



What it will take to have a welfare system fit for families in the 21st century

Child Poverty Action Group

Introduction

No-one is immune from life's challenges, and in the 21st century families face many uncertainties and hazards, including rising costs of living that outstrip benefits and wages, and the precarity of paid work. Policy settings of successive governments, over the last 30 years, have ensured those challenges have become greater for New Zealand families. Shamefully, instead of ensuring we all have enough to live on no matter what our circumstances, New Zealand's system of welfare is now part of the problem, providing too little, to too few. Many of us experience barriers when we seek help, including unfair treatment by those whose job it is to support us. Families need better help than this.

CPAG welcomes 2018 developments such as the Families Package, the Child Poverty Reduction Bill and the Government's acknowledgement – in the form of the Welfare Expert Advisory Group – that a concentrated effort is required to reverse generations of poverty entrenchment. We are pleased that “the Government's vision is for a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities” (WEAG Terms of Reference par 2). The WEAG – and the nation with it – has a great opportunity to ensure this vision is realised.

Informed by more than 25 years of observation and research on the welfare system and welfare changes, this paper is designed to assist the deliberations of the WEAG. CPAG outlines recommendations of the *minimum* welfare policy changes required for families

to have an adequate income, standard of living, dignity and meaningful social participation.

Reform should be guided by principles of compassion and caring, and the real needs of families, acknowledging that parenting itself is significant work without stressful over-emphasis on paid employment requirements, and punitive, corrective methods. It is encouraging to see that the terms of reference of WEAG makes this goal clear.

This Government acknowledges that an improved social welfare system is also an important lever to achieve one of its main priorities of improving the wellbeing of children, especially those who are economically disadvantaged, and to reduce the rates of children experiencing poverty. The emphasis of our social welfare system is on delivering compassionate, timely and appropriate support for those in need.
(WEAG ToR paragraph 4)

CPAG's policy recommendations specific to benefits, tax credits, benefit sanctions and relationships could be easily and cost-effectively implemented. For more information on CPAG's recommendations please refer to the “Further reading” material listed at the end of this document.

Inadequacy of welfare benefits, tax credits and other supplementary payments

As a first and immediate response to the need for improved incomes for low-income families, to improve children's chances of thriving, and to increase their capacity for participation in society, CPAG recommends that the Government:

1. **Establish an income that gives an adequate standard of living for different family types in Aotearoa-New Zealand, and use this as the basis for determining benefit levels and tax credits for children.**
 - Past studies have suggested the 60% median is an appropriate minimum income. These studies were performed nearly three decades ago and are in need of updating.
2. **Immediately increase all core benefits substantially, by at least 20%.**
 - Prior to the Families Package in 2018, sole parents and couples with children whose income is from core benefits only (including Working for Families, but not including Temporary Additional Support and Special benefits) had an estimated after-housing-costs (AHC) income of between 21% and 35%, well below even the lowest income poverty threshold of 40% (of the national equivalised median AHC). A sole parent with two children needs about \$309 per week in addition to the core benefit, to increase their household disposable income to just the 50% threshold, never mind the 60% threshold.
 - Benefit and tax credit levels have been too low to support families. The need for hardship grants from Work and Income, particularly for food and housing, has soared over the past few years. Thousands of parents have been forced into debt to meet their families' basic needs or to pay an emergency bill, or they have relied on charity to ensure children are fed and clothed. The Families Package delivers well under what is needed.
3. **Over time, reduce the use of the Accommodation Supplement (AS) by shifting housing assistance into higher Working for Families (WFF) tax credits and benefits.**
 - There are fundamental problems with the Accommodation Supplement. Currently, applicants are required to provide evidence of a rental being paid in order to be eligible, payments are insensitive to household size, and the AS may lead to higher rents being charged by landlords. For low-income working families, WFF and AS abatements compound to reduce the extra value of every dollar earned by a combined 50% in addition to taxation and other compulsory payments such as for student loans.
 - The AS is not indexed, so it reduces in real value as housing and other costs rise. More reliance on other mechanisms such as WFF and benefit levels can improve sensitivity to household size and need.¹
4. **Remove the cash asset test, pending a thorough review of the Accommodation Supplement.**
 - People who receive an AS are not able to hold cash assets above a very low level. This negates the ability of families to save money for necessities or even to put money toward a deposit on a home of their own.
5. **Abolish the In-Work Tax Credit (IWTC) and add \$72.50 to the first child Family Tax Credit (the In-Work Tax Credit is currently given only to families in 'paid work'). At the very least, remove the minimum hours paid work criterion from the IWTC.**
 - A persistent and damaging focus on paid work as the priority over providing care for young children has meant that the children of beneficiary families and those with insufficient hours of paid work receive less in weekly WFF tax credits than others on low incomes. The In-Work Tax Credit (IWTC), worth at least \$72.50 a week, has failed as a work incentive but is a needed payment for all low-income children. Low-income families who do not get the IWTC are those experiencing the most severe poverty. This is a cost-effective policy because it provides more income only to those who are worst-off.
6. **Reset Working for Families abatement rates to 20%.**
 - Every extra dollar a family earns over the current fixed threshold reduces their WFF tax credits far too sharply leading to negative impacts for 'working' poor families.
7. **Implement full annual indexation for all WFF rates and abatement thresholds and introduce a link to wage growth for WFF and benefits as is done for New Zealand Superannuation.**
 - While the recent Families Package is a welcome catch-up, tax credits for children are set to erode again through a lack of annual increases, and rising costs such as fuel tax. CPI indexing alone has been one reason beneficiaries and low-income working families keep falling further behind average living standards.
8. **Allow welfare beneficiaries to earn more from paid work before their benefits are reduced – at least 10 hours at the minimum wage rate currently \$165, for each person**

¹ A supplementary paper by CPAG on reform of the Accommodation Supplement is currently in progress, and will be available later in 2018.

- Benefits abate far too sharply from a very low income level of \$80-\$100 per week. The income levels have not been indexed and are largely unchanged from the 1980s.
 - Each person in a couple on a benefit should have their own individual level of income before abatement. Currently the couple can only have \$80 between them.
- 9. Make the new Best Start payment for babies a part of WFF to save unnecessary expense and overlapping abatement effects.**
- While Best Start is a child-centred policy that acknowledges the importance of early childhood and has begun to ensure better support for all children under three, it is made complex by overlapping abatements. Currently Best Start, from \$79,000, abates at 20.8% on top of the 25% abatement of WFF. It would be better if integrated into the WFF package.
- 10. Make Best Start more inclusive by including all children under one in the first year of implementation, all those under two in the second year and all those under three in the third year.**
- Best Start has created unfairness by applying only for babies due or born on or after 1 July 2018.
- 11. Allow sole parents on the benefit to receive Child Support paid by the non-custodial parent instead of paid to the Ministry of Social Development (MSD) to offset the Sole Parent Support benefit.**
- Currently Child Support is taken by the MSD as an offset to the benefit paid. Under this recommendation, Child Support could count in the income test for the benefit.

While out of scope for WEAG, CPAG would also like to see flexible working conditions for parents of dependent children promoted more generally across the workforce in Aotearoa.

Dignity, entitlement access and benefit sanctions

As a first and immediate response to a punitive regime that disempowers New Zealanders, the Government could:

- 12. Immediately abolish benefit sanctions where the beneficiary is the primary caregiver of dependent children.**
- Benefit sanctions range from a reduction in benefit payment to a stand-down or suspension of payment for a period of time, to complete

cancellation of the benefit. It is pleasing that changes to the way sanctions are imposed in 2018 led to a 39% reduction for sole parents, nevertheless in the June 2018 quarter alone, 3371 sanctions were still applied to beneficiaries with dependent children. Many such sanctions are applied for failure to attend meetings, or when a parent fails to name the father on the welfare application. Parents may be unable to meet stringent and unfair work obligations, which can result in their incomes being reduced, and worse – cut by 50%.

- These sanctions are harmful to children and they perpetuate a blameful, stigmatising narrative around sole parents and welfare recipients. While benefit levels are already inadequate for families, sanctions create huge obstacles for parents to provide adequately for their children's basic needs. Inevitably people are ground down and deprived of the very things we want: dignity, participation, self-confidence and wellbeing. The "stick" approach is counter-productive and debilitating. A further problem is that, through misinformation or mishandling of client details, welfare beneficiaries are often denied entitlements with disastrous consequences for their children's wellbeing.
- 13. Ensure that Work and Income staff are trained sufficiently to guarantee applicants receive all the assistance to which they are entitled.**
- Beneficiaries feel judged, mistreated, insecure and apprehensive when dealing with the welfare system. We are pleased the Government has mandated the WEAG to work with MSD "to ensure that beneficiaries are treated with dignity and respect in all their interactions with the system" (WEAG ToR Par 7); culture change is urgently required and CPAG will be keenly interested in the results.

Dignity and welfare system treatment of relationships

CPAG is asking for a complete reform of law relating to relationship fraud so that a fair and just system can be put in place. CPAG also calls for removal of the harsh system of repayments even after prison terms that disadvantage children, causing harm both physically and mentally, and entrenching already high levels of child poverty.

As a first and immediate response to the current punitive approach to relationships, the Government could:

- 14. Remove the couple penalty by raising the 'married' person rate of a benefit to the single**

rate and allow each person to have the same exemption for earned income.

- Two single people who share a home are currently treated much better than a couple in the welfare system. CPAG says that removing the relationship penalty will help couples with children who tend to be the worst-off in the benefit system.
- 15. Allow sole parents to retain their benefit, if they wish, until such time as they meet criteria in accordance with the Property (Relationships) Act.**
- Sound relationships are good for children but current policy does not encourage development of such relationships and actually penalises couples. In 2018, the criteria and review process for determining a relationship as 'in the nature of marriage' are antiquated and inadequate. They are also open to different and potentially harmful interpretations by those with the power to initiate investigation. The system as a whole through unreasonable demands of both parents and their romantic partners creates unsafe situations and potentially dangerous power dynamics for parents – particularly mothers.
- 16. Abolish debt associated with convictions for so called 'relationship fraud' where a jail sentence has been served and discontinue imposing jail sentences for this 'crime'.**
- Unfair and outdated rules around relationships must be reviewed. Prosecutions of parents for 'relationship' fraud may end in prison sentences where the resultant child poverty from parental imprisonment carries an extraordinarily high private, as well as public, cost.
- 17. Establish an independent review process regarding Work and Income practices, sanctions, and entitlements for beneficiaries and low-income families and provide beneficiaries with legal aid so that a lawyer can assist them in preparing their cases.**
- Currently appeals to the Benefits Review Committee and the Social Security Appeals Authority are largely internal processes while appeals to Higher Courts require resources that most do not have.

CPAG welcomes the Government's 12 priorities for a "modern and prosperous New Zealand", which include "making New Zealand the best place in the world to be a child". Such a priority is indicative of a commitment to putting children's wellbeing at the heart of all policies. It is encouraging also that the Welfare Expert Advisory Group shares CPAG's desire to ensure welfare reform is guided by principles which

will ensure better outcomes for families and children in vulnerable situations. These 17 recommendations are not exhaustive, but if implemented would be the key to meaningful transformation for families and children in poverty. As a nation, we will travel into a future with genuine confidence that all children will have the chance to thrive.

Further reading

Working for families

Will children get the help they need? An analysis of effectiveness of policies for children in the worst poverty in 2018 (May 2018)

Progressive universalisation of Working for Families (March 2018)

Priorities for family income support (June 2017)

Welfare system reform & inadequacy of welfare benefits

The further fraying of the welfare safety net (Dec 17)

Barriers to support: Uptake of the Child Disability Allowance in Otara (Nov 2016)

Proceedings: Social Security Summit – Investing in children (Sept 2016)

Proceedings Summit 2017: Beyond Social Investment (Oct 2017)

Benefit sanctions

Benefit sanctions and children: An urgent need for greater clarity (Sept 2014)

Benefit sanctions: Children not seen - not heard (June 2014)

Benefit sanctions: Creating an invisible underclass of children? (Oct 2013)

Relationship status in the welfare system

Kathryn's Story: How the Government spent well over \$100,000 and 15 years pursuing a chronically-ill beneficiary mother for a debt she should not have (June 2016)

The complexities of relationship in the welfare system and the consequences for children (Dec 2014)