CHiLD POVERTY ACTION GROUP

The contribution of rental affordability to child poverty in Aotearoa:

Reviewing social support payments for private renters

looking at systemic limitations within our income support systems

Greg Waite
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Our mission

Founded in 1994, the Child Poverty Action Group (CPAG) is an independent, registered charity working to eliminate child poverty in Aotearoa New Zealand through research, education and advocacy.

Our work

CPAG produces research about the causes and effects of poverty on children and their whānau and families, and uses this to inform public discussion and promote evidence-based responses.

CPAG is funded entirely by grants from charitable trusts and donations from the public. Our members across New Zealand include leading academics, doctors, teachers, health workers, community workers and many others.

Our work covers issues such as health, housing, education, taxation, disability, employment and income support.

Our focus on children

CPAG focuses on eliminating poverty for children because:

Overall effects of poverty are worse 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; state democracy involves only adults.

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Overview

This is the third paper in a series, looking at systemic limitations within our income support systems. The first paper introduces a new approach to measuring rental affordability and the second paper develops benchmark rents for affordable homes at three income levels – median wages, low wages and benefits – to measure changes in the supply of affordable rental stock over time.

Executive Summary

In 2019 the Welfare Expert Advisory Group (WEAG) report *Whakamana Tāngata* recommended increases to social support payments so all households had sufficient income to afford a basic standard of living. To estimate this level of income, they costed and consulted on budgets for singles, couples, sharers and complex families; for the employed, those searching for employment and full-time parenting.

Those budgets, updated for inflation, are combined with national tax, benefit and rent data to measure rental affordability and to illustrate limitations in six aspects of our current income support system:

1. Accommodation Supplement design and effectiveness
2. Working For Families tax credits
3. Inflation indexation
4. High marginal tax rates disincentivise employment
5. Systemic clawbacks which reduce benefit increases
6. Systemic complexity and missed entitlements

Past reports from the WEAG and CPAG have documented inequity and inconsistency in our social support system[1]. This paper provides additional evidence on systemic flaws to encourage continuing progress towards social supports which are adequate, evidence-based and adjusted annually for inflation.

Over the longer term, the *Whakamana Tāngata* report also proposed a very different trust-based social support system where personalised solutions focused on long-term outcomes. The failure of the current system is clearly shown by the $2.4 billion owed today to the Ministry of Social Development by our poorest citizens[2].

Part 1. Accommodation supplement design and effectiveness

The Accommodation Supplement is a subsidy to help private renters and some homeowners. It was paid to 343,572 persons in March 2023, with 89,979 receiving temporary additional support for "essential living costs". Emergency housing special needs grants were also paid to 24,381 persons in the March 2023 quarter[3], where Accommodation Supplement payments were insufficient.

A 70% subsidy is provided for rents above an entry rent threshold and up to maximums which vary by area, income source and family size. Four areas are defined by lists of suburbs, with Area 1 intended to include the highest rents. There are different threshold rents for seven groups: Sole Parent payment, 1 child and 2+ children (2); Jobseeker benefit or employed, singles, couples and couples with children (3); and Supported Living payment, single and couple (2)[4].

The systemic problem is these rent thresholds are not indexed for inflation, and are infrequently

[1] Including WEAG (2019), Neuwalt-Kearns & St John (2021), McAllister et al (2019) and So (2023).
[2] *Cost of living: Debt to Ministry of Social Development balloons*, Michael Neilson, NZ Herald 29 May 2023.
[3] Ministry of Social Development (MSD) benefit fact sheet, 2023 Q1.
[4] Expressed another way, the rates by family size are for one, two and three-plus persons. These categories are not logically consistent with families' dwelling requirements, as singles and couples both require one bedroom and they make no allowance for larger households.

adjusted[5], so the effectiveness of the subsidy is progressively undermined in two ways: through rises in the proportion of recipients whose rent exceeds the maximum, and by reductions in payment amount because the lower threshold is pegged at 25% of benefit rates and rises with each benefit increase, narrowing the rent range which is subsidised. Any increase in the Jobseeker starting threshold is also applied to workers eligible for Accommodation Supplement.

To illustrate, between April 2021 and 2022 the starting rent threshold increased by between $14 and $34 across various benefits, which translates to payment losses from $9.80 to $23.80 for those affected (70% or 70c in each dollar of rent no longer covered). And looking at the unchanged upper threshold, a 2021 MSD review found the proportion of recipients capped at the maximum rate peaked at 56% by the end of 2017, dropped to 26% after one-off changes to thresholds in 2018, but steadily rose again to 38% by June 2021.

In Table 1 below, column one, from 30% to 48% of low income renters receive no payment. Column three shows from 26% to 46% receiving the maximum payment, so additional rent above that point receives no subsidy.

The last two columns contrast the *average weekly shortfall* as a percent of income (a measure of need) with the *average* support per household as a percent of income (a measure of support targeting). Mostly, there is a steady increase in support provided from Area 1 (lower rents) up to Area 4, consistent with the rising level of average weekly shortfalls in higher rent Areas.

Table 1. Receipt of Accommodation Supplement by Areas 1-4 compared to need (weekly shortfall as percent of income), Benefits and Low Income, June 2021

Area	**$0 %**	AS<Max %	**AS=Max %**	Acc Sup Avg	Shortfall Avg	Income Avg	**Acc Sup/ Inc %**	**Shortfall/ Inc %**
Benefit recipients and part time work								
1 = High	43%	31%	26%	113	-361	665	17%	-54%
2 rents	38%	26%	36%	81	-231	634	13%	-36%
3	30%	25%	44%	66	-151	639	10%	-24%
4	33%	21%	46%	52	-155	598	9%	-26%
Low wages								
1 = High	48%	25%	28%	85	-119	713	12%	-17%
2 rents	46%	22%	32%	55	-54	664	8%	-8%
3	44%	22%	35%	42	-8	636	7%	-1%
4	42%	25%	33%	35	-17	622	6%	-3%

Notes: 'Main benefits' includes households receiving one or more main benefits (Jobseeker, Single Parent) at the full adult rate with no earned income; 'Other benefits and part time work' includes households receiving one or more other benefits and earned income below 40 hours on the minimum wage; 'Low wages' includes up to the minimum wage plus 19%, which is the lower boundary of the median wage plus or minus 10%, so the two groups cover similar wage ranges. Couple parents income is based on one full time and one part time partner (60 hours) with no supplementary main benefit. Couples without children are both employed full-time. Single parent income is based on full time employment. Sharers assume full-time work for all adults. Excludes NZ Super, median and higher incomes.

One surprising result is the increased shortfall in Area 4 (lowest rents) compared to Area 3 for both income groups. A consistent difference in affordability across broad areas like should be driven by broad differences in either income or the settings of social assistance, since Area 4 has been

[5] More detail and discussion on the design of accommodation supplement is provided in two CPAG papers, *The Accommodation Supplement: The wrong tool to fix the house* (2021) and *The slow demise of the Accommodation Supplement* (2016)

administratively assigned based on the lowest rent suburbs. It seems unlikely that incomes are consistently higher in low rent areas of Aotearoa, but changes in affordable housing supply may mean the grading of assigned suburbs is no longer correct (see paper two of this series). Though Accommodation Supplement rates were reset in 2018, no public information could be located on changes to Area definitions. Further analysis is required to resolve this anomaly.

Since these results, lower thresholds rose rapidly in the year to June 2022 because they are set at 25% of benefits which had large increases. As a result, the starting threshold rose higher than the upper limit for most households in Areas 3 and 4, i.e. payments would be zero. When many families in Area 3 receive no rent subsidy despite higher rents than Area 4, the system is failing – not because of its design but due to the lack of indexation. To ensure greater equity, the next reset also needs to introduce annual indexation and review regional thresholds.

The Accommodation Supplement also has a very low cash and investments asset test, with payments decreasing above $2,700 and fully abated at $8,100 per person, a threshold which has not been adjusted since 1988. This is particularly harsh for renting retirees, who need sufficient savings to supplement a fixed income throughout their retirement. An increasing number of NZ Super recipients need this assistance as home ownership rates fall (Johnson, 2016).

The WEAG recommended an increase in subsidy rate from 70% to 75%. However, the continuing failure to deliver affordable private rental in Aotearoa makes a strong case for first, improving the current system through review and indexing; and second, targeting new spending on longer term solutions (social housing, incentives to build new affordable housing, shared equity rental) rather than short term subsidies.

Part 2. Working For Families tax credits

Working For Families (WFF) currently supports just under 350,000 families with children. The Cabinet Paper launching the current review said the Government was "committed to making fundamental changes to WFF in the coming years. The review will consider changes to the structure and design of WFF payments, with a focus on support for additional in-work costs, particularly childcare costs, and administrative, operational and client experience improvements".

The four payment types are:

- Family tax credit: varies with number of dependent children, income-tested
- Minimum family tax credit: tops up incomes below $34,216 (2023), required hours of work, income-tested benefits ineligible
- In-work tax credit: secondary payment, income-tested benefits ineligible, required hours of work, income-tested
- Best start tax credit: paid to all children to one year, paid to 3 years with income limit ($96,295)

The CPAG recommends paying the $72 In Work Tax Credit to all families with children, while the 2019 WEAG recommendations were:

- increasing Family Tax Credit to $170 for the eldest child and $120 for subsequent children
- increasing the abatement threshold for Family Tax Credit and changing the abatement rates
- combining the In-Work, Minimum Family and Independent Earner Tax Credits
- introducing an Earned Income Tax Credit of up to $50 a week
- making the Best Start Tax Credit universal for all children aged under 3 years.

Table 2. Receipt of Working For Families by household type compared to need (weekly shortfall as percent of income), Benefits and Low Income, June 2021

Payment type	Single	Couple	Single parent	Couple parent
1. Benefits and part time work				
Family Tax Credit	0	0	166	133
Best Start Tax Credit	0	0	61	44
Min Family Tax Credit	0	0	3	0
In Work Tax Credit	0	0	13	32
Support ($Total)	0	0	243	209
Shortfall ($)	-240	-143	-157	-454
Income ($)	397	833	852	887
Support (% of income)	0%	0%	29%	24%
Shortfall (% of income)	-60%	-17%	-18%	-51%
2. Low Wages				
Family Tax Credit	0	0	141	89
Best Start Tax Credit	0	0	S	41
Min Family Tax Credit	0	0	2	0
In Work Tax Credit	0	0	54	41
Support ($Total)	0	0	197	171
Shortfall ($)	137	450	83	-11
Income ($)	818	1,492	1,164	1,349
Support (% of income)	0%	0%	17%	13%
Shortfall (% of income)	17%	30%	7%	-1%

Notes: Includes only singles, couples and single-family households. 'Main benefits' includes households receiving one or more main benefits (Jobseeker, Single Parent) at the full adult rate with no earned income; 'Other benefits and part time work' includes households receiving one or more other benefits and earned income below 40 hours on the minimum wage; 'Low wages' includes up to the minimum wage plus 19%, which is the lower boundary of the median wage plus or minus 10%, so the two groups cover similar wage ranges. Couple parents income is based on one full time and one part time partner (60 hours) with no supplementary main benefit. Couples without children are both employed full-time. Single parent income is based on full time employment. Sharers assume full-time work for all adults. Excludes NZ Super, median and higher incomes.

Table 2 above contrasts the overall contributions of Working For Families payments with the average affordability shortfalls for different households to measure if targeting improves equity. Equitable in this context means social support is targeted in proportion to need.

Here, the *average weekly shortfall* as a percent of income (a measure of need) is contrasted with the *average support* per household as a percent of income (a measure of support targeting). The previous papers in this series included median rather than average shortfalls and payments because they are representative of typical households. The median or typical shortfall is a suitable headline measure of comparative need, but averages are preferred here to measure overall assistance.

Since Working For Families payments vary by employment, income and household type, two income levels are compared across the main household types. The income levels are 1. all benefits and part time work (earned income less than 40 hours at minimum wage rates); and 2. the low wage group.

In both income levels, single parents face significantly smaller weekly shortfalls than couple parents (18% vs 51% for benefits and part time work, 7% surplus vs 1% shortfall on low wages). In contrast, for both income levels, single parents receive a higher level of support than couple parents (29% of income vs 24% for benefits and part time work, 17% vs 13% on low wages). Low income single parents have less options and greater risks related to employment income, so some difference may be an intended policy outcome. As Table 5 in paper one of this series showed, 2021-22 benefit increases narrowed this affordability gap between single and couple parents while increasing support for both household types.

Although Working For Families is only for families with children, singles and couples are also shown in this comparison to highlight the comparative difficulties faced by single persons with very high average weekly shortfalls (60% of income for 'Benefits and part time work').

Part 3. Inflation indexation

After 1 April 2020, annual benefit increases were aligned with NZ Super and tied to annual movements in average wages. This was an essential first step towards creating a sustainable benefit system. Reliance on occasional one-off increases had meant equity declined between decisions, leaving the most vulnerable worse off as political cycles evolve.

Automatic indexation of secondary payments is a natural second step to align with main benefit updates. Indexation is not applied to either the Accommodation Supplement thresholds or Working For Families with the result noted in Part 1, where Treasury's 2023 budget forecasted declining real payments until 2027. Indexation is similarly essential for income limits and abatement thresholds. Annual indexation of tax rates would also ensure more consistent incomes for low-wage workers.

Part 4. High marginal tax rates disincentivise employment

Low thresholds for reduced benefits and payments which are not available to those on part benefits combine to produce very high effective marginal tax rates, a huge disincentive for struggling families during returns to work or when income is variable. The WEAG noted "The income support system needs to support the outcomes of good and appropriate work by ensuring people are financially better off in paid work. This requires abatement rates (and effective marginal tax rates) to be reasonable, especially at the point when people are entering work."

CPAG has recommended decreasing the WFF abatement rate to 20% to lower the effective marginal tax rates on low income working families and improve the returns from work, and increasing the threshold for abatement of benefits to 10 hours at the minimum wage[6]. An even higher abatement threshold for a fixed period at the start of returns to work would both incentivise and ease the transition.

The WEAG also recommended "replacing the current work incentive tax credits with a new tax credit targeted at those on a benefit entering into paid work, including part-time work. Alongside an increase in various abatement thresholds, this will maintain the incentive to work that might otherwise be affected by increases in main benefit rates." CPAG recommends a more direct response, extending this payment to all families with children on benefits whether working or not.

Part 5. Systemic clawbacks which reduce benefit increases

Increases to benefits produce an offsetting reduction in the Accommodation Supplement. The starting rent for this 70% subsidy is pegged to 25% of main benefits and rises with each benefit increase, but the maximum rent is rarely changed. This reduces the real value of payments over time. And for the minority who receive Temporary Additional Support, increases in a main benefit or secondary payment can result in a reduced calculation of TAS entitlement.

[6] CPAG submission: Working for Families Tax Credits Review, 17 April 2022.

Part 6. Systemic complexity and missed entitlements

The WEAG recommended the income support system proactively supports people to access their full and correct entitlements and promotes these entitlements to the broader population. They also noted "The system at its heart disempowers those it is set up to serve, by not providing enough time or private space for staff to hear people's stories, by being overly complex so it is difficult to access full entitlements and processing delays are common, by having stand-downs, sanctions, and unnecessary obligations, and through the inconsistent application of policies and discretion."

Table 3. Coverage rates for secondary payments by household type (% of all families), June 2021

Payment type	Single	Couple	Unrelated sharers	Single parent	Couple parent	Complex w/children	Complex sharers
Main benefit recipients at full adult rate							
Family Tax Credit	1	2	2	97	96	89	S
Best Start Tax Credit*	0	0	0	95	100	71	0
Min Family Tax Credit	0	0	0	0	0	0	S
In Work Tax Credit	0	0	0	7	24	15	S
Accommodation Supplement	92	92	84	98	95	95	S
Temporary Additional Support	68	73	35	45	38	49	S
Winter Energy Payment	100	100	100	100	100	97	S
Other benefits and part time work							
Family Tax Credit	1	1	1	92	67	59	27
Best Start Tax Credit	0	0	0	82	82	69	0
Min Family Tax Credit	0	0	0	5	0	1	1
In Work Tax Credit	1	1	0	35	54	40	17
Accommodation Supplement	56	29	63	83	50	48	58
Temporary Additional Support	28	8	19	11	4	8	23
Winter Energy Payment	54	23	74	56	19	29	47
Low wages							
Family Tax Credit	1	S	S	95	63	38	5
Best Start Tax Credit	0	0	0	S	78	61	0
Min Family Tax Credit	0	0	0	3	0	1	0
In Work Tax Credit	1	1	0	82	64	39	6
Accomodation Supplement	13	10	25	80	37	33	27
Temporary Additional Support	1	2	3	2	2	2	4
Winter Energy Payment	17	29	25	12	7	19	30

Notes: *Best Start Tax Credit (BSTC) coverage rate denominator includes only households with children under three. Income definitions specified in Table 1. 'S' values with small counts suppressed to protect confidentiality.

Table 3 above illustrates the partial coverage of many secondary payments as a result of complex targeting rules and difficult application processes. Although households on part and other benefits with part time work have similar affordability pressures to main benefit recipients at full rates, their rate of receipt for all payments is significantly less. The minimum family tax credit is received by very few low income working families, although it also targets this group.

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