the form of food stamps, Medicaid and subsidised housing received by its low-wage workers – support that they would not have been entitled to, had Walmart paid them more highly (O'Connor, 2014).

CPAG has heard anecdotal evidence of at least one large Auckland employer using the AS as an excuse not to pay its cleaning contractors an adequate wage; paying higher wages was seen as inefficient use of organisation funds given that workers on lower wages could access support from the government. The trend of wages falling as a share of national income due to the loss of union power in negotiating fair wages (Rosenberg, 2018, 2019) seems to be exacerbated by the combination of a low minimum wage and the AS.

But even if minimum wages were high enough to cover the basic costs of workers without dependents, we argue that ensuring children have enough income and other support is the community's collective responsibility. It would be unreasonable to expect low-wage employers to cover all child-related basic costs. We see Working for Families as the mechanism to assist with child-related costs, hence the recommendation to increase the Family Tax Credits along with a meaningful increase to the minimum wage.

Implementation: How high does the minimum wage need to be in order to cover one worker's basic costs? Here, we have calculated what it would need to be to replace the maximum (Area 1) AS that was available to a single person on 35 hours minimum wage in 2018 (Table 6).[13]

[13] We're using 35 hours rather than 40 hours to represent 'fulltime' work, to acknowledge, to a small extent, the high possibility of changing shift patterns and casual work for low-wage workers.

Table 6: Increase in minimum wage required to cover maximum Area 1 AS rate for a single person with no dependents working 35 hours

Gross work income ($16.50 x 35 hours)	577.5
Abatement ($577.5-$388) x 0.25	47.37
Max AS received ($165-$47.37)	$117.63
Additional net income required per hour to reduce AS to $0 ($117.63 / 35 hours)	$ 3.36
Minimum wage increase required before tax - 17.5% tax bracket and 1.45% ACC ($3.36 * (1.175+0.145))	$4.00
Required new minimum wage ($3.95 + $16.50)	$20.50

Thus, in order for a minimum 'full-time' week (35 hours) on minimum wage to replace the current maximum AS for a single person with no dependents, the minimum wage would have had to have been $20.50 in 2018.

The government introduced a reasonably significant increase to the minimum wage in April 2019 of $1.20 to $17.70, and has announced plans to work towards introducing a $20 minimum wage in 2021, (Lees-Galloway, 2018). However, $20.50 would have been required to replace the AS in 2018, and so correspondingly more will be required in the years to come. We can expect this spending power to be eroded by inflation over the next 30 months, so the government will have to raise minimum wage again from $20 in 2021 to the 2022 equivalent of $20.50 in 2018 – and then index minimum wage to average wage, similar to the treatment of NZ superannuation.[14] For families with children, the Family Tax Credit (FTC) should also be increased, as per implementation suggestions for Recommendation 1 above.

Recommendation 3: for low- and mid-income working families

Rec 3: **That all income support mechanisms for low-income working families have an abatement rate structure that reduces poverty traps by ensuring that effective marginal tax rates for all families are not excessive.**

Reasoning: Effective marginal tax rates (EMTRs) need to be reduced because current interaction between different income subsidies creates large poverty traps over long income ranges (e.g. families on a sole income of anything over $48,000 receiving both AS and WFF currently have an EMTR of at least 80%).

Implementation: The simplest way to lower the extreme EMTR burden for low- and mid-income families is to combine all support for families into one payment – as we are already recommending with Recommendations 1 and 2 – so there is only one abatement rate rather than multiple abatement rates for multiple subsidies. For example, currently families receiving AS and FTC have two 25% abatement rates to contend with, which combine to push their effective marginal tax rate up by 50 percentage points. But if the AS is absorbed

[14] For comparison, four years ago in 2014, $19.53 had the CPI spending power of $20.45 in Q3 2018; accounting for inflation over the four years from 2018-2022 will not be insignificant.

into Working for Families (in favour of an increased FTC), then the AS 25% abatement rate is removed also, so that families only have to pay the FTC abatement rate.

This means that families on higher incomes will also be eligible for more support, as the higher FTC entitlements will bleed out over longer income ranges. For middle-income families, this is to be welcomed, as many of them are also struggling and need government support (see box below). For higher income earners, we suggest that the abatement rate for FTCs increases at some point over the highest tax bracket (for a single earner) – for example it could increase from 25% to 30% at a joint income of over $120,000 in order to keep the FTC payments targeted. By definition, those on higher incomes are better financially equipped to cope with higher EMTRs than those on lower incomes, all other things being equal, and they are also more likely to receive additional intangible benefits and job satisfaction from their work. These factors mean that a higher abatement rate is less likely to be a disincentive to work more hours for a high-income earner than a low-income earner.

Struggling on mid-high incomes:
Real life examples from an Auckland financial mentor

1. A sole parent, with two children aged 2 and 6, earns $90,000 gross and gets $1311 in the hand a week, after contributing to KiwiSaver (4%), and receiving an in-work tax credit of $46. The family is not currently eligible for AS or a Family Tax Credit, nor any Childcare Subsidy. Every week, they pay $460 rent and $440-$470 childcare costs for the two children depending on whether it's holidays or term time (they are not eligible for an Early Childhood Education grant until the two-year-old turns three). They have debt: $85 car loan repayments a week. Food and petrol cost $180 a week, leaving only $136 a week to cover power, water, insurance, medical, phone/internet, car running costs, clothing and any other personal items.
2. A sole earner in a two-parent family with three children aged 3, 5 and 9, earns approximately $80,000 and gets $1143 take-home pay per week after KiwiSaver (4%). The family is not eligible for AS but is eligible for 20 hours ECE per week for the three-year-old; they also get a Family Tax Credit of $109 and an In-Work Tax Credit of $72 per week. Their in-hand total is $1324 per week.
   Their major weekly costs are: mortgage repayments $530; child support for a child from a previous relationship $210; rates and insurance $65; car loan payments (two cars) $125; petrol $90 (employment far away with no public transport); food $190. That leaves $124 per week to cover power, water, medical, phone/internet, car running costs, clothing and any other personal items. The financial mentor has assessed this budget as not possible with current costs and one income. If the non-earning parent is able to find a job, it is likely to come with some childcare costs.
3. In a two-parent, five-children family, one parent earns $55,000 and the other $30,000. Approximate net family work income is $1280 per week as hours vary for the parent on $30,000. They receive no AS, but get a Family Tax Credit of $269 and in-work tax credit of $102 per week; their total in hand per week is around $1650.
   Their weekly costs are $550 rent; $100 koha to the grandparents who look after the children after school; $115 car loan payment; $147 other loan repayments, including one taken out to bring the grandparents to New Zealand; $80 petrol; $340 food; $55 power; $40 school and sport costs. This leaves $224 per week to cover water, insurance, medical, phone/internet, car running costs, clothing and any other personal items. The mentor describes this as "possible but a stretch".

Implementation model

The following model is one example implementation of Recommendations 1 to 3, tested on the example households introduced above, as well as some selected households receiving the maximum AS.

The aims and parameters of our model – which we recommend for any implementation – are to:

i. Substantially increase income adequacy for low-income households, particularly those with children.
ii. Decrease welfare-system complexity by removing AS entitlements for everyone other than superannuitants in need, replacing this lost income with increased minimum wages, benefits and Working for Families entitlements.
iii. Ensure that no *example* household type receives less before-housing-costs (BHC) income from all sources than they currently do.
iv. Ensure example non-beneficiary households have higher BHC incomes than equivalent example households receiving benefits (this is to retain some work incentive for those for whom it is appropriate)
v. Do all of the above as cost-effectively as possible

In addition, our model also aims to:

vi. Show offset savings options, including separating the current national benefit rate into two different rates based on location, one for current AS Areas 1&2 and a lower one for current AS Areas 3&4.

Regarding point vi, there will be differing views to whether income support should vary by region to take into account differences of living costs (for which housing is the biggest factor) or whether a national flat rate is best. Comparison countries such as Australia use one flat rate nationally, and this is least likely to fuel higher rents. However, families in high-cost housing areas are among those most likely to live in poverty, so there is an argument that they require increased income support, and one way of doing this while keeping costs down is to pay less to those who are likely to require less income support.

A variation on this two-benefit-rates alternative is a top-up subsidy for households in need. However, this would recreate many of the problems of the AS including complexity and low take-up rates.

Table 7 offers possible indictors and targets to achieve the policy aims contained in the above recommendations; we use these indicators and targets to assess the subsidy rate changes we offer as examples below.

Table 7: Aims and Targets for example implementation model for recommendations 1-3

POLICY AIM (recommended)	INDICATORS (examples)	TARGETS (examples)
Increase income adequacy, particularly for children	After-housing-costs (AHC) equivalised income[15]	1. No example household with children (paying lowest quartile rent) is below the 2018 60% AHC equivalised median income line 2. No example household (paying lowest quartile rent) is below the 50% AHC equivalised median income line 3. No example household (paying lowest quartile rent) working 30hrs pw per adult or more is below the 60% AHC equivalised median income line
Decrease welfare system complexity by removing the AS	1. The degree of take-up for low-income households 2. The extent of supplementary payments still necessary (both in terms of number of payments and their value	
Increase incomes for all low-income households	BHC net income and AHC equivalised income	4. All example households where AS is removed receive a higher income than they currently do
Work incentives remain	BHC net income gap between beneficiary and non-beneficiary families of equivalent type in the same area	5. A difference of at least $100 pw per fulltime worker (40 hours pw)
Cost-effective	Fiscal cost is within budgetary limits which are feasible and realistic	

Modelling outcomes

As shown earlier in Figure 20, each of the example household types receiving a benefit requires a different amount of extra weekly net income to be lifted to the 60% AHC poverty line. Due to this complexity, the figures below were arrived at by iteration, determined by the targets in Table 7 above. The figures have only been tested against our example family

[15] If the median itself is affected by the changes, the 60% AHC poverty moving line will rise. The intent here is to reach fixed lines, e.g. the standard of living implied by the 2018 AHC line.

types and some households receiving maximum AS rates. They have not been modelled for all family types in all regions.

As above, these figures have been chosen as those which (a) lift all example families with children out of poverty (to the 60% line or above), (b) increase all example household incomes, (c) retain an income difference between those example households not receiving a benefit and those receiving a benefit of at least $100 pw per full-time worker for (d) the least cost. See Appendix 3 for workings.

Assumptions in model

Increases in net benefits pw for all beneficiaries

These figures include a regional variation to reduce costs. Current Areas 1&2 are combined and their residents entitled to what could be described as an "urban" rate while Areas 3&4 combined receive a "rural" rate.

Table 8: Assumed increases in net core benefits pw for all beneficiaries to meet targets in Table 7.

		Increase for Areas 1&2	Increase for Areas 3&4
1.1.1	Couple with children	$300 78% increase in JSS	$140 36% increase in JSS
1.1.2	Single with children	$244 73% increase in SPS	$70 21% increase in SPS
1.1.3	Couple, no children	N/A*	N/A*
1.1.4	Single, no children	$235 109% increase JSS 25+	$157 73% increase in JSS 25+

**None of our example households fall into this category; for the purposes of costings (see below), we estimate $280 for Area 1; and $170 for Area 4.*

Increases in net Working for Families pw

1.2.1 IWTC per benefit-recipient family[16] $72
1.2.2 First child Family Tax Credit $131
1.2.3 Subsequent child FTC $50
Abatement threshold: $46,000 (up $3,500 from current $42,500)
Abatement rate: 25% up to $120,000; then 35%

Increases in minimum wage

Increase in minimum wage to $20.50 at 2018 spending power.

Decreases in entitlements

Removing the AS for all but NZ Super.

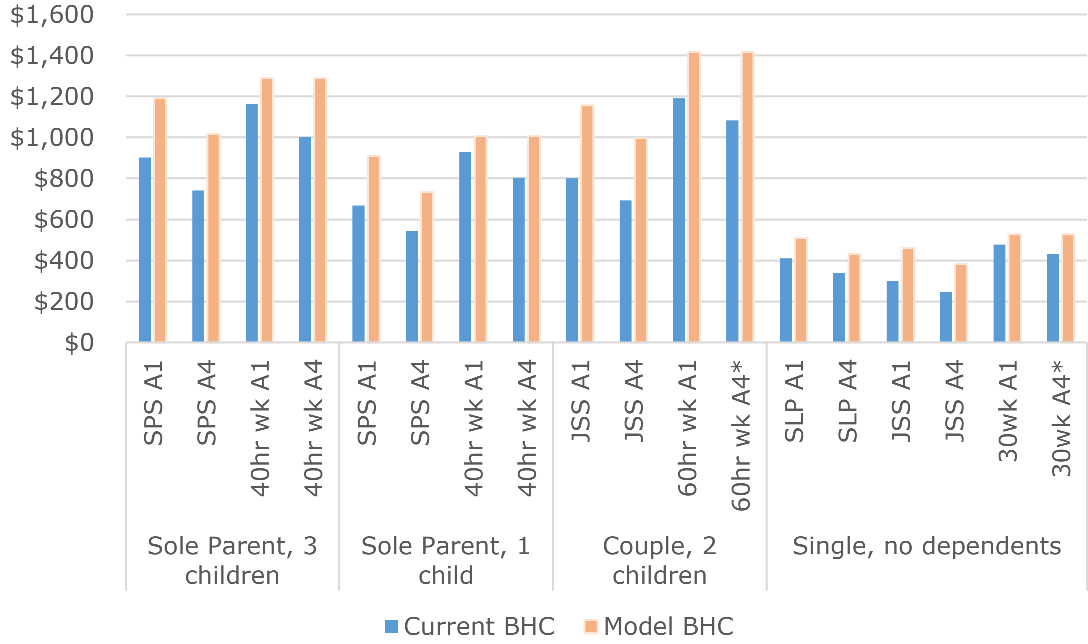
[16] Currently only families who do not receive benefits are entitled to IWTC. Our recommendation here to also offer IWTC to families receiving benefits effectively removes the separation between IWTC and the first child FTC, so that they could be combined into one payment. Families with four or more children are currently entitled to an additional $15 per week IWTC per additional child. None of our example families fall into this category.

Example effects on incomes

BHC income in $ terms is increased

Figure 23 below compares the *current* BHC net income with the *modelled* BHC net income in dollar terms for 18 example households in Areas 1 and 4, all renting accommodation at the lowest quartile for their AS area. These are all the example households introduced in chapter 2, with the omission of the NZ Super recipient without dependents, as our main recommendations do not pertain to them.

Figure 23: BHC net weekly incomes for example families, in $, current (paying lowest quartile rent) and modelled (one regional variation in benefit rates, ie 2 rates).



In terms of the model aims and parameters stated above (Table 7), Figure 23 above shows that Target 4 is met: all example households receive a higher income than they currently do (the light orange bars are higher than their blue counterparts).

Unlike the families' current BHC incomes which depend to some extent on accommodation costs, the households would receive the modelled BHC incomes regardless of their housing costs. The incomes which the model increases the most in dollar terms are those of the couple on JobSeeker Support ($356) and of the couple working 60 hours per week between them, earning at the minimum wage in Area 4 ($326). The first is partially because the current benefit system is particularly stringent for couples and does not fully acknowledge the extent to which a two-adult household is more expensive than a one-adult household. The second is partially because this couple works more than any other example household so they benefit the most from the increase in minimum wage, and partially due to this model's generosity to Area 4 households with children, via increased WFF.

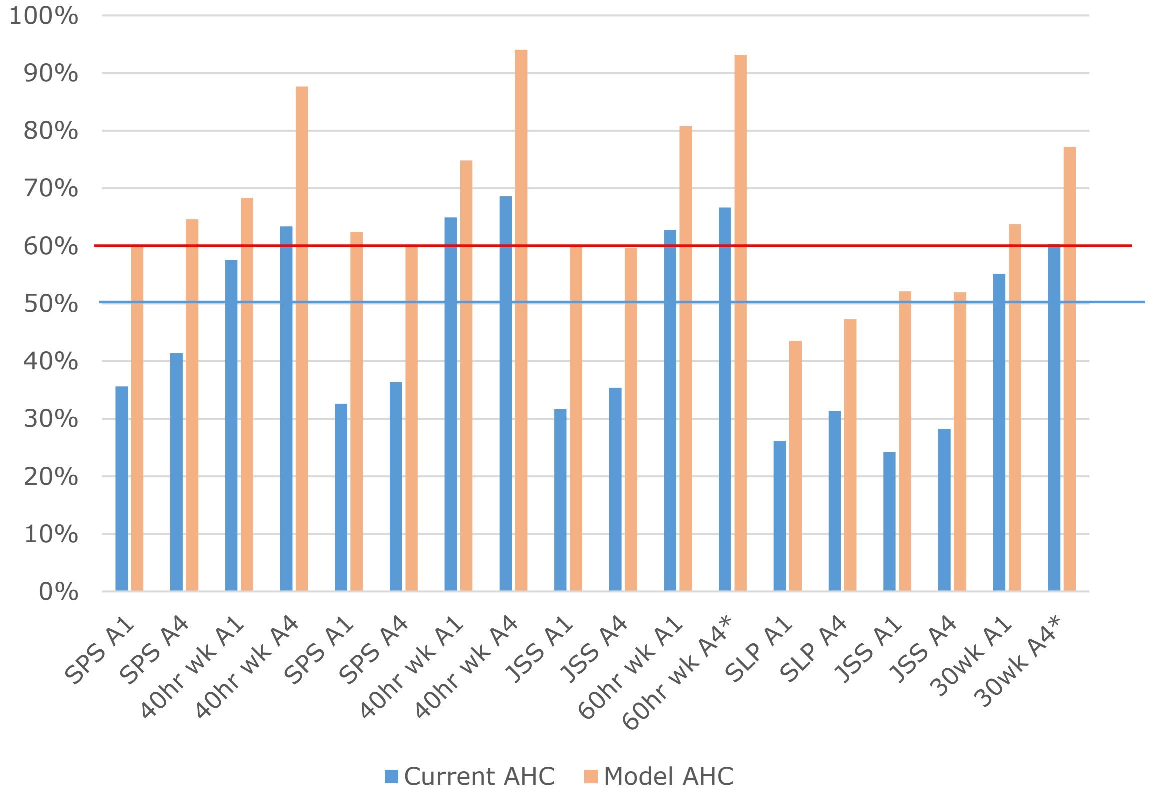
Family Tax Credits have no regional variation, so there is no way in the model to differentiate between working parents in Area 1 vs working parents in Area 4. We do not recommend a regional variation for FTCs, as this would lead to over-complexity for a potentially mobile population.

The income that the model increases the least in dollar terms is the single adult working 30 hours per week in Area 1; their income has increased by $49.88 a week, once their wages have increased and their AS entitlements have been removed. Still, their income has improved reasonably substantially for a single person with no dependents, and at the same time, they are no longer receiving any government income subsidy at all.

AHC income (as a % of median) is increased

Figure 24 below shows that the model meets Target 1 as well as Target 3: no example household with children is below the 60% AHC equivalised median income line; and all non-benefit-recipient example households are above the 60% line, which was not the case in 2018. However, the model does not quite meet Target 2: the people on a benefit who are living alone (on the Supported Living Payment) are below the 50% line, at 46% and 48% in Areas 1 and 4 respectively. This is because increasing single/no dependent benefits to a universal “living alone” rate would shrink work incentives in this model for those for whom it is appropriate to work (see discussion of Target 5 below). Still, there are several ways this particular model could be tweaked in order to lift all single people to the 50% line: for example, a ‘living alone’ allowance could be made available if certain criteria of ‘living-alone need’ are met – or the minimum wage could be increased further.

Figure 24: AHC incomes for example families, as a percentage of the equivalised AHC median income, current (paying lowest quartile rent) and modelled (1 regional variation in benefit rates).
(red line showing 60% poverty line; lower blue line = 50%)



Benefit recipient vs non-benefit recipient incomes: a gap is retained

Figure 25 shows that our implementation model meets Target 5; that is, those example one-adult households with children working 40 hours at the minimum wage (30 hours, with no dependents) and example two-adult households working 60 hours at the minimum wage receive higher BHC incomes than equivalent example households receiving benefits.

The difference is at least $100 a week per full-time worker ($77 for 30 hours is equivalent to $102.66 for 40 hours per week). It is particularly high for Area 4, up to $274 per fulltime worker. Again, this is because Family Tax Credits have no regional variation, so there is no way in the model to differentiate between working parents in Area 1 and working parents in Area 4.

Figure 25: Difference between modelled beneficiary vs non-beneficiary example household net BHC income (positive numbers = non-beneficiary income is higher than beneficiary income for equivalent households)

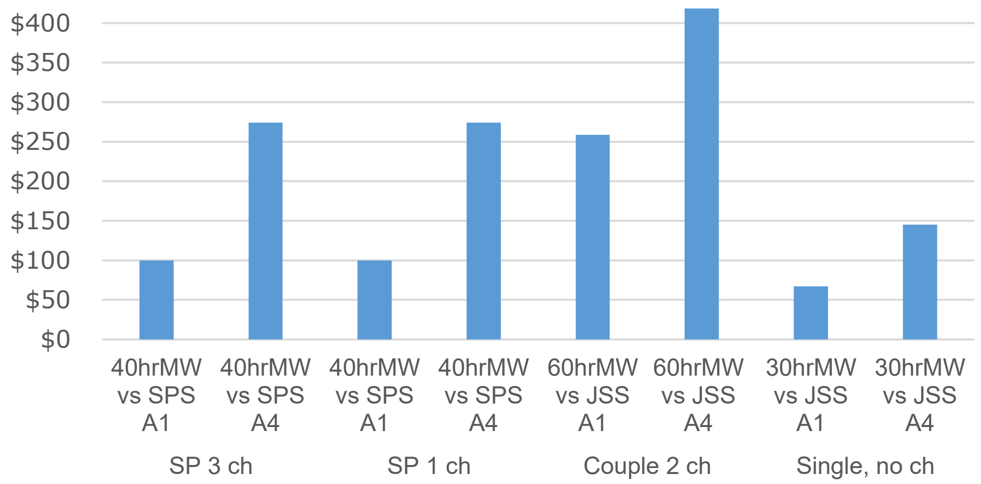
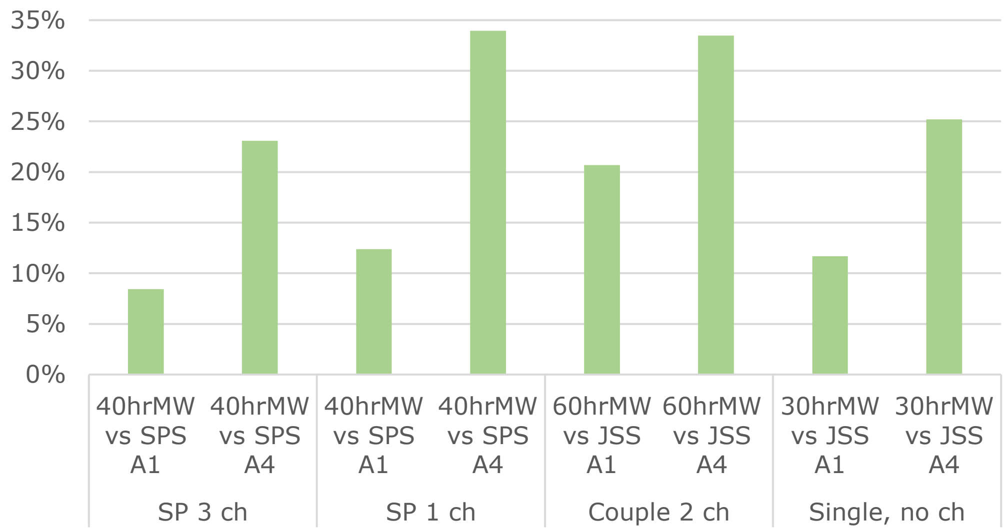


Figure 26 shows the same data, but as a percentage of AHC equivalised median income. For example, a couple with two children working 60 hours per week at the minimum wage in Area 1 has an AHC equivalised median income of 80.8%; the equivalent for a couple with two children on JobSeeker Support is 60.2%, so the difference, as shown in Figure 26 is 20.6% of the AHC equivalised median income. As with Figure 25, the Area 1 differences are lower than the Area 4 differences.

Figure 26: Difference between modelled beneficiary vs non-beneficiary example household income as a % of AHC equivalised median income (positive numbers = non-b income is higher than beneficiary income for equivalent households)



Below is a summary of the implementation model's performance in meeting its targets, based on Table 7.

Table 9: Performance of the example implementation model against targets

POLICY AIM (recommended)	INDICATORS (examples)	TARGETS (examples)
Increase income adequacy, particularly for children	1. No example household with children is below the 2018 60% AHC equivalised median income line	Achieved
	2. No example household is below the 2018 50% AHC equivalised median income line	Not achieved: single people on benefits who live alone could not reach the 50% AHC line without loss of work incentives. Mitigations: giving those who need to live alone IRRS priority; and/or increasing the SLP by more than JSS; and/or offering a needs-based "living alone" allowance; and reducing harsh abatement for additional income and/or increasing minimum wage.
	3. No example household working 30hrs pw per adult or more is below the 60% AHC equivalised median income line	Achieved
Decrease welfare system complexity by removing the AS	4. The degree of take-up for low-income households 5. The extent of supplementary payments still necessary (both in terms of number of payments and their value	
Increase incomes for all low-income households	6. All example households where AS is removed receive a higher income than they currently do	Achieved
Work incentives remain	7. A difference of at least $100 pw per fulltime worker (40 hours pw)	Achieved
Cost-effective	8. Fiscal cost is within budgetary limits which are feasible and realistic	

Modelled abatement

To implement Recommendation 3 – ensuring EMTRs are not excessive for families – we have kept the abatement rate for WFF at 25% for families earning under $120,000, even though the AS (and therefore its abatement rate of an additional 25%) has been removed. In the model, many low-income working families who currently receive the AS will have their lost AS income covered (or more) by additional income from WFF and wages, and will also have their overall income subsidy abatement rate reduced from 50% of gross work income to 25%.

For those families at the very low end of the working-income range, we suggest covering their income shortfall by allowing them partial benefit entitlements by easing the current strict – and work disincentivising – benefit abatement rates and thresholds.

At the other end of the scale, for families earning over $120,000 (for example, two incomes of $60,000), we have increased the abatement rate to 30%, as these higher-income earners are more likely to be able to cope financially with a higher abatement rate than lower-income earners. Many WFF entitlements in our models will have bled out entirely before then anyway.

For the purposes of this model, we have assumed the WFF abatement threshold is raised from $42,500 to $46,000, to keep it above the full-time minimum wage.

The following graphs use as an example a couple on one work income with two children, currently getting the maximum AS for a family of three or more ($305). Figure 27 below shows, for any given gross work income, the difference between current and modelled net income.

Figure 27: Weekly net BHC income vs gross income for a two adult, two children household currently on Area 1 max AS and a two-children household, as per the 60%-AHC equivalent median income target model

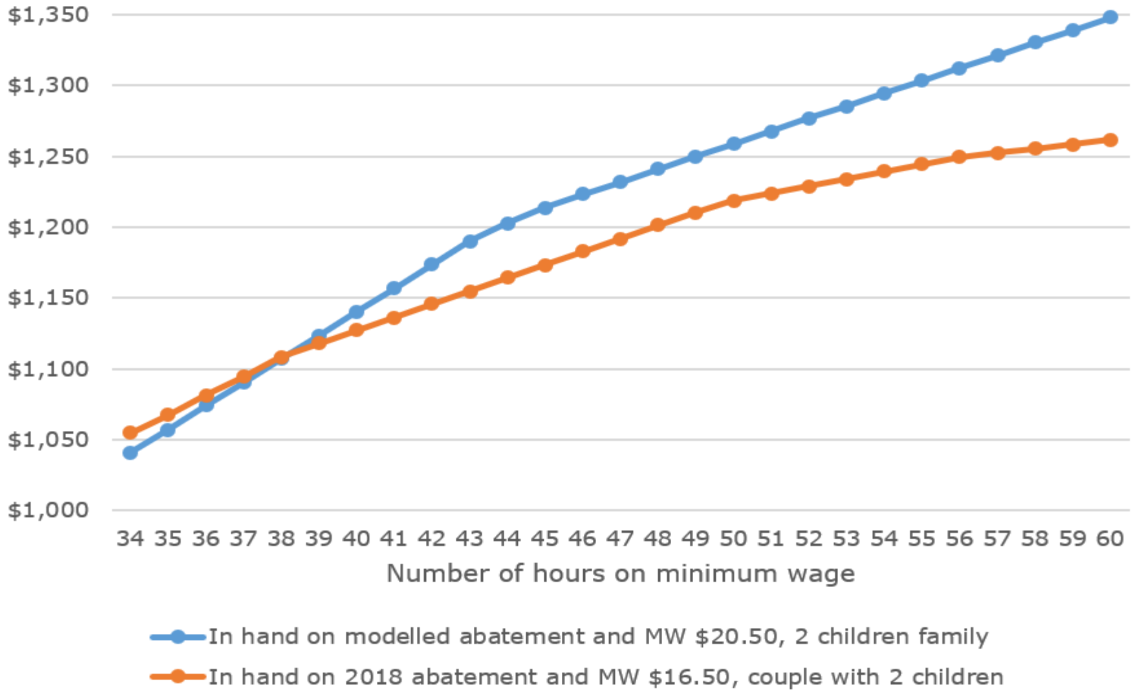
The graph starts at $700 gross weekly income ($36,400pa) and shows that the model gives couples with two children earning between $1063 and $2646 (between $55,276pa and $137,592pa) a higher net income than they currently have. The steeper the net income line, the lower (and easier) the abatement, so the graph also shows that the modelled abatement is easier than the current one, throughout abatement.

As explained above, the modelled threshold is $884 or $46,000pa; the current abatement threshold for Working for Families is more targeted at $817 ($42,500pa) while the AS starts abating for couples with children at $32,760 (abatement threshold not shown in the graph). The income subsidies of the current regime bleed out earlier than the model, and finish around $100,100.

For a couple with two children, the modelled subsidy bleeds out at around $137,600, after the abatement rate increases from 25% to 30% at the $120,000 mark.

The graph above may make it appear that the model is less generous than the current regime to 2-adult, 2-children households earning less than $1060 a week. However, the model uses minimum wage increases as well as increases in WFF to cover lost AS income. Figure 28 shows the net income for any given *time* spent working on the minimum wage for a couple with two children.

Figure 28: Current vs modelled net income, by hours worked on the minimum wage, for a 2 adult, 2 children household



The model is more generous than the current regime to those two-adult, two-children households where the adults, between them, are working a total of 38 hours or more.

For those two-adult households working less than 38 hours a week – currently caught between the severe abatement of the benefit system and not-enough-work – a more realistic benefit abatement rate would assist immensely (the current stringent JobSeeker Support couple's rate is 70 cents for every dollar earned over $80). In 2018, the JobSeeker Support benefit bled out for couples with children at an equivalent of 38.7 hours work at minimum wage ($639).

Alternative target: the 50% AHC line

Other targets could be more ambitious – for example, ensuring all example beneficiary households, including those without children, are above the 60% AHC equivalised median income line –or less ambitious by only ensuring all example beneficiary households are above the 50% AHC equivalised median income line, for example, rather than the 60% line. While we believe that lifting all children and their families to the 2018 60% AHC line will ensure that they all can properly participate and belong, the achievement of raising all households to a 50% AHC line would also be a vast improvement over current outcomes and could of course be done more cheaply.

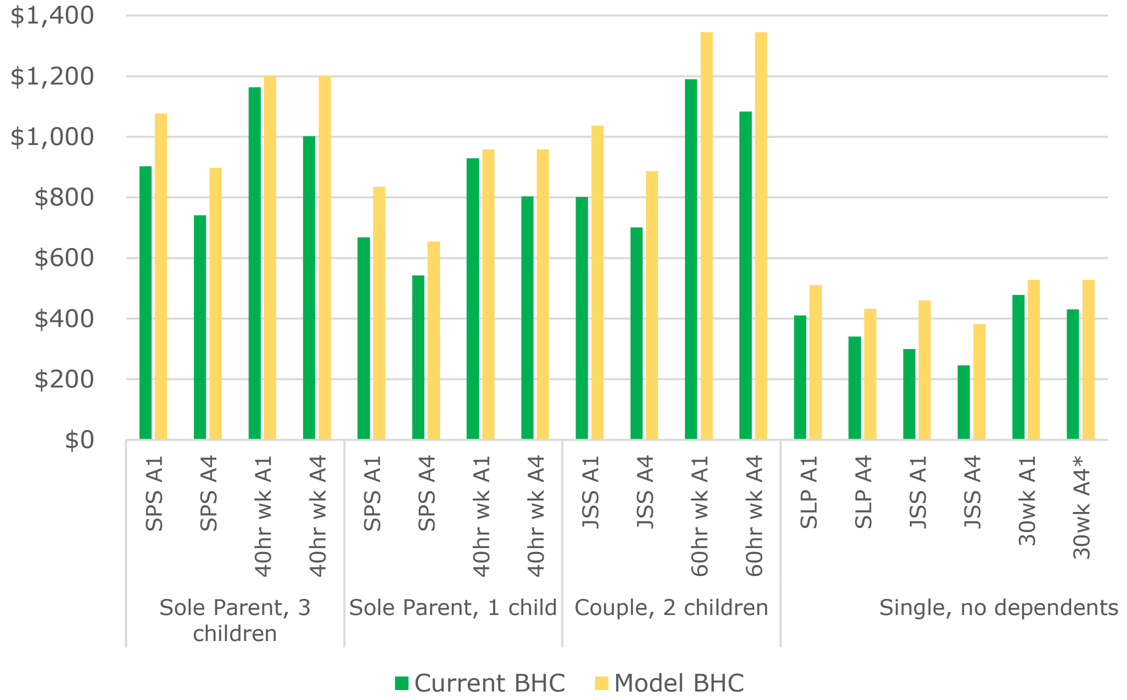
For a less ambitious target, using the '50% line' figures below in Table 10 would be one option to ensure all beneficiary households were above the 50% AHC equivalised median income line, as shown below in Figure 30.

Table 10: Assumed increases in net benefits pw for beneficiaries with children as part of packages aimed at increasing incomes to at least 50% or 60% AHC equivalised median

	Increase for Areas 1&2	Increase for Areas 3&4
Couple with children	50% line: $250 60% line: $300	50% line: $100 60% line: $140
Single with children	50%: $220 60%: $244	50%: $40 60%: $70
Working for Families	**50% line:** IWTC per benefit-receiving household: $72 First child $80 Subsequent child $30 **60% line:** IWTC per benefit-receiving household: $72 First child $131 Subsequent child $50	

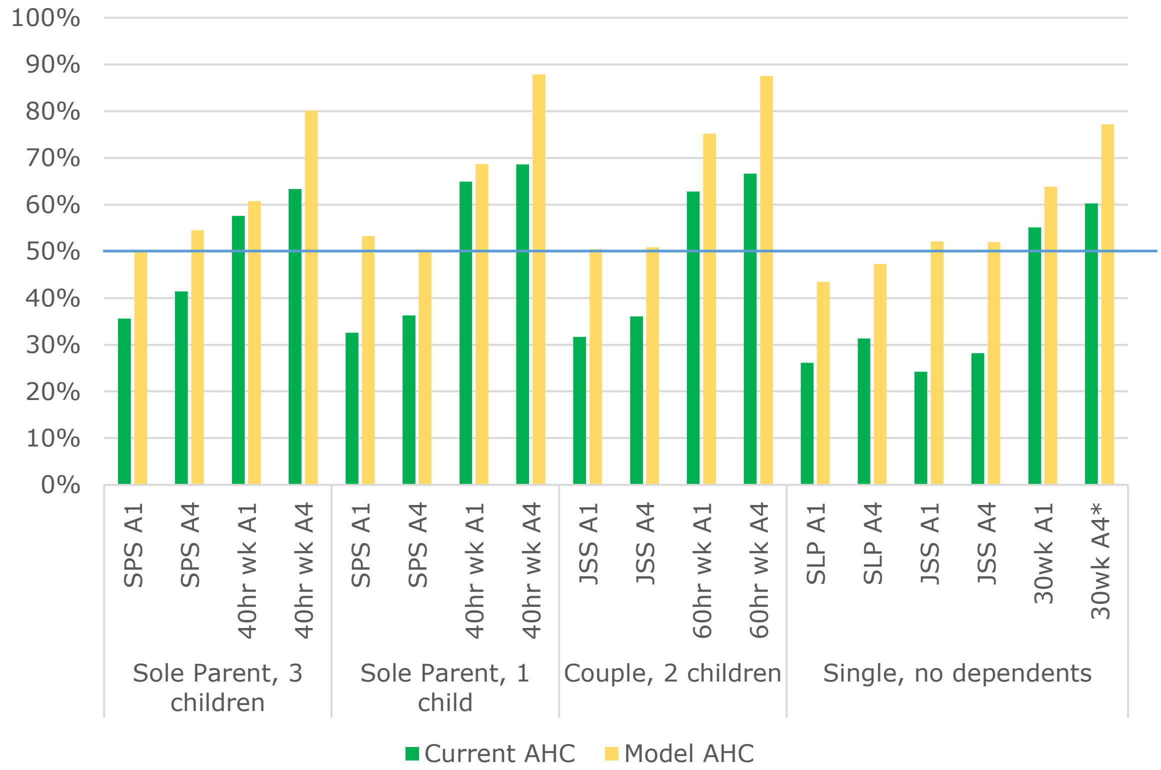
Figure 29 shows the 50% model vs current BHC incomes in real dollar terms. The example family type with the lowest income increases in the model are non-beneficiary sole parents working 40 hours for minimum wage in Area 1: the parent with 3 children receives an additional $38 per week and the parent with 1 child receives $30 per week.

Figure 29: BHC net weekly incomes for example families, in $, current (paying lowest quartile rent) and 50% AHC poverty line model using assumed figures in Table 8.



Again, as Figure 30 shows, working households in Area 4 get the biggest boost in AHC income as a percentage of the equivalised median, as there is no regional variation in Working for Families, and Area 4 housing costs are lower than those in Area 1.

Figure 30: AHC incomes for example households, current and 50% AHC poverty line model using assumed figures in Table 8. Blue line = 50% AHC equivalised median income



Costing and offset savings

The tentative estimates we offer here of costings and offset savings have to remain best guesses simply because we do not have all the government data required to make a more robust estimate.

What we can say with confidence, however, is that it will take significant resources and investment to redress the record inequality that successive governments have collectively entrenched over a generation.

As Table 11 shows, we expect savings to be had not only from reducing the $1.5 billion AS spend by around 85%, but also from reduced hardship claims; reduced IRRS subsidies (due to the 25% clawback of recipients' income increases); and increasing the tax take due to the increased minimum wage.

We are also suggesting that the Winter Energy Payment (WEP) – currently paid out not only to all those in receipt of an income-tested benefit but also to all NZ Super recipients unless they 'opt-out' – become an 'opt-in' payment for superannuitants, in order to save money. That is, it would still be a universal entitlement for those over 65, but in order to receive it, superannuitants would have to request it.[17]

We expect that to lift all families with children to the 60% AHC equivalised median income line or above, and all others to at least the 50% line while absorbing the AS into minimum wages, WFF and benefits, will cost around $3.4 – $3.5 billion per year. Approximately $1.6 billion of that is raising the incomes of single people without dependents to basic levels. Less ambitiously, to raise everybody to the 50% line while still absorbing the AS into other income would cost around $2.2 billion a year.

To absorb the AS into other income and simply ensure nobody is worse off would cost approximately $1 – $1.1 billion. The increase in cost is because more people would be entitled to the AS-absorbing increases in benefits and Working for Families than those who currently receive the AS. There are still beneficial outcomes for doing so – such as uncoupling income support from the rental market – but it would be counter-productive, and indeed cruel, to leave a significant number of children or adults languishing around the 30% AHC median income mark which is what will happen if either this option were taken or worse, nothing were done.

Our costings assumptions and more detailed workings are shown in Appendix 4.

[17] The WEP is a payment of $450 a year for single people, and $700 for couples or those with dependent children. Two singles sharing get $450 each. In 2018, only 2000 superannuitants opted out – ie, chose not to receive the WEP. Yet superannuitants overall have low rates of fuel poverty suggesting that it would be better to automatically pay those on AS or TAS and have an opt-in for others. There may be around 700,000 out of 769,000 superannuitants who currently get it but don't need it, at a cost of $280m.

Table 11: Estimated cost to increase income adequacy and reduce use of the AS in favour of increased benefits and WFF ($m)

		Model 1: Children =/> 60% line; Adults =/> 50% line $m	Model 2: Everybody =/> 50% line $m	Model 3: No income increase target (**not** recommended) $m
New spend	Benefit increases	3,005	2,525	1,560
	IWTC to all low-income families with children	500	500	500
	FTC increases	1,900	1,060	670
New savings	AS	1,300	1,300	1,300
	IRRS clawback	45	25	5
	Lower hardship claims	245	175	15
	Increased tax take (low estimate)	100	100	100
	WEP opt in	280	280	280
Total cost		$3.44 billion	$2.20 billion	$1.03 billion

Conclusion

This report has shown that while the name of the Accommodation Supplement suggests it is supposed to assist with housing support, successive governments have actually relied upon it to assist with overall income adequacy, regardless of the supply of appropriate affordable housing. As discussed in Chapter 1, for over 25 years, governments have called upon the AS to fill the large gaps left by an inadequate welfare system and low minimum wage. Chapter 2 shows that, unsurprisingly, the AS fails miserably in this mission for which it is not fit-for-purpose, leaving its recipients in often dire straits – particularly as affordable housing has not kept up with demand partially because governments have neglected policies to assist with housing availability such as home ownership support and ensuring state housing keeps up with population growth.[18]

The analysis in this report supports Treasury's 2016 conclusion that New Zealand's existing housing subsidy structure is not fit-for-purpose (Wong & Morrissey, 2016). Thus, in Chapter 3, we recommended no less than a restructuring of the welfare system, aimed at ensuring all low-income households can cover their basic needs without requiring supplementary income

[18] An in-dept discussion of what is required to address New Zealand's problems of affordable housing is beyond the scope of this report, but it is clear that, at the very least, dramatic increases in government investment in state housing and assistance to first-home buyers – back to levels last seen in the late 1980s – will be required.

support such as the AS. Our recommendations aim not only to do a better job than the AS of ensuring income adequacy but to do a *good* job of it.

Here is an assessment of our recommendations, using the same policy framework (St John & Dale, 2012) that, in Chapter 2, found the AS sadly wanting.

The problem: Our analysis shows that the levels of income support offered by the welfare system and low minimum wages are insufficient to protect families. The AS greatly exacerbates the complexity of the welfare system, leading to people not receiving their entitlements, and it also mostly moves income from the state to private landlords.

Recommendation aims: Our preferred policy response is set out in our recommendations (Chapter 3). The main aims of our recommendations are:

i. To increase income adequacy, measured by percentage of 2018 AHC equivalised median income.
ii. To remove system dependency on the AS by demonstrating an income support model that does not require the AS for children or working-age people.

Recommendation trade-offs: There are two main trade-offs:

i. Because the AS is relatively narrowly-targeted, using other income support mechanisms such as benefits and WFF to replace AS income is more costly than the current system because a number of people who do not receive the AS are entitled to any increase via mechanisms of benefits and WFF. But our analysis shows that beneficiary and minimum wage working family AHC incomes are extremely low, and increases in benefits and WFF are fully justified.
ii. By decoupling an income subsidy from actual housing costs, the state loses some flexibility in responding to unexpected regional/local rises in rents and mortgage interest inflation. But benefits and WFF should be indexed to average wages to assist in absorbing the rising cost of living, including housing. The state can – and should – be looking to influence the housing market via other policies. And in exceptional circumstances, people can be encouraged to make use of state hardship grants.

There is also the possibility that, if large increases in Working for Families entitlements are implemented nationally, the median AHC income may increase, which would also push the moving AHC median income poverty lines higher. The main reason we are recommending such large increases in the Family Tax Credit is to make up for lost income for families on extremely low wages, in the event that their AS entitlements are removed. As such, this is a one-off large increase, and would not trigger a never-ending cascade of chasing one's own tail (i.e. increasing incomes in a way that pushes a number of people over the median which increases the moving median which pushes the goalpost of the poverty line further away). Any future one-off real rises in income support would then only have to target those receiving the lowest incomes, via increases in benefit entitlements, which would not have an effect on the median.

Cost effectiveness, efficiency and simplicity: The recommendations are cost effective, simple and more equitable and efficient than the AS.

i. After a generation of neglect, an additional $3 billion or so a year extra spending on low-income households is a cost-effective way to achieve income adequacy at around 60% AHC poverty line.

ii. Low-income families are much better off and equity is improved as the recommendations help ensure the good health, education and general wellbeing of future generations.

iii. Economic efficiency is enhanced by rationalisation of EMTRS.

iv. Administrative simplicity is greatly enhanced and less time, resources and emotional resilience will be wasted by state agencies and low-income households negotiating public and private systems for additional, discretionary assistance.

It is important that implementation of the policies is done well and not unduly delayed. Even so there will be unintended consequences. There needs to be a commitment to the evaluation of the recommended policies and their implementation against the policy development framework.

Removing the AS will involve a significant rearrangement of the current welfare system requiring a reasonable amount of analysis to calibrate the details properly. In the meantime, simpler ways to increase incomes should be implemented rapidly:

1. Entitling all low-income families to the In-Work Tax Credit.
2. Raising benefits significantly so that, with the current AS, recipients have adequate incomes.
3. Continuing to increase minimum wages to ensure adequate incomes for working households.

In order to reduce its importance as piecemeal income, the AS should *not* be increased. The only thing worse than increasing the AS would be to do nothing – to increase no income support at all.

In any and all cases, we recommend urgency to increase income equity. The longer the delay, the crueller the wait; the more New Zealand’s future erodes – and the more expensive the erosion becomes to reverse.

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Appendix 1: Weekly net benefits, Family Tax Credits and AS thresholds and maximums, from July 2018

AS maximum rates (from April 2018)

	Area 1	Area 2	Area 3	Area 4
1 person household	$165	$105	$80	$70
2 people	$235	$155	$105	$80
3 or more people	$305	$220	$160	$120

Family Tax Credits (from July 2018)

First child	$113
Subsequent children	$91
Abatement threshold	$42,700
Abatement rate	25%

Jobseeker Support

Jobseeker Support: without children	**Net rate after tax "M"**	**AS threshold renting**	**AS threshold mortgage**
Single, 18 to 19 years, at home	$143.55	$54	N/A
Single, 18 to 19 years, away from home	$179.44		$65
Single, 20 to 24 years	$179.44		
Single, 25 years or over	$215.34		
Couple (total)	$358.88	$90	$108
Couple (each)	$179.44		
Jobseeker support: with children			
Sole parent	$334.05	$112	$134
Couple with 1 or more children (total)	$384.50	$124	$149
Couple with 1 or more children (each)	$192.25		
Couple: 1 partner not on benefit and child/ren (total)	$205.06	$124	$149
Couple: 1 partner on NZ Super or Veteran's Pension; child/ren (total)	$205.06		

Sole Parent Support

Net weekly rate (after tax at "M"):	AS threshold renting	AS threshold mortgage
334.05	$112	$134

Supported Living Payment

SLP without children	**Net rate after tax "M**	**AS threshold renting**	**AS threshold mortgage**
Single, 16 to 17 years	$217.80	$67	$81
Single, 18 years +	$269.15		
Couple (total)	$448.56	$112	$135
Couple (each)	$224.28		
SLP with children			
Sole parent	$379.19	$123	$148
Couple with 1 or more children (total)	$474.18	$147	$176
Couple with 1 or more children (each)	$237.09		
Couple with 1 partner not on benefit and child/ren (total)	$249.90	$147	$176
Couple with 1 partner on NZ Super or Veteran's Pension and child/ren (total)	$249.90		

NZ Superannuation and Veteran's Pension

	Net weekly rate (after tax at "M")	AS threshold renting	AS threshold mortgage
Single			
Single, living alone	$400.87	No ch: $100	No ch: $120
		Child/ren: $128	Child/ren: $154
Single, sharing accommodation	$370.03	No ch: $93	No ch: $111
		Child/ren: $121	Child/ren: $145
Couples			
Both you and your partner qualify (combined)	$616.72	No ch: $154	No ch: $185
		Child/ren: $182	Child/ren: $219
Only one of you qualifies and you include your partner in your payments (combined)	$586.18	No ch: $147	No ch: $176
		Child/ren: $175	Child/ren: $210
Only one of you qualifies and you don't include your partner in your payments	$308.36		

Appendix 2: Dollar value of poverty lines for different household types, AHC 2018

In this report, as elsewhere, CPAG uses 60% of the median AHC income adjusted for family size as the “poverty line” (see Mack (2016) for a rationale for using the median and equivalence). No general poverty line is able to account for all household situations, but the scant evidence available suggests that 60% of median equivalised AHC income would be enough to ensure nearly all families at or above that line in New Zealand can pay for basic physical necessities, participate in social and civic society, and absorb some irregular but almost inevitable expenses (eg ill health, car breakdown) (Waldegrave, Stuart, & Stephens, 1996). The more “user-pays” a society is, the higher the income required by each household in order not to be in deprivation.

“Equivalised” for the purposes of this report means the median is adjusted for family size and uses the individual as the reference unit. For example, a sole parent with one child is assumed to need 1.4 times the income of an adult on their own to have an equivalent standard of living (St John & So, 2018). Other equivalence scales make different adjustments, but they are all “rough and ready” proxies as ideally, equivalence scales would also take into account factors such as the age of children, the extra costs of disability, geographical differences, and so on (Bryan Perry, 2018, p12 and Table 3.3A, p240).

The Child Poverty Reduction Act 2018 uses the 60% of median AHC income measure as an official New Zealand supplementary measure of poverty. Neither of the rationales for it not being a primary measure are about income adequacy and the spending power it represents (Brian Perry, 2017) Instead, the rationales as to why it is only a supplementary measure are (1) that it is not an internationally comparable figure and (2) that the 60% line is too high to “command respect” from the general public, as it is very similar to the average spend for the second-lowest income quintile of couples with two children. However, with approximately 28%-30% of children under the 60% AHC poverty line, that income quintile result may be within the range of what one might expect.)

Below is the table of equivalised median AHC incomes used for this report; these 2018 figures for the median were arrived at by adjusting the 2017 figures by 3% to account for inflation.

Table 4: 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). Equivalence scales are higher when there are older children (see Perry, 2018 p 30).

Reproduced from (St John & So, 2018), Table 4, pg 11

Appendix 3: 2018 and Modelled examples

This appendix contains the worked examples used to show the 2018 incomes of households receiving the AS in Chapter 2, and the modelled incomes of most of the same households if the AS were to be folded into increased benefits, Working for Families and minimum wages as per our example implementation in Chapter 3.

Table i replicates Table 5 in Chapter 2, to show the examples used. There are 20 examples in total, as each of the ten examples listed in Table i is shown in Area 1 and in Area 4. They are based on the representative households used in a previous assessment of New Zealand's housing policies (Johnson, 2013).

Table i: example households, all paying lower-quartile rent (each to be shown in Area 1 & Area 4)

	Receiving benefit	Not receiving a benefit and working for 2018 minimum wage ($16.50)
Sole parent with 3 dependent children, aged over 3, in a 3-bedrm house	On Sole Parent Support (SPS)	Working 40 hours a week
Sole parent with 1 dependent child, aged over 3, in a 2-bedroom house	On Sole Parent Support (SPS)	Working 40 hours a week
Couple with 2 dependent children, aged over 3, in a 2-bedroom house	On JobSeeker Support (JSS)	Working a total of 60 hours a week (one parent at 40 hours; one parent at 20 hours)
Single with no dependents	Sharing a 3-bedroom house on JSS In a one-bedroom flat on a Supported Living payment (SLP) In a 1-bdrm flat on NZ Superannuation (NZS)	Sharing a 3-bedroom house and working 30 hours a week (Note that only the Area 1 example is entitled to AS; the Area 4 example does not have high enough housing costs to qualify).

As we are interested in the adequacy of the AS and other core entitlements, none of our examples are accessing additional piecemeal insecure support such as TAS and/or hardship grants. They access their full entitlements: benefit (where applicable); AS; and Working for Families (comprised of Family Tax Credit and, for families not receiving a benefit, the In-Work Tax Credit). None of the example families qualify for Best Start (ie none include a child born after 1 July 2018).

Table ii replicates the assumed changes of our model from Chapter 3. These changes are designed to increase AHC incomes of families with children to 60% of the equivalised median, and of families without children to 50% of the equivalised median. The discussion and figures highlighted below refer to these aims.

Table ii: Assumed changes in example recommendations model

		Increase for Areas 1&2	Increase for Areas 3&4
Benefits	Couple with children	$300	$140
	Single with children	$244	$70
	Single, no children	$235	$157
Working for Families	IWTC per beneficiary family	$72	
	First child Family Tax Credit	$131	
	Subsequent child FTC	$50	
	Abatement threshold	$46,000 (up $3,500 from $42,500) or $884.62pw	
	Abatement rate	Stays at 25% up to $120,000; then 35%	
Wages	Minimum wage	Increases to $20.50 at 2018 spending power	
AS	Accommodation Supplement	No increase; all AS entitlements for working age people removed	

1. Sole parent with three children in a 3-bedroom house

Table iii below shows the weekly income and rent for a solo parent with three children paying lower-quartile rent for a 3-bedroom house in Areas 1 and 4, both in 2018 and with our modelled changes.

The table shows:

Beneficiary families: In 2018, our example Area 4 sole parent family with 3 children was hovering at the 40% income line, while in Area 1, the same family would only have 36% equivalised AHC median income.

Our model lifts the Area 1 beneficiary family to 60% of equivalised AHC median income, and the Area 4 beneficiary family to 65% of AHC median income.

Families working fulltime: Not even working 40 hours a week is enough to guarantee that our example family in Area 1 will be above the 60% AHC poverty line. Even though the AS entitlement is much higher for families in Area 1, and their BHC income is higher than that of similar families in Area 4, the actual housing costs make the Area 1 AHC income lower (58% of equivalised median in Area 1, compared to 63% in Area 4).

Our model lifts the net BHC income of both working families to the same level $1291, an increase of 11% for the Area 1 family, and 29% for the Area 4 family. This moves the Area 1 working family from 58% of equivalised AHC median income to 68% - still eight percentage points above the Area 1 beneficiary equivalent. This increase is due to the increase in minimum wage, as the level of government subsidy entitlements for this family remains the same. In Area 4, the AHC income has increased to 88% of equivalised AHC median income, because Area 4 housing costs are so much lower than Area 1 housing costs. This is 20 percentage points above the Area 4 beneficiary equivalent.

Table iii: Weekly income for a single adult with 3 children in 3-bedroom house (shown rounded to the nearest dollar)

Key:

In housing affordability stress	On Sole Parent Support				40 hrs per week min wage			
Below the 2018 60% poverty line	Area 1		Area 4		Area 1		Area 4	
	2018	Model	2018	Model	2018 $660 gross	Model $820 gross	2018 $660 gross	Model $820 gross
Lower quartile rent[1]	$480	$480	$250	$250	$480	$480	$250	$250
AS[2]	$258 *70% of ($480-$112)*	$0	$97 *70% of ($250-$112)*	$0	$232 *$258-((660-$558) *0.25)*	$0	$71 *$97-((660-$558) *0.25)*	$0
Net SPS / Net wages[3]	$350	$594	$350	$420	$564	$694	$564	$694
Working for Families [4]	$295 *$113+ ($91x2)*	$597 *$295+$72 + $130+ ($50x2)*	$295 *$113+ ($91x2)*	$597 *$295+$72 + $130+ ($50x2)*	$367 *$113+ ($91x2) +$72*	$597 *$295+$72 + $130+ ($50x2)*	$367 *$113+ ($91x2) +$72*	$597 *$295+$72 + $130+ ($50x2)*
Net BHC income[5]	$903	$1,191	$742	$1,017	$1,163	$1,291	$1,002	$1,291
AHC income[6]	$423	$711	$492	$767	$683	$811	$752	$1,041
Housing cost to income ratio	53%	40%	34%	25%	41%	37%	25%	19%
Equiv AHC median[7]	$61,744							
AHC income as % of equiv med	36%	60%	41%	65%	58%	68%	63%	88%
BHC income increase net 2018 vs model		$288 32%		$275 37%		$128 11%		$289 29%
Increase in govt spend		$288 32%		$275 37%		-$2 -0.4%		$159 36%

Notes for Table iii to Table vii:

1 **3-bedroom house** proxy for lower quartile (Source: Tenancy Services Aug '18- Jan 19: Area 1 example suburbs: $480 Mangere; $480 Mangere East; Papatoetoe South $525; Otara $480; Glen Eden $480. Area 4 example suburbs: Inver cargill suburbs $270; Opotiki $255; Whakatane Rural, $200)
2-bedroom house proxy for lower quartile (Source: Tenancy Services Aug '18- Jan 19: Area 1 examples: $410 Mangere; $402 Mangere East; Papatoetoe $443; Otara $400; Glen Eden $387. Area 4: Invercargill - $250; Opotiki - $226; Whakatane Rural - $250* (*higher than 3 brdm for Whakatane Rural))

1 bedroom flat proxy for lower quartile (Area 1 examples: $225 Mangere; $302 Mangere East; Papatoetoe $332; Otara $250; Glen Eden $350. Area 4: Invercargill $160 - only 1-bedroom flat lower quartile found; no 1-bdrm flats in Opotiki and Whakatane Rural.)

[2] **AS calculation**: 70% of (rent minus entry threshold). Entry threshold for SPS is $112; for JSS couple with children is $124; for SLP living alone is $67; for NZS living alone is $100. Abatement 25% from $558pw gross income for SP, from $630pw gross for couple.

[3] **Benefits 2018:** Benefits incl Winter Energy Payment averaged over the whole year

Modelled benefit increases: see table ii above

Minimum wage 2018: Using 2018 level ($16.50) rather than post April 1 2019 min wage of $17.70. Net income calculations from paye.net.nz

Minimum wage model: $20.50 at 2018 spending power

[4] **WFF 2018:** FTC 2018 eldest child rate $113, subsequent child rate $91, in-work tax credit (IWTC) for 1-3 children $72; abatement starts at $42,500pa ($817.31pw) at 25c per dollar.

Modelled WFF increases: see table ii above

[5] Before Housing Costs net income: AS + WFF + (net SPS or net wages)

[6] After Housing Costs income: BHC income minus rent

[7] For this family type in 'ordinary' dollars. Source: St John & So, 2018, Table 4, pg 11. (Reproduced in Appendix 2).

2. Sole parent with 1 child in a 2-bedroom house

Table iv overleaf shows the weekly income and rent for a solo parent with one child paying lower-quartile rent for a 2-bedroom house in Areas 1 and 4, both in 2018 and with our modelled changes.

The table shows:

Beneficiary families: In 2018, both our example sole parent families with 1 child had incomes hovering around 35% of AHC equivalised median.

Our model lifts the Area 1 beneficiary family to 62% of equivalised AHC median income, and the Area 4 beneficiary family to 60% of AHC median income.

Families working fulltime: The AHC income of the Area 1 and Area 4 example working families in 2018 was 65% and 69% respectively of the equivalised median; our model lifts these figures to 75% and 94%, with an increase in government spending across the two families collectively of only $26 per week.

Table iv: Weekly income for a single adult with 1 child in 2-bedroom house (shown rounded to the nearest dollar) – notes above

Key: In housing affordability stress; Below the 2018 60% poverty line	On Sole Parent Support				40 hrs per week min wage			
	Area 1		Area 4		Area 1		Area 4	
	2018	Model	2018	Model	2018 $660 gross	Model $820 gross	2018 $660 gross	Model $820 gross
Lower quartile rent[1]	$405	$405	$250	$250	$405	$405	$250	$250
AS[2]	$205 *70% of ($405-$112)*	$0	$80 *Max rate < 70% of ($250-$112) =96.60*	$0	$180 *$205-((660-$558) x0.25)*	$0	$55 *$80-((660-$558) x0.25)*	$0
Net SPS / Net wages[3]	$350	$594	$350	$420	$564	$694	$564	$694
Working for Families [4]	$113	$315 *=$113+ 72+$130*	$113 *$113+ ($91x2)*	$315 *=$113+ 72+$130*	$185 *$113+$72*	$315 *=$185+ $130*	$185 *$113+$72*	$315 *=$185+ $130*
BHC income[5]	$668	$909	$543	$735	$929	$1,009	$804	$1,009
AHC income[6]	$263	$504	$293	$485	$524	$604	$554	$759
Housing cost to income ratio	61%	45%	46%	34%	44%	40%	31%	25%
Equiv AHC median[7]	$41,962							
AHC income as % of equiv med	33%	62%	36%	60%	65%	75%	69%	94%
income difference 2018 vs model		$241 36%		$192 35%		$80 9%		$205 26%
Increase in govt spend		$241 36%		$192 35%		-$50 -14%		$76 32%

3. Couple with 2 children in a 2-bedroom house

Table v below shows the weekly income and rent for a couple with two children paying lower-quartile rent for a 2-bedroom house in Areas 1 and 4, both in 2018 and with our modelled changes. The table shows:

Beneficiary families: In 2018, our example couples with 2 children had AHC incomes of 32% in Area 1 and 35% in Area 4. Our model lifts both these families to around 60% of AHC median income.

Families working fulltime: The AHC incomes of the Area 1 and Area 4 example working families in 2018 were respectively 63% and 67% of the equivalised median; the Area 4 family does not receive the AS. Our model lifts these figures to 81% and 93%.

Table v: Weekly income for two adults with 2 children in 2-bedroom house (shown rounded to the nearest dollar) – notes above

Key:

In housing affordability stress	On JobSeeker Support				60 hrs per week min wage (40/20 split)			
Below the 2018 60% poverty line	Area 1		Area 4		Area 1		Area 4	
	2018	Model	2018	Model	2018 $990 gross	Model $1230 gross	2018 $990 gross	Model $1230 gross
Lower quartile rent[1]	$405	$405	$250	$250	$405	$405	$250	$250
AS[2]	$197 _70% of ($405-$124)_	$0	$88 _70% of ($250-$124)_	$0	$107 _$258-((990-$630) *0.25)_	$0	$0 _$88-((990-$630) *0.25) = <0_	$0
Net SPS / Net wages[3]	$400	$700	$400	$540	$851	$1,045	$851	$1,045
Working for Families [4]	$204 _$113+ $91_	$456 _$204+$72 + $130+ $50_	$204 _$113+ $91_	$456 _$204+$72 + $130+ $50_	$233 _($204+ $72) – ((990-817)x25%)_	$370 _$456-((1230-885) x25%)_	$233 _($204+ $72) – ((990-817)x25%)_	$370 _$456-((1230-885) x25%)_
Net BHC income[5]	$801	$1,156	$693	$996	$1,190	$1,415	$1,084	$1,415
AHC income[6]	$396	$751	$443	$746	$785	$1,010	$834	$1,165
Housing cost to income ratio	51%	35%	36%	25%	34%	29%	23%	18%
Equiv AHC median[7]	$65,041							
AHC income as % of equiv med	32%	60%	35%	60%	63%	81%	67%	93%
BHC income increase net 2018 vs model		$355 44%		$304 44%		$225 19%		$331 31%
Increase in govt spend		$355 44%		$304 44%		$30 9%		$137 59%

4. Adult with no dependents in a 1-bedroom flat

Table vi below shows the weekly income and rent for a single person paying lower-quartile rent for a 1-bedroom flat in Areas 1 and 4 – showing both 2018 and modelled rates for someone on the Supported Living Payment (SLP), and the 2018 rates only for someone on NZ Superannuation (NZS). As we are not recommending that accommodation subsidies for superannuitants be removed, we have not included the NZS example in the model.

The table shows:

SLP: In 2018, our example person on SLP in Area 1 had an AHC income of only 26% of the equivalised median. In Area 4, it was 31%. Living alone would seem not to be an option for the vast majority of people on SLP. Because these income levels are so extremely low, our model – which increases their BHC income by around 25% - fails to get their AHC income levels to 50% of the equivalised median. An argument could be made that the SLP benefit rate should be raised higher than our model suggests.

NZSuper: Currently the AHC income of our Area 1 NZSuper example is below the 50% line, at 46% of the equivalised median. While we do not recommend that accommodation-related assistance is removed for superannuitants in favour of higher NZSuper rates, we would welcome more generous accommodation assistance than currently available for those superannuitants in need.

Table vi: Weekly income for two adults with 2 children in 2-bedroom house (shown rounded to the nearest dollar) – notes above

Key:

Key	On Supported Living Payment				On NZ Superannuation			
In housing affordability stress								
Below the 2018 50% poverty line	Area 1		Area 4		Area 1		Area 4	
	2018	Model	2018	Model	2018	Model	2018	Model
Lower quartile rent[1]	$260	$260	$160	$160	$260		$160	
AS[2]	$135 *70% of ($260-$67)*	$0	$65 *70% of (160-67)*	$0	$112 *70% of ($260-$100)*		$42 *70% of (160-100)*	
Net SPS / Net wages[3]	$276	$511	$276	$433	$411	NA	$411	NA
BHC income[5]	$411	$511	$341	$433	$523		$453	
AHC income[6]	$151	$251	$181	$273	$263		$293	
Housing cost to income ratio	63%	51%	47%	37%	50%		35%	
Equiv AHC median[7]	$29,973							
AHC income as % of equiv med	26%	43%	31%	47%	46%		51%	
income difference 2018 vs model		$100 24%		$92 27%				
Increase in govt spend		$100 24%		$92 27%				

5. Adult with no dependents sharing a 3-bedroom house

Table vii below shows the weekly income and rent for a single person on JobSeeker Support, and working 30 hours a week, paying lower-quartile rent for one bedroom in a 3-bedroom house in Areas 1 and 4, both in 2018 and with our modelled changes. We have used the example of a worker who is not working fulltime, but who does not qualify for the benefit, to see the effects of the current and modelled regimes on a worker on a very low income.

The table shows:

Beneficiaries: In 2018, our example person on JobSeeker Support with no dependents sharing a 3-bedroom house in Area 1 has the lowest AHC income as a percentage of equivalised median of any of our example households: 24%. The Area 4 equivalent fares little better at 28%. Given these examples are already sharing accommodation, it is difficult to see how they could easily save more on costs. The situation is likely to be worse for those people below 25 years of age – their JSS is only worth $179.44 rather than $215.34 (plus WEP of an average $10 per week).

Our model lifts the income of both the Area 1 and Area 4 examples on JSS with no dependents to just over the 50% line, with an increase in government spending over 50% in both cases.

Non-beneficiary workers: The AHC income of the Area 1 worker on 30 hours a week minimum wage was 55% of the equivalised median in 2018 and the Area 4 equivalent income was 60%. In our model, neither of these workers are entitled to government income assistance (unlike in 2018, when the Area 1 worker was entitled to the AS), representing a reduction of nearly $50 a week in government spend. At the same time, the incomes of these workers increase by 10% in Area 1 and 23% in Area 4, due to the increase in the minimum wage.

Table vii: Weekly income for one adult sharing a 3-bedroom house (shown rounded to the nearest dollar) – notes above

Key:

In housing affordability stress / Below the 2018 50% poverty line	On JobSeeker Support (25 years old +)				30 hrs per week min wage			
	Area 1		Area 4		Area 1		Area 4	
	2018	Model	2018	Model	2018 $495 gross	Model $615 gross	2018 $495 gross	Model $615 gross
Lower quartile rent[1]	$160 ($480/3)	$160	$83 ($250/3)	$83	$160	$160	$83	$83
AS[2]	$74 *70% of ($160-$54)*	$0	$20 *70% of ($83-$54)*	$0	$47 *$74-((495-$388) *0.25)*	$0	$0 *$20-((495-388) *0.25) = <0*	$0
Net SPS / Net wages[3]	$225	$460	$225	$382	$430	$528	$430	$528
Net BHC income[5]	$300	$460	$246	$382	$478	$528	$430	$528
AHC income[6]	$140	$300	$163	$299	$318	$368	$347	$445
Housing cost to income ratio	53%	35%	34%	22%	33%	30%	19%	16%
Equiv AHC median[7]	$29,973							
AHC income as % of equiv med	24%	52.1%	28%	51.9%	55%	64%	60.3%	77%
BHC income increase net 2018 vs model		$160.80 54%		$136.70 56%		$49.88 10%		$97.33 23%
Increase in govt spend		$160.80 54%		$136.70 56%		-$47.45 -100%		$0.00

Appendix 4: Costings

The tentative estimates we offer here of costings and offset savings have to remain best guesses simply because we do not have all the government data required to make a more robust estimate.

Table A replicates Table 11 in the main body of the report.

Table A: Estimated cost to increase income adequacy and reduce use of the AS in favour of increased benefits and WFF ($m) – factors rounded to nearest $5m

		Model 1: Children =/> 60% line; Adults =/> 50% line **$m**	Model 2: Everybody =/> 50% line **$m**	Model 3: No income increase target (**not** recommended) **$m**
New spend	Benefit increases	**3,005**	2,525	1,560
	IWTC to all low-income families with children	**500**	500	500
	FTC increases	**1,900**	1,060	670
New savings	AS	**1,300**	1,300	1,300
	IRRS clawback	**45**	25	5
	Lower hardship claims	**245**	175	15
	Increased tax take (low estimate)	**100**	100	100
	WEP opt in	**280**	280	280
Total cost		**$3.435 billion**	$2.205 billion	$1.030 billion

Benefit increases

The model proposes different benefit increases for different household types: single adults vs couples, and with dependents vs without dependents. We have assumed that the proportions of different household types across all beneficiaries are the same as those within the group of beneficiaries receiving the AS in Sept 2018.

Table B: Cost of modelled benefit increases, Model 1, based on households types receiving both AS and benefits (shade = figure used in Table A)

	Col A: # Households receiving both AS & means-tested benefit (source: Wise, 2019)	Col B: # individual adults represented in Col A	Col C: Col B as % of Col B total	Col D: Estimated # of individuals w/in each HH type in the whole beneficiary pop (using Col C %)	Col E: Modelled increase in benefit $pw per individual	Col F: Cost of modelled increases with one benefit rate ($m)	Col G: Reduction in cost if Areas 3 & 4** receive a reduced benefit increase ($m)	ColH: Cost of modelled increase with 2 benefit rates ($m)
Couple no children	8420	16840 *(8420 x 2)*	8.1%	24203 *(8.1% of 300000)*	$140* *($280/2)*	176 *(24203 x $140 x 52 weeks)*	21 *(($110 [couple no ch reduction] /2) x52 weeks) x (31% of Col D)*	155 *(Col F minus Col G)*
Couple one child	2659	5318	2.5%	7643	$150	60	10	50
Single no children	122917	122917	58.9%	176659	$235	2159	222	1937
Sole parent one child	27840	27840	13.3%	40012	$244	508	112	395
Couple two or more children	4261	8522	4.1%	12248	$150	96	16	80
Sole parent two or more children	27299	27299	13.1%	39235	$244	498	110	388
TOTAL	193396	208736		300000		3,496	492	**$3,004m**

**Our modelled examples did not include any couples without children; this is an estimated amount of what would be required to get their income to 50% of AHC equivalised median income*

*** Areas 3 and 4 represent 31% of all beneficiary households receiving AS (source: Wise, 2019)*

Assuming the same figures in Table B Columns A to D, Tables C and D show the costs of benefit increases in Models 2 and 3.

Table C: Cost of modelled benefit increases, Model 2, (shade = figure used in Table A)

	Col E: Individual increases $ per week	Col F: Cost with 1 benefit rate ($m)	Col G: Reduction in cost if A3 & A4 receive a reduced increase ($m)	ColH Cost of modelled increase with 2 benefit rates ($m)
Couple no children	125	157	24	133
couple one child	125	50	9	40
single no children	200	1837	228	1609
sole parent one child	220	458	116	342
couple two or more children	125	80	15	65
sole parent two or more children	220	449	114	335
		3030	506	2524

Table D: Cost of modelled benefit increases, Model 3, (shade = figure used in Table A)

Col E: Individual increases $ per week	Col F: Cost with 1 benefit rate ($m)	Col G: Reduction in cost if Areas 3 & 4 have a reduced benefit rate ($m)	ColH Cost of modelled increase with 2 benefit rates ($m)
117.5	148	23	124
30	12	7	5
160	1470	228	1242
85	177	87	90
30	19	11	8
85	173	85	88
	1999	441	1558

Working for Families increases

In-Work Tax Credit (IWTC)

Models 1-3 all assume that all low-income families are entitled to the IWTC, rather than only those who meet paid-work criteria.

Table E: IWTC increase Models 1 – 3

Estimated # families receiving benefits currently missing out	110,000
Estimated # non-beneficiary working families currently missing out, due to not meeting hours-of-work criterion	22000
Cost of extending IWTC to these families' first 3 children ($m) *(110,000 + 25,000) x ($72x52 weeks)*	$494m
Additional $15 per child for the 6% of families (St John, 2017) with 4+ children (assumed average 4.3 children each family) *(4.3-3) x $15 x 52 weeks*	$8m
TOTAL	$502m

Family Tax Credit (FTC)

Table F: Model 1 FTC increases

	Assumed # children*	weekly increase	Cost # children x (weekly increase x 52 weeks) ($m)
First children	200,000	$130	$1,352
Subsequent children	700,000	$50	$1,820
Total before abatement			$3,172
Total after assumed savings of 40% due to abatement			$1,903

**These figures are an assumed increase on 2016 numbers of children receiving FTC: 140,716 first children, and 559,463 subsequent children (St John, 2017).*

***The assumption that abatement will represent 40% savings is best guess, based on the difference between cost estimates of National Party's WFF 2017 election package and the estimated cost of making those changes with no abatement (Labour Party, 2017) .*

Table G: Model 2 FTC increases

	Assumed # children*	weekly increase	Cost # children x (weekly increase x 52 weeks) ($m)
First children	180,000	$80	$749
Subsequent children	650,000	$30	$1014
Total before abatement			$1,763
Total after assumed 40% abatement*			$1,058

**See note, Table F above*

Table H: Model 3 FTC increases

	Assumed # children*	weekly increase	Cost # children x (weekly increase x 52 weeks) ($m)
First children	145,000	$65	$490
Subsequent children	600,000	$20	$624
Total before abatement			$1,114
Total after assumed 40% abatement*			$668

**See note, Table F above*

Savings

Accommodation Supplement

Models 1 – 3 all assume that all AS entitlements are abolished, save those of NZ Superannuitants.

The calculation assumes that the average AS payment to NZS recipients receiving the AS is the same as the average AS payment to all AS recipients

Table I: Estimate Removing the AS for all but NZS

Current AS cost	$1508m
% of AS recipients who receive NZS	14%
14% of $1508	$211.12
Current cost minus 14%	$1297m

Income-Related Rent Subsidy (IRRS) clawback

The rent costs of IRRS recipients are restricted to 25% of their income, so therefore their subsidy is reduced by 25% of any income increase.

Table J: Savings made through IRRS clawback

	Model 1	Model 2	Model 3
IRRS recipients who are also means-tested benefit recipients (assumed)	35,000		
Average increase in net income (pa) due to model (assumed)	$5000 (~$100pw)	$3000 (~$58pw)	$700 (~$13pw)
25% of total net income increase (35,000 x increase) x25% ($m)	$44m	$26m	$6m

Lower Hardship Claims

The calculation assumes that the more primary income people have, the fewer claims they will need to make on hardship assistance

Table K: Lower hardship claims for Models 1-3

	Model 1	Model 2	Model 3
Estimated reduction in need	70%	50%	5%
Total savings (Cost in 2017/18 = $350m	$245m	$175m	$17m

Increased tax take due to minimum wage increase

The Minister for Workplace Relations and Safety stated that the 2018 minimum wage rate increase from $16.50 to $17.70 will lift wages by ~$231 million (Lees-Galloway, 2018).

The calculation below assumes the ratio of minimum wage rate increase to wage lift remains the same for larger increases. Models 1 – 3 all assume a minimum wage of $20.50.

Table L: Increased Tax Take

Change	difference	increase
$16.50 to $17.70	1.2	$231m
$16.50 to $20.5	4	$770m (estimate) (1.2/4) x 231
13% average tax take (assumed) for the $770 increase		$100.1 million

WEP opt-in savings

The WEP is a payment of $450 a year for single people, and $700 for couples or those with dependent children. Two singles sharing get $450 each. In 2018, only 2000 superannuitants opted out – ie, chose not to receive the WEP. Yet superannuitants overall have low rates of fuel poverty suggesting that it would be better to automatically pay those on AS or TAS and have an opt-in for others. There may be around 700,000 out of 769,000 superannuitants who currently get it but don't need it, at a cost of $280m. Models 1 to 3 all assume this opt-in rate.

Table M: WEP opt-in savings assumption

Estimated average WEP payment	Estimated # of NZS recipients who would not "opt in"	Total saved
$400pa	700,000	$400 x 700,000 = $280m

Abbreviations

ACC	Accident Compensation Corporation
AHC	After Housing Costs
AS	Accommodation Supplement
BHC	Before Housing Costs
EMTR	Effective Marginal Tax Rate
FTC	Family Tax Credit
IRRS	Income-Related Rent Subsidy
IWTC	In-Work Tax Credit
JSS	JobSeeker
MSD	Ministry of Social Development
NZ Super	New Zealand Superannuation
SLP	Supported Living Payment
SP	Sole Parent
SPS	Sole Parent Support
TAS	Temporary Additional Support
WEP	Winter Energy Payment
WFF	Working For Families

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