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2021 Series: Rethinking Income Support for Children

Part 1:

Ensuring Adequate Indexation of *Working for Families*

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About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent, registered charity founded in 1994 which works to eliminate child poverty in Aotearoa New Zealand through research, education and advocacy. CPAG highlights that the country's high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives, exacerbated by racism and discrimination. We envisage an Aotearoa where our society shows respect, generosity and care for *all* children.

We focus on eliminating poverty for *children* because:

- **Overall effects of poverty are worst for children**: Child development is adversely affected by poverty, and can lead to detrimental effects for an entire life.
- **Children are more likely to experience poverty:** Children are over-represented among those in deprived households.
- **Children don't get a say:** Decisions affecting children are made without their input; only adults can vote for parliamentary representation.

About the authors

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Series: Time to Rethink Income Support for Children

This paper is the first of a series making recommendations for the Government's planned Working for Families (WFF) overhaul. The full set of CPAG's WFF recommendations includes:

1. Indexing WFF payment rates to wages to halt relative erosion of income support for children, and indexing WFF thresholds, to CPI or minimum wage *(subjects of current paper).*
2. Make WFF child-centric by decoupling it from all paid work requirements. This entails extending the equivalent of the In-Work Tax Credit to all low-income children, whether their parents are on-benefit or not, in order to help ensure incomes for all children are adequate in the most cost-effective manner.
3. Increasing Family Tax Credit payment rates, over and above indexation, as a one-off (in conjunction with benefit increases), to help ensure incomes for all children are adequate and reduce government reliance on the Accommodation Supplement.
4. Changing the WFF name, after appropriate consultation, to better reflect the purpose of ensuring all children can flourish, free of financial need.
5. Abolishing the Minimum Family Tax Credit in favour of a fully seamless and integrated income support progression between the benefit system and paid work, in order to reduce insecurity of potential reduced income due to system gaps and potential faults.
6. Decreasing the WFF abatement rate for low-income families, in order to lower their effective marginal tax rates.

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- Working for Families (WFF) is a critical tool to reduce child poverty. Child poverty rates remain high and have likely increased further during the COVID-19 recession.
- **Because WFF is not wage-indexed, income support for children erodes almost constantly, unlike income support for other age groups.** NZ Superannuation and core benefits are now both linked to wages. WFF payments, which are payments for children, are not wage-indexed and are only partially CPI-indexed. If WFF had been wage-indexed when the Families Package was introduced in July 2018, families in low-paid employment off-benefit with three children aged 3-12 would be receiving as much as $27pw more for the June 2021 year than they actually are. Cumulatively, they would have received $1,900 more over the two years to June 2021 if WFF were wage-indexed.
- **After nearly a decade of WFF neglect and erosion, the 2018 Families Package increases to Working for Families payments were largely equivalent to a 10- or 11-year catch-up to wage movements for many families, with some missing out on even that boost.** For example, for families with one child aged 3-12, the full non-abated WFF payments for 2019/20 were roughly the same as for 2008/9, in wage-indexed terms. The subsequent-child Family Tax Credit rate (for children aged 3-12) was 13% higher in 2019/20 than in 2008/09 in wage-indexed terms.
- **One-off increases such as the Families Package do not compensate for the cumulative loss in relative income over time**, the effects of which are likely to include high-interest debt for some families.
- **Relative to wages, erosion of the value of the Families Package boost to WFF for recipients is ongoing and significant.** For example, if WFF had been wage-indexed from 2018/19, a family with three children, on benefit, would have received nearly $8 more more per week in the year ending June 2020, and nearly $22 more per week in the year ending June 2021, than they actually did. Cumulatively, they would have received over $1,500 more over the two years to June 2021 if WFF had been indexed to wages. These are significant amounts for low income families, and may represent a missed GP visit, or school camp, or loss of digital access.
- **The WFF abatement threshold in 2019 was not as high as it was in 2008 in wage-indexed or CPI terms**, and has eroded since then, putting families in low-paid employment at higher financial risk now than they were in 2008**.**
- **Support for young people aged 16-18 has eroded most substantially: their Family Tax Credit support has decreased 19%-27% in wage-indexed terms since 2008.** As they also miss out on many free services for younger children, the assumption seems to be that low-income young people will be in paid work for basic necessities at the same time as studying for qualifications so vital to prevent inter-generational poverty.
- **At an immediate cost of $51 million, WFF wage-indexation is a low-cost and overdue policy.** To reduce child poverty, more substantial income-support increases than improved indexation are required.

Wage indexation of WFF is a necessary but not sufficient step to halt increasing income poverty for children.

Adequate indexation: key recommendations

1. Index annually all Working for Families payments to wages, as is done for NZ Superannuation and benefits, in order to prevent ongoing erosion of income support for children.

2. Reinstate indexing of the Working for Families abatement threshold, and link it either to CPI on an annual basis, or to movements in the minimum wage, in order to slow further erosion of income support for children while mitigating "double indexing".

Introduction

There is widespread understanding in Aotearoa New Zealand (NZ) that all children should have the best possible start to life. To achieve this, all whānau and families must have adequate income to support their children's needs and provide them with opportunities to flourish.

Working for Families (WFF) is the primary income support mechanism for children in NZ. In New Zealand's social security system, benefits are primarily for adults, New Zealand Superannuation (NZ Super) is for the support of older citizens, while Working for Families is ***for the support of children***. The reach of WFF is significant; as at March 2019, roughly 60 percent of all children in NZ were receiving some WFF payment (Inland Revenue Department, 2021f; Stats NZ, 2021). Children and young people are overrepresented among those living in poverty in NZ (Perry, 2019, pp. 151); it is therefore crucial that WFF income support levels are adequate, and its structures supportive of the goal of eliminating disadvantage for all children.

Child Poverty Action Group envisages this paper as the first of a series making recommendations for anticipated WFF reform (as indicated by MSD and IRD (2020), see Cooke (2021)). The full set of CPAG's WFF recommendations – some of which will be the subject of future papers – includes:

1. Indexing WFF payment rates to wages in order to halt relative erosion of income support for children, and indexing WFF thresholds, either to CPI or to the minimum wage (the subjects of this current paper).
2. Extending the In-Work Tax Credit to all low-income children, whether or not their parents are on- or off-benefit, in order to help ensure incomes for all children are adequate in the most cost-effective manner.
3. Increasing Family Tax Credit payment rates, over and above indexation, as a one-off (in conjunction with benefit increases), to help ensure incomes for all children are adequate and reduce government reliance on the Accommodation Supplement.
4. Changing the WFF name, after appropriate consultation to better reflect the purpose of ensuring all children can flourish, free of financial need.
5. Abolishing the Minimum Family Tax Credit in favour of a fully seamless and integrated income support progression between the benefit system and paid work,

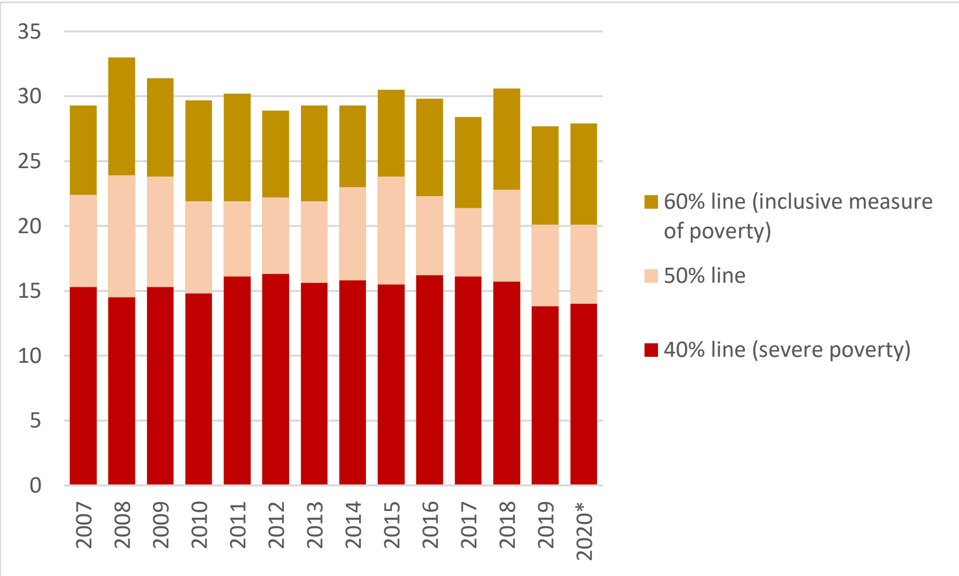
in order to reduce insecurity of potential reduced income due to system gaps and potential faults

6. Decreasing the WFF abatement rate for low-income families, in order to lower their effective marginal tax rates.

WFF was established in 2005, with two goals: to address child poverty, and to incentivise paid work. The results have been mixed: on one hand, WFF ensures higher incomes than previous for many families who are in low-paid employment and not receiving benefits; on the other, it contributed to the perpetuation of deep family poverty for those living in households receiving main benefits.

Before WFF, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work. From 2007 to 2015, the difference increased to around six to seven times higher for children in workless households (Perry, 2019, pp. 168). This is because those receiving benefits (whether in paid-work or not) are deliberately excluded from the full WFF package in order to incentivise paid work, despite paid work being inappropriate and/or impossible for many families. The supposed incentive relies on making poor children poorer, an outcome which contributes to the approximately 160,000 children found under the 40% AHC (severe poverty) line (see Figure 1).

*Figure 1: Percentage of children living in households in NZ with less than 40%/50%/60% median equivalised disposable household income after housing costs (AHC) for the financial year to June (*to March 2020)- supplementary measures f,g,h. Source: Stats NZ (Apr 2021).*



In 2018, the Labour-led Coalition Government's Families Package came into effect, much of which was focussed on increasing WFF (NZ Government, 2017). From 1 July, there were increases to the WFF Family Tax Credit (FTC) mostly for children under the age of 16; the introduction of Best Start for children born after 1 July 2018 up to the age of 3; and an increase in the abatement threshold for WFF from $35,000 (where it was headed under National) to $42,700 (New Zealand Government, 2017). These changes resulted in significant nominal increases to payments, particularly for families with babies (including those on high incomes), and for families in low-paid work (and off-benefit) who gained from the rise in the threshold. The cost of Best Start was forecast to reach $450M a year by 2021/22, while WFF changes (increases to FTC and raising the abatement threshold) were forecast to cost $540M- $510M a year – reducing with every subsequent year (New Zealand Government, 2017) – bringing total investment in WFF support for children to around $3billion per year (Figure 2 below).

However, the WFF increases associated with the Families Package must be viewed in the context of considerable wage growth of the past two decades, and indexing of other income support. Adjustments to WFF have largely been ad hoc since its establishment. Benefits for adults are still far too low, as the Welfare Expert Advisory Group (2019) and CPAG's own modelling (McAllister, 2020) have highlighted; however as of 2020, benefits are indexed to wage movements, as is NZ Super, meaning that these income support mechanisms do not erode in relative value as the average wage increases. On the other hand, WFF is not wage-linked. The only indexation in place is for the FTC, which is indexed to the CPI, but only when cumulative inflation reaches 5%. As the Welfare Expert Advisory Group (2018, pp. 20) found in their review of family assistance, "The Working for Families indexation policy seems out of step with the current and potential indexation of main benefits."

In this backgrounder, we thus highlight how, relative to wages, families are losing out on crucial income through WFF.[1] This lack of wage indexation exacerbates growing inequality between children in low-income households, and all other children in NZ. We begin with an overview of the WFF package, highlighting its objectives, structure, and current indexation. Discussing macro-level trends, we then illustrate the movement of real WFF spending between 2010 and 2021, which reflects the eroding value of the abatement threshold and payment rates, and the 2018 Families package, including increased abatement rates, as well as wider labour market conditions. Consequently, we discuss movements in WFF payment rates over time, before modelling these rates using six example families. We find that while the Families Package made a noteworthy difference in income, much of this was catch-up for erosion since 2010, and that spending is currently lower than the spend in years previous to 2010, in wage-indexed terms. We conclude that full indexation of WFF is needed in order to 'bake in' the improvements made through the Families Package and future much-needed improvements; otherwise, as has been the case since 2018, these gains for children quickly erode in value.

Overview of Working for Families

WFF tax credits are payments to families with dependent children aged 18 and under, administered by the Inland Revenue Department (IRD). These payments are targeted to low- and middle-income families, with rates abated once household income reaches a certain threshold (see Appendix A: Selected WFF rates 2008 to 2021 Table 5 for details). WFF tax credits are child-specific weekly payments to the primary caregiver, to assist parents/caregivers with the costs of raising children. Prior to the establishment of WFF in

[1] Wage index figures are taken from the Reserve Bank Inflation Calculator. https://www.rbnz.govt.nz/monetary-policy/inflation-calculator

2004, main benefits had rates that increased by number of dependent children. These child-related components were disestablished following the introduction of WFF, simplifying the main benefit system and making main benefits payments more clearly for adults, rather than children (Welfare Expert Advisory Group, 2018). While it is a sound principle to have separate child-specific payments – as adults need adequate income in their own right – WFF must be designed to meet the needs of children in order to fulfil this principle.

The WFF package is made up of four tax credit payments – the Family Tax Credit (FTC), the In-Work Tax Credit (IWTC), the Best Start Tax Credit and the Minimum Family Tax Credit (MFTC). The modelling in this paper focuses on the two largest payments, the FTC and the IWTC, as they reflect the bulk of WFF spending. The Best Start Tax Credit was introduced in 2018, available universally for children under one and income-tested for children aged one to three (Welfare Expert Advisory Group, 2018). The MFTC is a 'top-up' payment for families who are in paid work but earn under a given threshold, and are not on a benefit (IRD, 2021c). As of March 2019, approximately 3,100 families received the MFTC, far lower than received the FTC (289,300) or IWTC (203,200) (IRD, 2019d).

Current indexation of WFF

Indexation of WFF is complicated and inconsistent. At present, the FTC increases when the CPI measure exceeds 5%; however, rates have only ever been automatically adjusted once (in 2012; see Welfare Expert Advisory Group, 2018). Changes to the FTC in 2018 resulting from Budget decisions reset the cumulative CPI count. The IWTC is not indexed, but is reviewed every three years, with no obligation for the government to make any changes. No changes have ever been made following these reviews, with one increase to the IWTC occurring in 2016 as a result of a separate Budget decision (Welfare Expert Advisory Group, 2018). For more details, see the timeline in Appendix B.

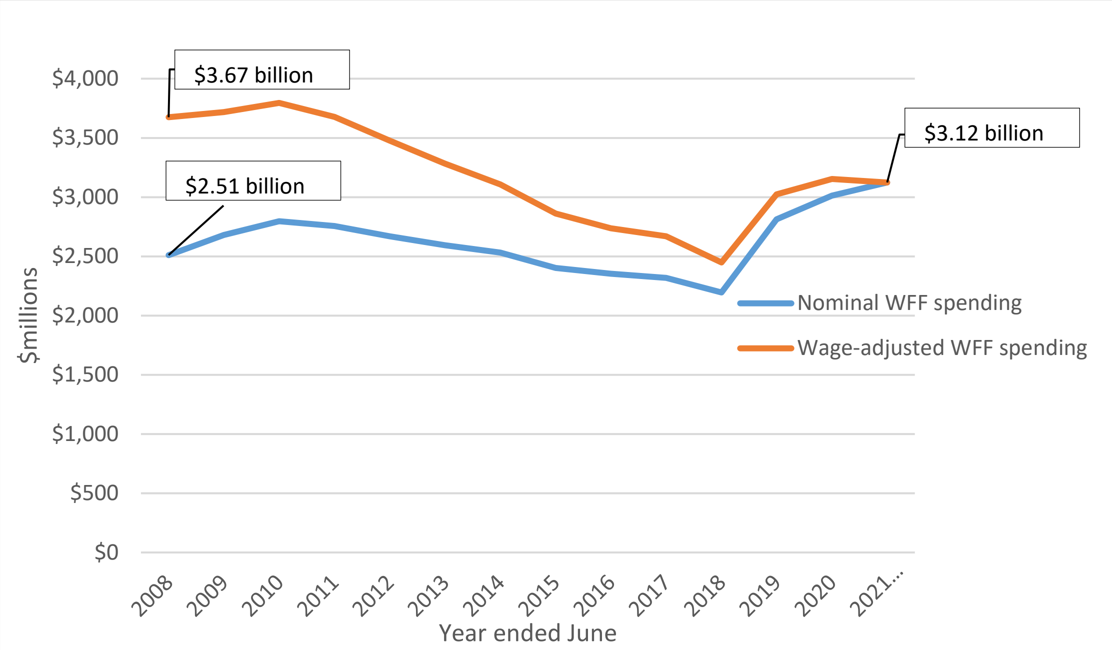
Macro spending on WFF over time

Nominal vs wage-indexed macro expenditure

Figure 2 presents the nominal value and wage-adjusted value (in Q4 2020 dollars) of annual WFF spending[2] from June 2008 to June 2021. While WFF spending is forecast to be 24 percent higher in 2021 than in 2008 in nominal terms, the wage-indexed forecast is 15 percent lower. When wage-indexed, spending on WFF rapidly erodes between 2010 and 2018, before a notable increase in 2019 when the Families Package came into effect. Yet despite this increase, wage-indexed spending has not recovered to levels of the early 2010s; the 2020 spend was $640 million lower in Q4 2020 dollars than the 2010 spend. As discussed below, spend is affected by the fluctuating number of families that meet the (changing) criteria as well as entitlement levels. Moreover, due to the lack of wage-indexing, the overall spend has once again started eroding, even though in nominal terms it appears to increase between 2020 and 2021.

[2] These figures are for total WFF spending, inclusive of the FTC, the IWTC, the MFTC, the Parental Tax Credit (a smaller programme, predating the Best Start Tax Credit), and the Best Start Tax Credit.

Figure 2: Nominal WFF spending and wage-adjusted spending (in Q4 2020 dollars) 2008 to 2021 (forecasted). Source: 2008-12 figures from Treasury (2013), 2013-17 from Treasury (2018), and 2018-21 from Treasury (2020a).



From 2019, WFF totals in the graph above include the Best Start Tax Credit which is a key feature and new initiative of the Families Package, and commendably supports children in their early years. As Best Start is a universal payment for children under the age of one (income-tested for children aged between one and three), spending on Best Start is only partially targeted to children in low income households, unlike the rest of the WFF package, and therefore, not all of the new Best Start spending goes to families who are on low incomes. Best Start will reflect 11 percent of overall WFF spending by June 2021.

Once wage-indexed, the 2021 spend is forecast by Treasury (2020a)[3] to be lower than the 2020 spend by $28 million (Q4, 2020 $). And that includes a (nominal) increase in the Best Start spend from $184 million to $336 million between 2020 and 2021. Excluding Best Start, the wage-indexed spend between 2020 and 2021 will decrease by $182 million (in 2020 Q4 $ terms), or by 6.1 percent.

Table 1: 2018-2021 WFF expenditure, nominal and wage-indexed ($M)

	Adjusted to wages (Q4 2020 dollars) ($M)				**Nominal value** ($M)		
	Total WFF	Best Start	**WFF excluding Best Start**	*Difference frm prev year WFF excl Best Start*	Total WFF	Best Start	WFF excluding Best Start
2018	$2,448	$-	**$2,448**		$2,195	$-	$2,195
2019	$3,022	$50	**$2,973**	*$525*	$2,814	$48	$2,766
2020	$3,152	$182	**$2,970**	*-$3*	$3,014	$184	$2,830
2021	$3,124	$336	**$2,788**	*-$182*	$3,124	$336	$2,788

[3] The forecast was published in May 2020, but it is unclear whether it takes COVID19 into account. Given the forecast decreases, perhaps not; but the point remains, that the effect of the Families Package is eroding due to lack of wage indexation.

Recipients and average entitlement claims

The macro spending figures above reflect not only deliberate changes to WFF policy, but also the wider state of the economy. As WFF is targeted to those on low incomes, the number of families eligible for WFF payments varies depending on wider economic and labour market conditions. The increased rate of abatement (set at 20% in 2008, and now at 25% since July 2018; see Table 5 in Appendix A) also acts to reduce overall government spending as average incomes rise, and increase spending as average incomes fall.

As Figures 3 and 4 below demonstrate, there was an increase in both the average amount paid (in nominal terms) and the number of eligible households around the period 2006 to 2008. These increases likely reflect increases to abatement thresholds and the lowering of abatement rates of the then-Labour government (Welfare Expert Advisory Group, 2018). Further, they may partially reflect the loss of income experienced by many households as a result of the Global Financial Crisis.

Figure 3 presents average entitlement to 2019 (the latest data available). In nominal terms, the average rate paid per recipient family remained relatively constant between 2008 and 2018 (slowly increasing 6 percent across the 11 years). However, in wage-indexed terms, the average rate decreases by 19 percent. The average entitlement increased in 2019 when the Families Package was introduced, in both wage-indexed and nominal terms. However, when wage-indexed, the average entitlement in 2019 was a little less than the average entitlement in 2013.

Figure 3: Average WFF $ per annum entitlement per recipient family, years ending March 2001 to 2019. Source: Inland Revenue Department (2021d)

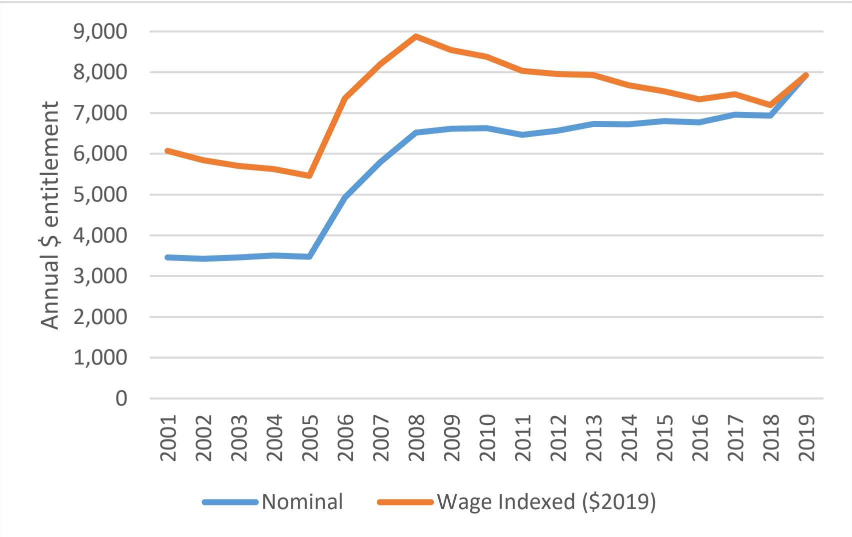


Figure 4: Number of families claiming WFF payments with non-zero entitlements for years ending March 2003 to 2019. Source: Inland Revenue Department (2021d)

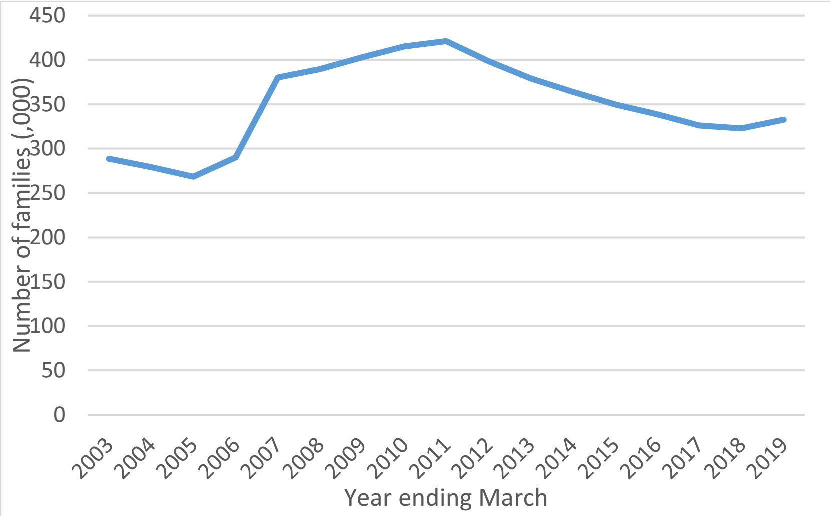


Figure 4 shows the number of families claiming at least some WFF assistance between 2003 and 2019 (the latest data available). The number of families claiming WFF peaked in 2011 after the GFC, before declining to 2017 as employment opportunities ameliorated and the abatement threshold eroded relative to wages (see threshold section below). The number then increased slightly in 2019, likely in part due to the higher abatement threshold introduced by the Families Package, which would have meant more families were eligible for payment, and also due to the introduction of the universal Best Start. As the Covid-19 recession bites, we expect to see a further increase in families claiming WFF entitlements.

WFF thresholds

The declining number of families receiving WFF payments from 2011-2018 likely reflects both improving labour market conditions post-Global Financial Crisis, and also the eroding value of the abatement threshold, which had not been increased since 2010 but instead deliberately decreased in 2013 (Figure 5).

Figure 5: WFF abatement threshold 2008-2021 (Y axis starts at $20k; wage & CPI index Q3, 2020)

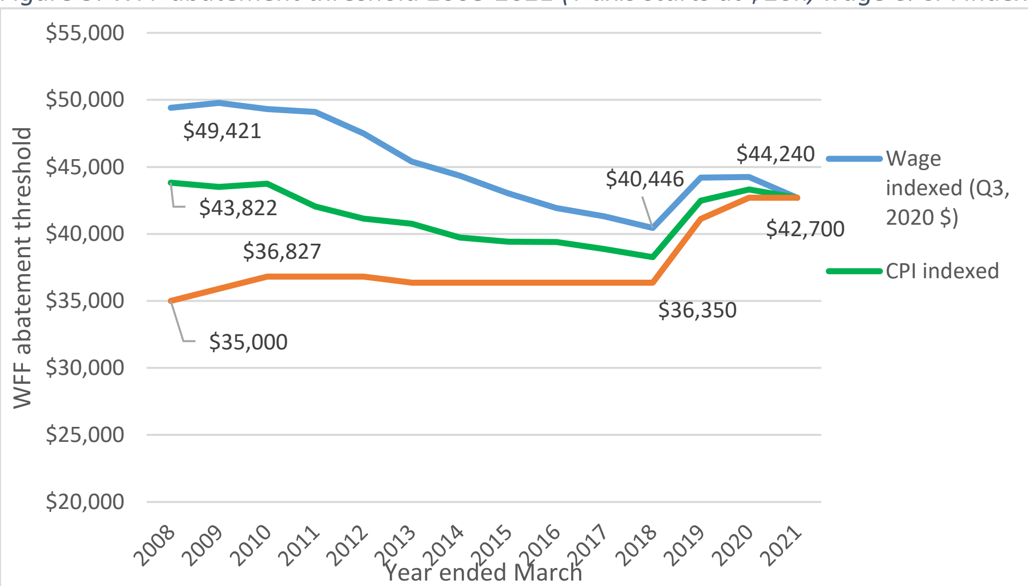


Figure 5 reflects that, while increases were made automatically to the abatement threshold between 2008 and 2010 based on the CPI, in 2010, the National Government abolished the policy that would have further raised the threshold in a series of increments (English, 2010) and then reduced it in nominal terms in 2013. The threshold remained at its 2013 level in nominal terms until 2018 (see Table 5, Appendix A).

As Figure 5 illustrates, when indexed to movements in average wages, the abatement threshold erodes between 2009 and 2018, reducing the number and proportion of families with incomes low enough to be eligible for the full WFF. The Families Package increase was not enough to restore the threshold to 2008 levels when wage movements are taken into account and not quite enough to restore it when CPI inflation is taken into account. It is crucial that the abatement threshold is not neglected and left to erode in the same way again. However, in order to mitigate "double indexing" (which blunts targeting over time, by offering families well over the abatement threshold both a wage-indexed base amount and a wage-indexed abatement threshold), we recommend indexing the threshold to CPI instead of wages, as was done pre-2010. This would mean an initial lift from $42,700 to $43,800 if begun this year.[4] This would be a very modest indexation policy and therefore would need to be reviewed every few years.

Alternatively, a more generous (but still justifiable) policy would be to link the threshold to movements in minimum wage, so that increases in minimum wage are not immediately clawed back at the WFF abatement rate (currently 25%). The 2009 threshold of $35,913 represented 57 hours of minimum wage work; 57 minimum wage hours in 2021 would result in a threshold of $59,855. The current threshold of $42,700 is only 41 ($20) minimum wage hours – down from 46 ($17.70) minimum wage hours (same threshold) in 2019/20.

Hence our recommendation:

> Reinstate indexing of the Working for Families abatement threshold, and link it either to CPI on an annual basis, or to movements in the minimum wage, in order to slow further erosion of income support for children while avoiding "double indexing".

Working for Families rates over time

Family Tax Credit

Nominal values

FTC rates have increased in nominal value several times in the period March 2008 to 2021, both as a result of the CPI threshold exceeding 5%, and also resulting from other government decisions (see Appendix B for a timeline of changes). Table 6 (Appendix A) provides a schedule of nominal FTC rates between 2008 and 2021. During this period, there have also been changes over this period to the structure of the FTC, with a shift away from

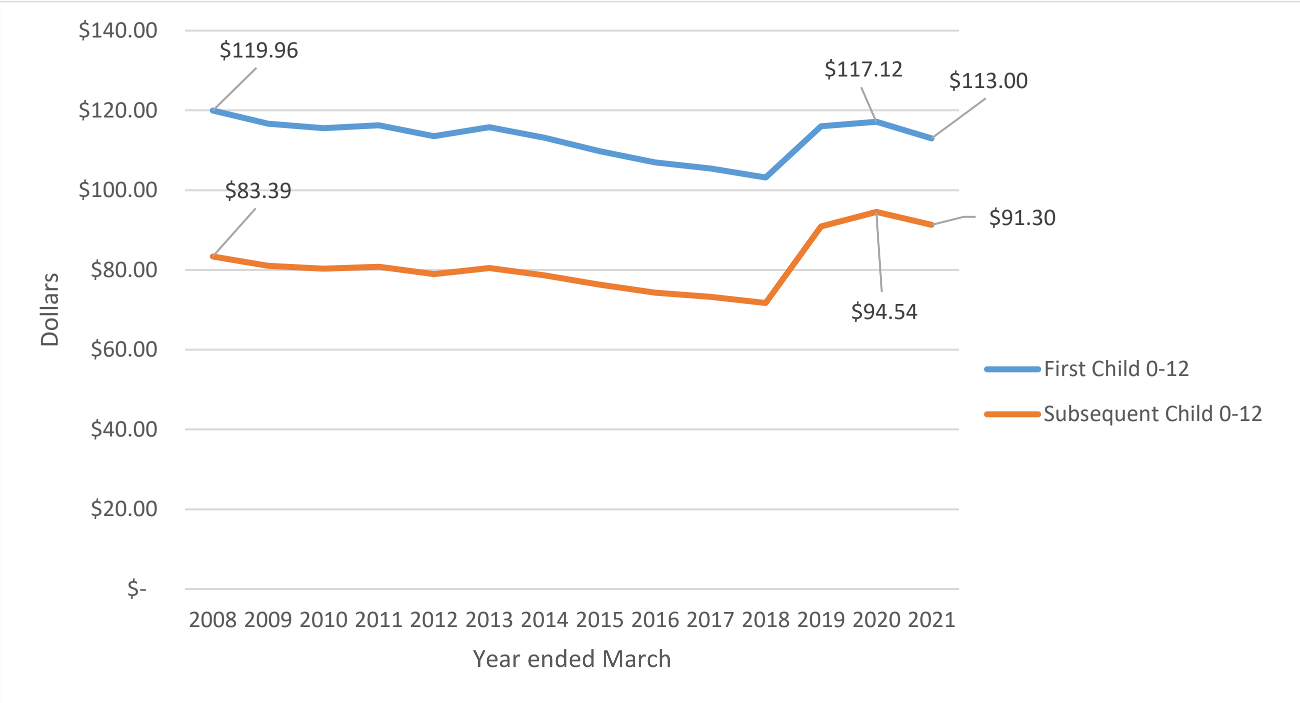
[4] This threshold is still very low when compared to the Australian system, where the base threshold at the time of writing is $55,626 (Australian Government, 2021; see Neuwelt-Kearns and St John, 2020 for a full comparison of the Australian and New Zealand systems).

having different rates according to age, towards single first child and subsequent child rates, based on the then-highest pay rates, which were those for older children (aged 16-18). Because of this shift towards single payment rates across age brackets, young people aged 16-18 have received none of the significant increases between 2008 and 2021 received by children 0-16.

Wage-adjusted values

Figure 6 shows that the Families Package roughly recovered FTC payment rates for first children 0-12 to their 2008 levels, while it increased rates for subsequent children 0-12 by 13 percent beyond 2008 levels (as at year ending March 2020). However, relative to wages, these payment rates erode from 2019/20 to 2020/21, demonstrating how without proper indexation, gains made through the Families Package are lost.

Figure 6: Maximum weekly FTC rates for children aged 0-12 (annual average), indexed to wages 2008-2021 (Q3 2020 dollars)



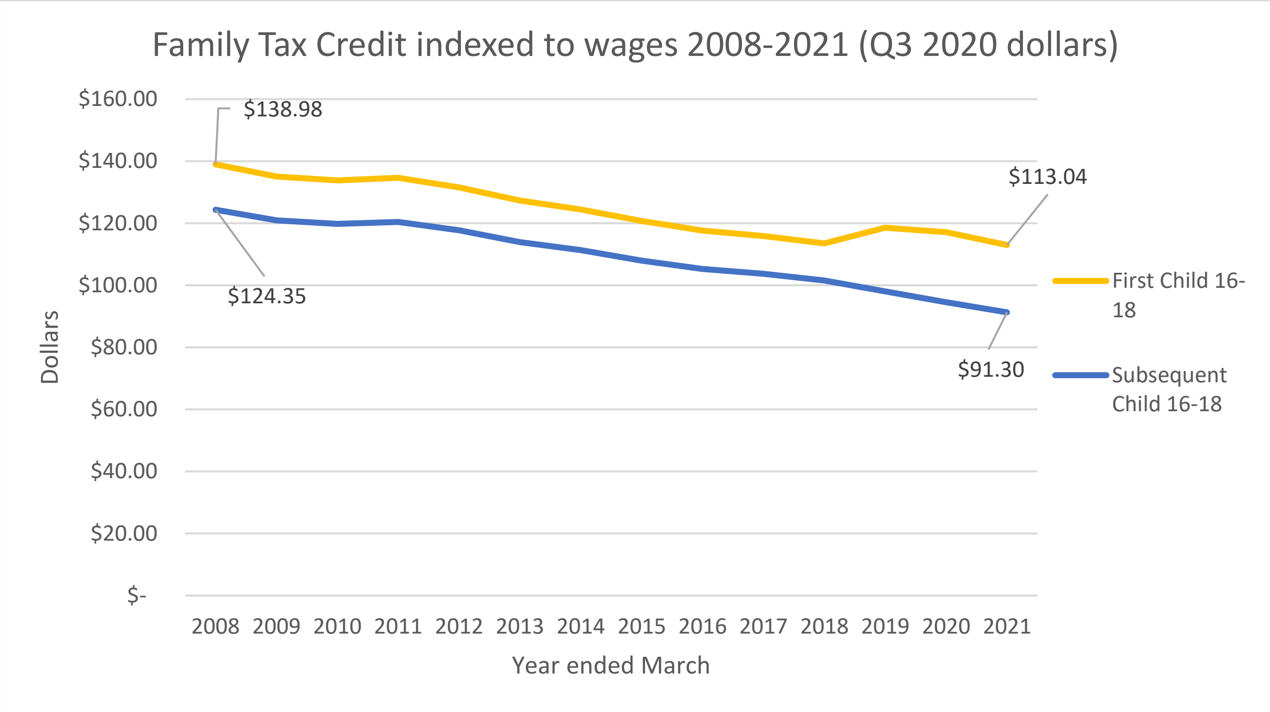
Erosion in value has been more significant for rangatahi (young people), albeit starting from a higher point. Figure 7 illustrates a 19 percent decrease in the value of rates for first children aged 16-18 between 2008 and 2021, and a 27 percent decrease for subsequent children aged 16-18.[5] The Families Package had almost no impact for young people, with a 4 percent increase for first children aged 16-18 in the year ending March 2019 that entirely eroded within two years, and no increase at all for subsequent children aged 16-18.

These substantial and ongoing erosions over many years without relief will have increased the already acute financial stress for families with young people. For instance, young people do not benefit from free doctors' visits like those aged 13 and under, and in Tāmaki

[5] If a child is still at school or in tertiary study when they turn 18 their family can receive payments until 31 December of that year.

Makaurau, they do not benefit from free weekend public transport and swimming pool visits like their younger peers. Further, older children often require higher food and clothing budgets than younger children. The assumption seems to be that young people in low-income families – who are still at school in their NCEA qualification years – will start paid employment in order to make up for these likely shortfalls. But while government policy neglects to address their needs, it also treats them as second-class employees who have a lower "starting out" minimum wage for at least 6 months.

Figure 7: Weekly maximum FTC rates for young people 16-18 (annual average), indexed to wages 2008-2021 (Q3 2020 dollars)



In-Work Tax Credit

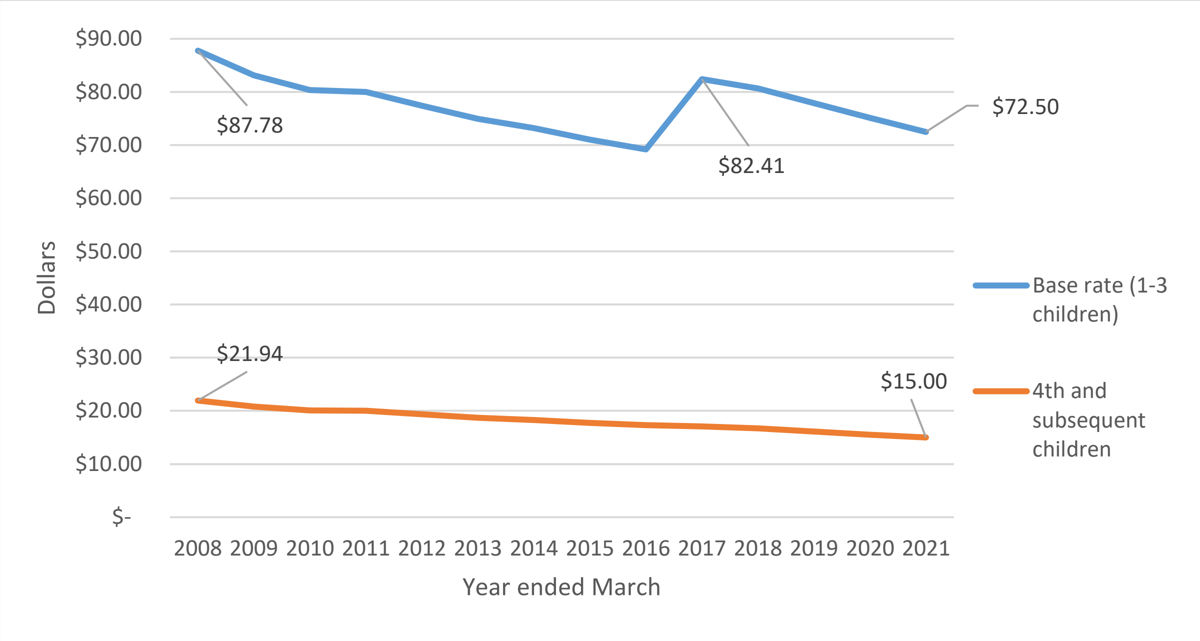
Nominal values

The IWTC was first introduced in 2006 (initially named the 'in work payment'), at $60 for a family's first three children, and $15 for any subsequent children. This rate remained stagnant until 2017, when the base rate (1-3 children) was increased by $12.50 per week (see Table 8, Appendix A). The rate for subsequent children was not increased. These respective rates of $72.50 and $15 have remained in place until present.

Wage-adjusted values

When wage-adjusted, the IWTC declines in value over time. The base rate declines by 17 percent between 2008 and 2021, while the rate for subsequent children declines by 32 percent (see Figure 8; Table 9). While the April 2016 increase to the base rate recovers some of the erosion, without indexation, its value again declines following this 2016 increase.

Figure 8: Weekly IWTC maximum rates (annual average) indexed to wages 2008-2021 (in Q3 2020 dollars)



Modelling

In this section, we model changes in WFF rates as they affect six representative families.[6] We index rates over time to movement in wages, highlighting how without proper indexation, the value of payments erode over time. Our representative families vary in number of children, and whether they are on- or off-benefit (see Table 2 for details).

Table 2: Details of representative families used for modelling purposes

Family number	Number of children	On/off-benefit
Family One	One child between 3 and 12 years old	Off-benefit
Family Two		On-benefit
Family Three	Three children between 3 and 12 years old	Off-benefit
Family Four		On-benefit
Family Five	Six children (four children 3-12, two children 16-18)	Off-benefit
Family Six		On-benefit

Overall trends

While the Families Package increased WFF payments, much of this increase was 'catch-up' for erosion in value over the previous 10 years.

[6] Modelling has been done on a separate spreadsheet that will be updated as a living document, available upon request. The wage index used is taken from the Reserve Bank Calculator. Calculated rates are maximum rates, and thus assume that these representative families fall below the abatement thresholds listed in Appendix A, Table 5. These rates are inclusive of the two biggest WFF tax credits, the Family Tax Credit and the In-Work Tax Credit. The Best Start payment is not considered, as it only available for children under 3, and requires a separate analysis to account for the loss of the Parental Tax Credit, its predecessor.

As a point-in-time increase, the Families Package appeared to boost WFF payments significantly; however, against a backdrop of erosion in value over the last 10 years, the Families Package largely reflects a restoration of incomes to where they were at 2008 levels. This is visible in Figures 9, 10 and 11 which graph WFF rates for our six model families over time, as indexed to wages. By the year ended March 2020, when families had received a full April-March year of the new rate of FTC payment from the Families Package, only two of our six model families were better off than they would have been in the year ending March 2008 (see Table 3). Our model families ranged from 7 percent worse off to 7 percent better off, reflecting the fact that the Families Package was largely a catch-up in wage movements since 2008.

Table 3: Difference in value of average weekly WFF payments (as a result of the Families Package introduced July 2018 (wage-indexed, in Q3 2020 dollars)) March year 2019/20 vs 2007/08

Example family	**Difference in value of average WFF payments in year ended March 2020 vs 2008 (wage-indexed, in Q3 2020 dollars)**
Family One (1 ch, off benefit)	-7 percent less in year ended March 2020 ($15.51 p/w)
Family Two (1 ch, on benefit)	-2 percent less in year ended March 2020 ($2.84 p/w)
Family Three (3 ch, off benefit)	+2 percent more in year ended March 2020 ($6.79 p/w)
Family Four (3 ch, on benefit)	+7 percent more in year ended March 2020 ($19.46 p/w)
Family Five (6 ch, off benefit)	-7 percent less in year ended March 2020 ($52.93 p/w)
Family Six (6 ch, on benefit)	-3 percent less in year ended March 2020 ($21.06 p/w)

Figure 9: Family One & Family Two max weekly WFF rates (annual average), wage indexed for 2008-2021 (in Q3 2020 dollars)

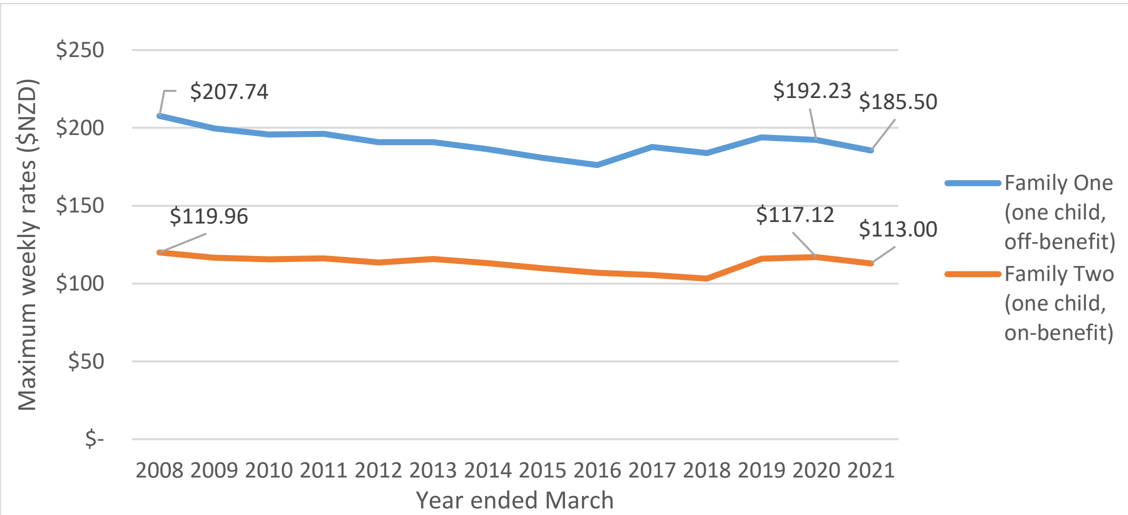


Figure 10: Family Three and Family Four max weekly WFF rates (annual average), wage indexed for 2008-21 (in Q3 2020 dollars)

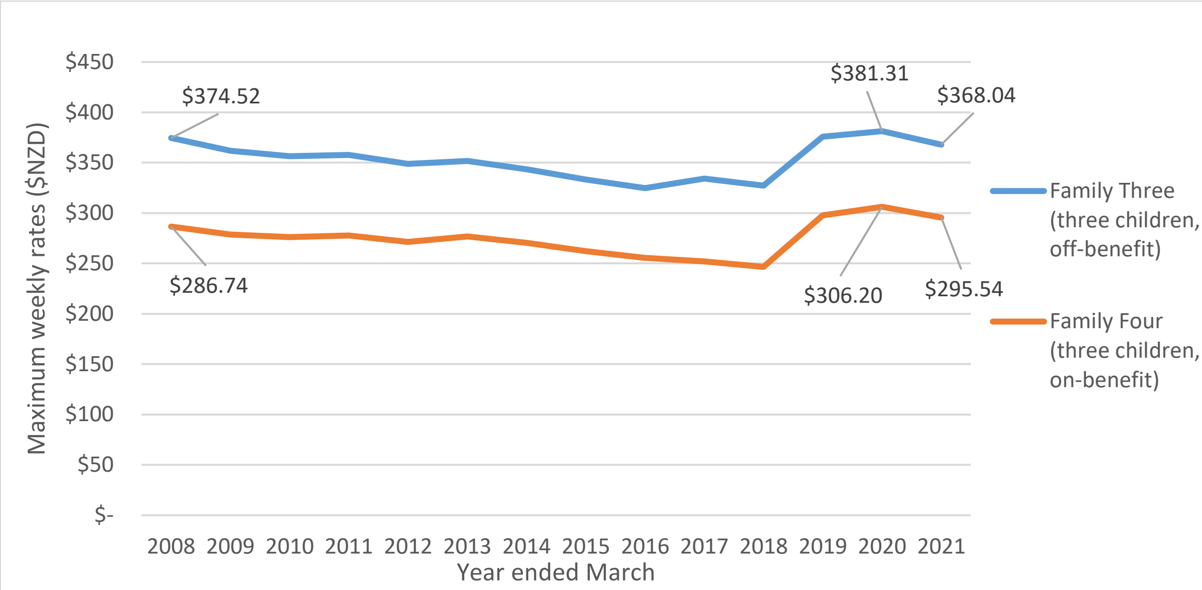
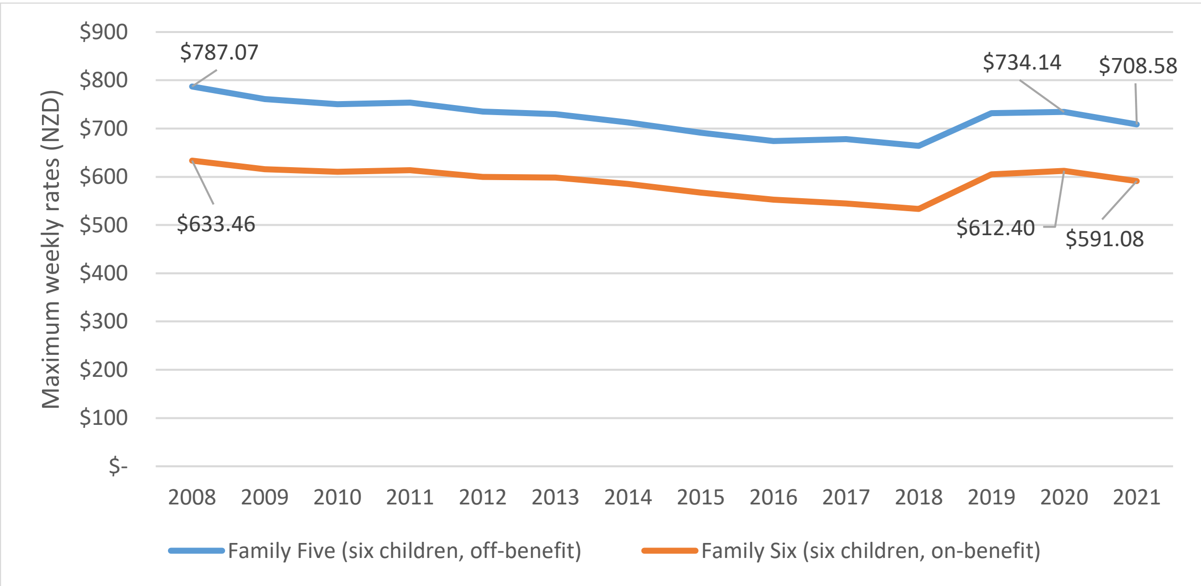


Figure 11: Family Five and Family Six max weekly WFF rates (annual average), wage indexed for 2008-21 (in Q3 2020 dollars)



Without proper indexation, the real value of WFF payments erodes as soon as increases are made.

Two years on from the Families Package, its WFF gains for family incomes are already losing value, as WFF is not properly indexed. This erosion between 2020 and 2021 is visible for our model families in Figures 9, 10 and 11.

This erosion is particularly evident when we model what weekly WFF payments would be for our families had WFF been indexed to wages at the time of the Families Package. Table 4 presents this modelling, using the increased FTC payment rates from the Families Package indexed to a Q4 2018 base year (note calculations are for years ending June to accurately capture the introduction of the Families Package on 1 July 2018).

As our modelling demonstrates, a family of three in low paid work off-benefit would be receiving roughly $27 more per week, if WFF rates had been indexed to increases in wages, while a family of three on-benefit could be receiving roughly $22 more per week. These amounts are significant enough to be the difference between sending an older child to the GP and not; or between buying good protein in the weekly shopping for children and not. The cumulative relative loss due to lack of wage indexation over the two years to June 2021 is also significant; our modelling suggests a three-child family in low paid work off-benefit missed out on roughly $1,900, while a six-child family on-benefit missed out on over $3,000 in relative value.

Table 4: Weekly WFF rates for six model families, indexed to wages (2019 base year) for years ending June 2019-2021, calculating cumulative relative loss without this indexation

Family number	**Nominal WFF weekly payment years ending June 2019, 2020 and 2021**	**Wage indexed WFF rate for year ending June 2020** ***(and difference against nominal rate)***	**Wage indexed WFF rate for year ending June 2021** ***(and difference against nominal rate)***	**Cumulative total loss between June 2019 and June 2021 due to lack of wage indexation**
Family One (off-b)	$185.54	$190.54 *($5.00 more p/w)*	$199.28 *($13.74 more p/w)*	*$974.55*
Family Two (on-b)	$113.04	$116.08 *($3.04 more p/w)*	$121.41 *($8.37 more p/w)*	*$593.75*
Family Three (off-b)	$368.04	$377.95 *($9.91 more p/w)*	$395.30 *($27.26 more p/w)*	*$1,933.14*
Family Four (on-b)	$295.54	$303.50 *($7.96 more p/w)*	$317.43 *($21.89 more p/w)*	*$1,552.33*
Family Five (off-b)	$708.58	$727.67 *(19.09 more p/w)*	$761.07 *($52.49 more p/w)*	*$3,721.83*
Family Six (on-b)	$591.08	$607.00 *($15.92 more p/w)*	$634.86 *($43.78 more p/w)*	*$3,104.66*

Hence our recommendation:

> Index annually all Working for Families payments to wages, as is done for NZ Super-annuation and benefits, in order to prevent ongoing erosion of income support for children.

Those children living in households receiving main benefits continue to be left further behind.

As CPAG has long argued, tying a payment for children to an attempted paid-work incentive is discriminatory and unjust (Dale et al., 2010; St John, 2012, 2020). Despite the removal of the minimum number of paid-work hours requirement for the IWTC in response to Covid-19 (IRD, 2021e), families must still have "some income from paid work each week" in order to be eligible, and they must not be receiving an income-tested benefit (IRD, 2021c). As Figures 9, 10 and 11 illustrate, this has resulted in a significant and persistent disparity in the level of income support for children in households receiving income-tested benefits (orange lines), and other low-income children (blue lines).

This differential rate for those in and out of paid work is unjustified. Moreover, many families in paid work also miss out on IWTC because they're receiving benefits as well as being in paid part-time employment. In addition, partially thanks to the recent increases in the minimum wage, there's a substantial gap between paid work and benefit-only income, even if the IWTC were extended to all families (McAllister & St John, forthcoming). Further, the fallout of Covid-19 means more children are living in main benefit-receiving households. With 23,800 more children in benefit-receiving households in December 2020 than in December 2019 (MSD, 2021), there is even greater urgency to close this discriminatory gap between those in benefit-receiving households, and other low-income children, in order to address child poverty in NZ.

Conclusion

Income support for children is an investment in our future (Welfare Expert Advisory Group, 2018). As such, WFF payments – which are payments for children – must be adequate and accessible, so that all are able to flourish, regardless of the socioeconomic status of their family. At present, the value of WFF payments and abatement threshold are left to erode; only the FTC is indexed, and this increases only when the CPI exceeds a 5% threshold. All other changes to WFF rates and the abatement threshold have been ad hoc.

In line with NZ Superannuation – which is a successful antipoverty tool for the elderly, in large part because it is linked to wages (Perry, 2019, pp. 182) – and in line with the recent indexation of core benefits, WFF should be indexed to wages. The Coalition Government explained in 2019 when they indexed benefits to wages that "the gap between the living standards of beneficiaries and other New Zealanders has grown" (New Zealand Government, 2019). In a similar vein, we are witnessing growing inequality in the living standards between children in low-income households – under current settings, particularly those whose parents are out of paid work – and all other NZ children. This inequality must be addressed, and indexing WFF is a crucial step in this direction.

The fact that WFF is not fully and consistently indexed has enabled successive governments to make overstated claims about how much they are doing for children in low-income households, when in fact, increases to some parts of WFF have largely reflected 'catch-up' to where they would have been, were they properly indexed. While the 2018 Families Package made a noteworthy difference in WFF payments for eligible families, our modelling suggests that many families would have still been better off in the year ending March 2008 than in the year ending March 2020 (in 2020 dollar terms). Further, without proper indexation, the value of payments begins to erode as soon as they are increased; as this backgrounder has demonstrated, the cumulative loss of income to families since the introduction of the Families Package is significant, and will be contributing to deepening hardship among those who are worst off.

While a raft of other policies are required for income adequacy for low-income children, WFF indexation is a comparatively simple policy decision that will ensure these payments do not erode further in future. On its own, indexation does not represent significant investment in children in the immediate term, with our modelling suggesting an index-only cost of $51 million in the first year if implemented on 1 July 2021.[7] This is a merely a backstop measure to stop regression, not a cut-price panacea. However, it will ensure any actual future progress will be 'baked-in' to the system, to ensure minimum income support is future-proofed for successive cohorts of children. Child-specific payments must support whānau and families to give children the best possible start.

[7] Forecasted WFF spend for year ending June 2022 is roughly $3 billion (New Zealand Treasury, 2020), while Treasury's forecasted wage growth in the year to June 2022 is 2.5 percent (MBIE, 2020). The Family Tax Credit is forecasted to be $2 billion of this $3 billion spending. The Family Tax Credit is roughly indexed to CPI (albeit only when threshold exceeds 5%), which is expected to grow 1.2 percent in the year to June 2022 (MBIE, 2020). This costed figure therefore reflects the extra spending required over and above CPI indexation for the Family Tax Credit to be indexed to wages, as well as wage indexation of the additional (non-FTC) $1 billion of WFF spending.

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Appendix A: Selected WFF rates 2008 to 2021

Table 5: Working for Families abatement threshold and abatement rate (averaged over year) for years ending March 2008-21

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Threshold	35,000	35,913	36,827	36,827	36,827	36,350	36,350	36,350	36,350	36,350	36,350	41,116	42,700	42,700
Rate	20%	20%	20%	20%	20.00%	21.25%	21.25%	21.25%	21.25%	22.50%	22.50%	25%	25%	25%

Table 6: Average weekly Family Tax Credit nominal values for years ended March 2008 to 2021

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Aged 0-15	*First*	82	84.15	86.29	87.17	88.04	92.73	92.73	92.73	92.73	92.73	92.73	107.96	113.04	113.04
Aged 0-12	*Subsequent*	57	58.49	59.98	60.59	61.19	64.44	64.44	64.44	64.44	64.44	64.44	84.55	91.25	91.25
Aged 13-15	*Subsequent*	65	66.7	68.4	69.1	69.79	73.5	73.5	73.5	73.5	73.5	73.5	84.55	91.25	91.25
Aged 16-18	*First*	95	97.48	99.96	100.97	101.98	101.98	101.98	101.98	101.98	101.98	101.98	110.28	113.04	113.04
Aged 16-18	*Subsequent*	85	87.22	89.44	90.35	91.25	91.25	91.25	91.25	91.25	91.25	91.25	91.25	91.25	91.25

Table 7: Family Tax Credit average weekly rates for years ending March 2008-2021, indexed to wages (in Q3 2020 dollars)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Aged 0-15	*First*	120.0	116.6	115.5	116.2	113.6	115.8	113.1	109.7	106.9	105.4	103.2	116.0	117.1	113.0
Aged 0-12	*Subsequent*	83.4	81.1	80.3	80.8	78.9	80.5	78.6	76.3	74.3	73.2	71.7	90.9	94.5	91.3
Aged 13-15	*Subsequent*	95.1	92.4	91.6	92.1	90.0	91.8	89.7	87.0	84.8	83.5	81.8	90.9	94.5	91.3
Aged 16-18	*First*	139.0	135.1	133.8	134.6	131.5	127.4	124.4	120.7	117.6	115.9	113.5	118.5	117.1	113.0
Aged 16-18	*Subsequent*	124.4	120.9	119.8	120.5	117.7	114.0	111.3	108.0	105.2	103.7	101.5	98.1	94.5	91.3

Table 8: In-Work Tax Credit nominal values for years ending March 2008-21

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Base rate (1-3 children)	60	60	60	60	60	60	60	60	60	72.5	72.5	72.5	72.5	72.5
rate (4th and subsequent)	15	15	15	15	15	15	15	15	15	15	15	15	15	15

Table 9: In-Work Tax Credit average weekly rates for years ending March 2008-2021, indexed to wages (in Q3 2020 dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Primary rate (1-3 children)	87.8	83.2	80.3	80.0	77.4	74.9	73.2	71.0	69.2	82.4	80.7	77.9	75.1	72.5
Secondary rate (4th and subsequent)	21.9	20.8	20.1	20.0	19.3	18.7	18.3	17.8	17.3	17.1	16.7	16.1	15.5	15

Appendix B: Timeline October 2008 to present of selected changes to WFF

Date	Change
1 October 2008	<u>Family Tax Credit</u> Rates increase by an anticipated movement in the CPI of 5.22%. Changes are as follows: - First child <16: $82 to $86.29 p/w - First child 16+: $95 to $99.96 p/w - Subs. child <13: $57 to $59.98 p/w - Subs. child 13-15: $65 to $68.40 p/w - Subs. child 16+: $85 to $89.44 p/w <u>Abatement</u> Abatement threshold increases to $36,827 per annum from $35,000.
1 October 2010	<u>Family Tax Credit</u> Rates increase 2.02% due to GST rate increase. Changes are as follows: - First child <16: $86.29 to $88.04 p/w - First child 16+: $99.96 to $101.98 p/w - Subs. child <13: $59.98 to $61.19 p/w - Subs. child 13-15: $68.40 to $69.79 p/w - Subs. child 16+: $89.44 to $91.25 p/w <u>Abatement</u> National-led government removes automatic indexation of abatement threshold to CPI.
1 April 2012	<u>Family Tax Credit</u> Rates for over 16 year-olds are frozen and removed from future indexation to allow them to consequently align with other age bands. Rates increase for under 16s as CPI exceeds 5%. Changes are as follows: - First child <16: $88.04 to $92.73 p/w - Subs. child <13: $61.19 to $64.44 p/w - Subs. child 13-15: $69.79 to $73.50 p/w <u>Abatement</u> Increase in abatement rate to 21.25% (from 20%) and decrease in abatement threshold to $36,350 p/a (from $36,827).
1 April 2016	<u>In-Work Tax Credit</u> Primary rate (1-3 children) increases $12.50 per week (from $60 to $72.50) <u>Abatement</u> Abatement rate increases from 21.25% to 22.5%.

1 April 2018 (repealed)	*Family Tax Credit* *Rates for under 16s increase. Changes are as follows:* - *First child <16: $92.73 to $101.98 p/w* - *Subs. child <13: $64.44 to $91.25 p/w* - *Subs. child 13-15: $73.50 to $91.25 p/w* *Abatement* *Abatement rate increases from 22.5% to 25%. Abatement threshold decreases from $36,3500 to $35,000.*
1 July 2018	Family Tax Credit Rates increase as follows: - Eldest child: $113.04 p/w - Subsequent children: $91.25 p/w Best Start Best Start tax credit introduced for children born on or after 1 July 2018 at $60 p/w for children under 1. Best Start in the child's second and third years – threshold set at $79,000 and abatement rate 21%. Abatement Abatement rate increases from 22.5% to 25%. Abatement threshold increases from $36,350 to $42,700.
1 July 2020	In-Work Tax Credit Minimum work hours requirement removed (previously at least 30 hours combined for couples, and 20 hours for single parents). Families still must have some income from paid work each week, and must not be on an income-tested benefit.