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The effects of 2020/21 income support changes on After Housing Costs (AHC) incomes for representative households receiving benefits

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Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity but 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 child poverty

Introduction

The intent of this paper is to model the impact of New Zealand income support policy changes for the financial year 2020/2021 on the adequacy of After Housing Costs (AHC) disposable income of 12 indicative households receiving core income support without any temporary or hardship assistance.

Summary

- Our [household examples](#) indicate that the income support increases which came into effect in April and May 2020 for the 2020/21 financial year are not insignificant: on average, ten of our example households receiving core benefits and Accommodation Supplement are left with \$41 (17.5%) more After Housing Costs (AHC) income per week averaged over the year compared to 2019/20.
- But our examples also indicate that the income increases are still vastly inadequate: the 2020/21 AHC incomes for six of our example households with children need to increase on average a further ~\$110 a week (~\$5745 a year) to reach a poverty line proxy of 50% AHC equivalised median income (estimated 2019/20 fixed line) and ~\$215 a week (\$11,300 a year) to reach a poverty line proxy of 60% of the same. Their AHC incomes average around 40% of an estimated equivalised median.
- As a percentage of the AHC equivalised median, the incomes of our individuals receiving benefits without children are even lower (29%-33%). Of all 12 examples, only the NZ Super one-person household example in AS Area 4 is over the 50% AHC line.

Background

Annual indexing as well as policies made in response to the COVID-19 crisis mean that in April and May 2020 the disposable incomes of beneficiaries increase.¹

As announced in Budget 2019:

- Base benefit rates were indexed in line with average weekly earnings rises from 1 April 2020.

As announced on 17 March 2020 as part of the emergency COVID19 response package:

- Base benefit rates (but not NZ Super) received a one-off \$25pw permanent net increase 1 April 2020. A couple on a benefit shares the \$25 increase, receiving \$12.50 each.
- The Winter Energy Payment (WEP) is doubled temporarily for 2020; the 2020 rates are \$40.91 per week (single people) and \$63.64 per week (couples or sole parents with dependents) for the five months (22 weeks) from 1 May to 1 Oct 2020. This is an annual increase of \$450 and \$700 respectively. All NZ Super recipients receive the

¹ In addition, sanctions on those who receive sole parent income support but who do not name their co-parent were removed from 1 April 2020 (not examined in this paper).

WEP, unless they opt out (for a discussion of the Government's use of WEP, see [St John \(2020\)](#)).

Analysis

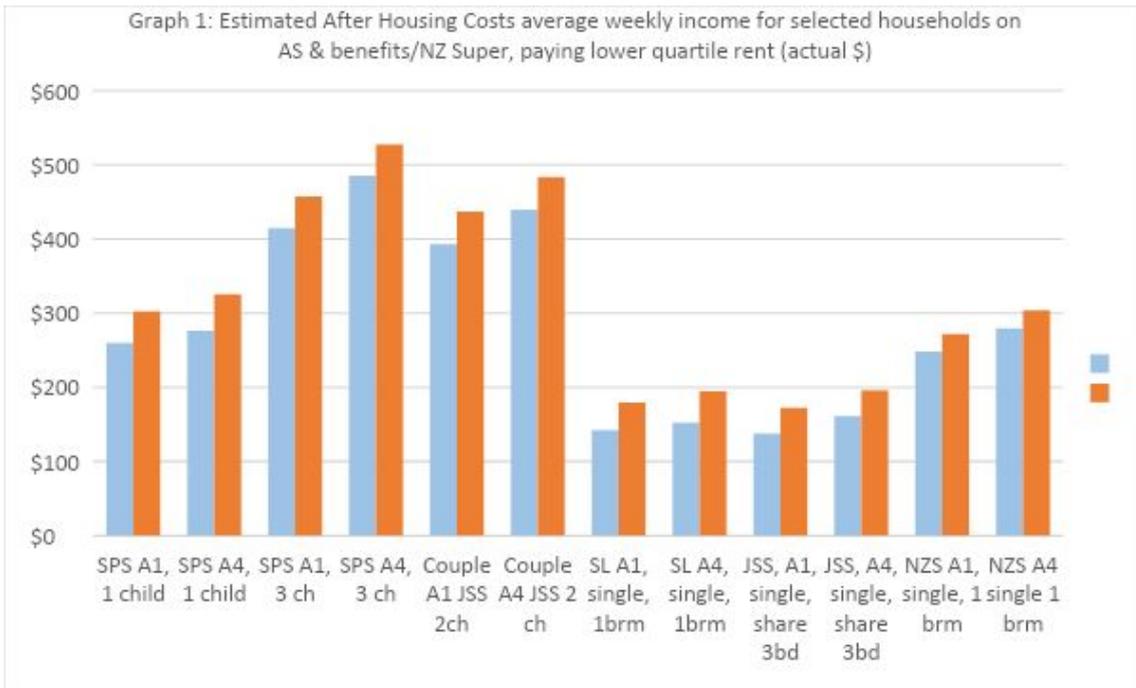
The graphs below compare average weekly After Housing Costs (AHC) incomes before and after these changes for 12 selected households.

- These are selected indicative households only, as listed in [Appendix 1](#) of this paper; the same configurations were used in CPAG's [Accommodation Supplement report](#) (McAllister, St John & Johnson, 2019, p37); the lower-quartile rents have been updated for this current paper, as detailed in Appendix 1. Other households will have different and often higher housing costs, even those receiving the same types of benefits in the same AS Areas for the same number of people.
- For the purposes of these graphs, the 'average weekly incomes' include the Winter Energy Payment (WEP) averaged out across the year.
- All our household examples receive the Accommodation Supplement (AS) and, in most cases, for every dollar their benefit entitlement increases, their AS entitlement effectively reduces by 25 cents.²
- None of these households receive wages or supplementary hardship assistance such as Temporary Additional Support (TAS). **Our intent is to investigate the adequacy of the core benefit system** which should work as a safety net on its own, without households needing to resort to the unreliable support of TAS unless they are in extraordinary circumstances; and households should never be forced to resort to foodbanks, nor counterproductive debt. In ordinary non-COVID19 circumstances, people are only entitled to TAS for 13 weeks, and it is only paid "as a last resort" ([W&I, n.d.](#)). It is not a guaranteed payment. In addition, TAS abates at 100% when core benefits are increased, meaning that many households receiving TAS see little, if any, increase in their income, when benefits are increased.
- None of the example households are receiving Best Start payments for which children born since 1 July 2018 are eligible until they are 3 years old.

Increases in disposable income

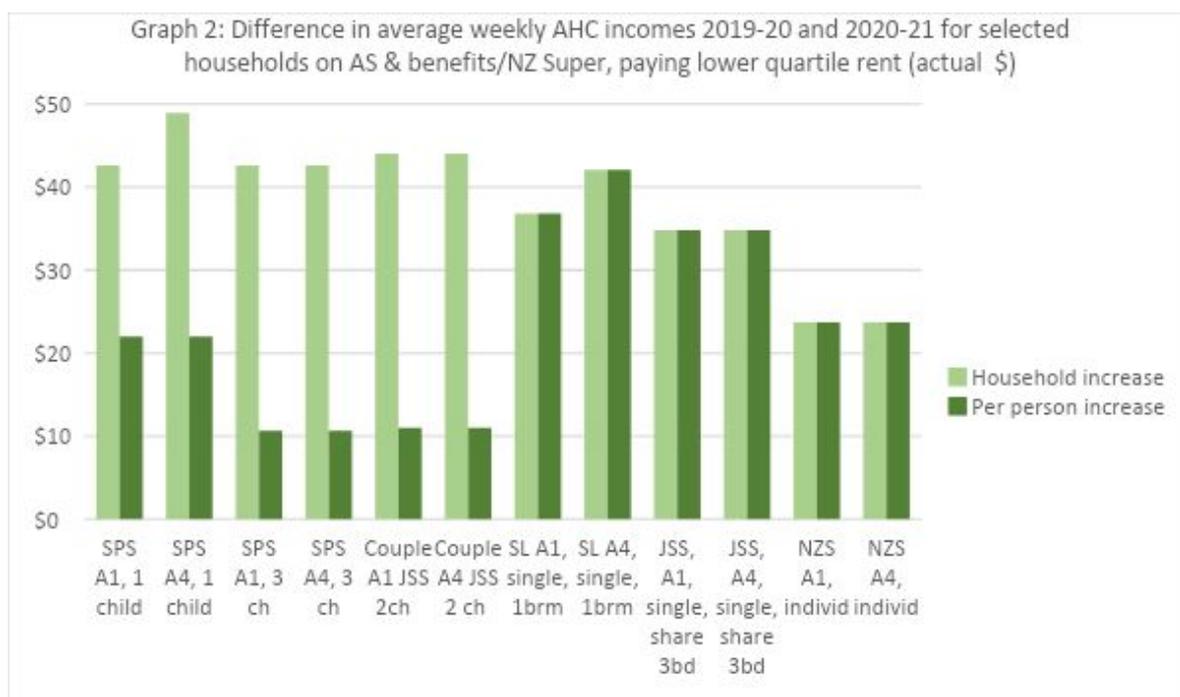
Graph 1 below shows AHC incomes in actual dollars. Excluding the individuals on NZ Super, on average our example benefit recipient households will have 17.5% more dollars after they've paid their rent in 2020/21 than they had in 2019/20. (Note: This is *not* the same as saying their (before housing costs) income has increased by 17.5%, nor is it the same as saying that their benefits have gone up by 17.5%.)

² This is because the AS rent threshold is calculated as 25% of the relevant core benefit. For an explanation of the complex AS formula, see [McAllister, St John & Johnson \(2019\)](#) from page 24.



The percentage increase in actual dollars ranges from 8.8% to 27.6%, with the couple with two children receiving JobSeeker in AS Area 4 receiving the lowest percentage increase and the person receiving the Supported Living Payment (SL) living alone in AS Area 4 receiving the highest. As Graph 2 below shows, this is mostly because the flat benefit increase is per household, not per person. In addition, the person receiving SL in Area 4 had already reached the max AS payment ceiling before April 2020 and is still over it, so their AS entitlement has not reduced in response to the \$25 benefit increase.

Graph 2 shows how much the average weekly AHC income will increase for each type of household, and for each person in that household. As mentioned above, those on couple benefits must share the \$25 benefit increase between them.

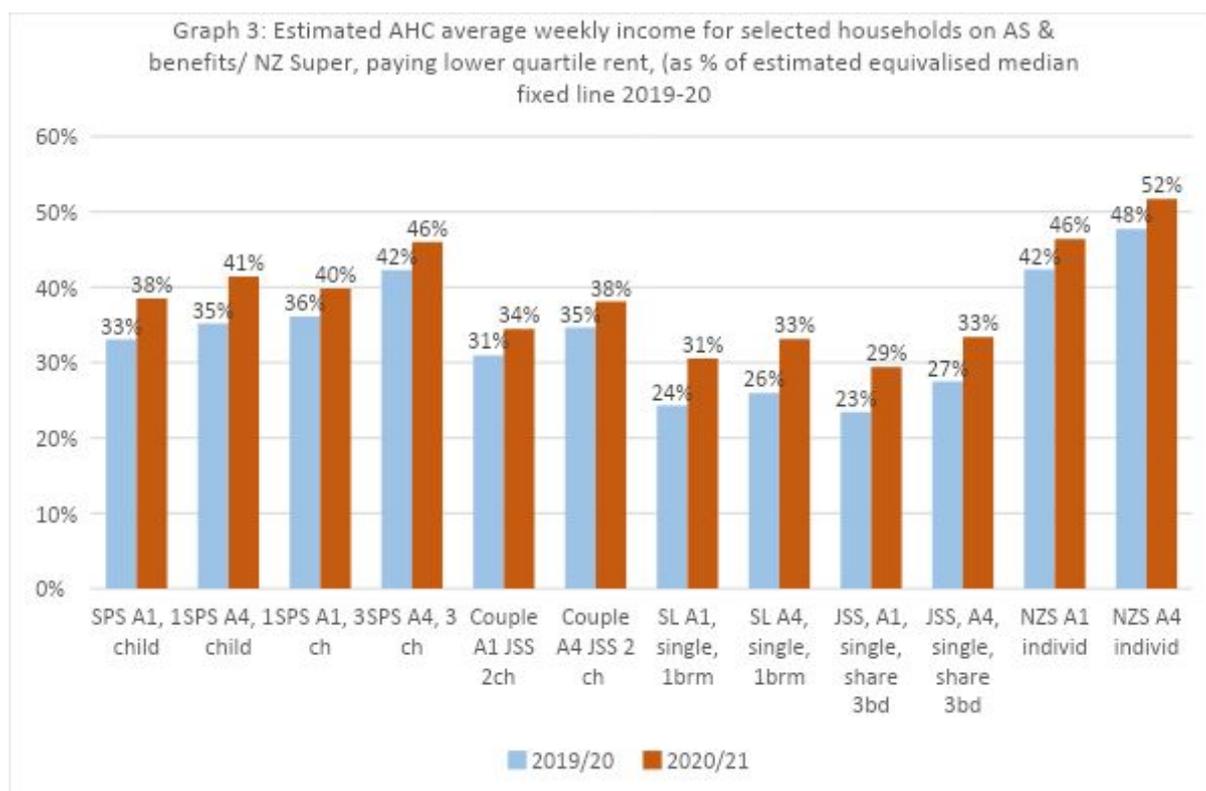


The example benefit-recipient households will have an average \$41.34 extra per week after they've paid their housing costs, the range being \$34.81-\$48.94 (this excludes the NZ Super recipients, who do not get a \$25 one-off increase on top of indexing and WEP increase). The per-person addition decreases as the number of people (including children) in the household increases.

As percentage of AHC median income

The analysis below estimates how these household incomes relate to standard poverty lines. The Government's official measures of child poverty include the number of children living in households with AHC incomes below various 40%, 50% and 60% equivalised medians. Our analysis here uses proxies for these measures. As Statistics NZ has not yet released an official 2019/20 median income, we have estimated the 2019/20 figure to be 3% more than the Stats NZ 2018-19 figure (see [Appendix 2](#) for rationale and workings). We have then used this as a "fixed line" measure for both the 2019/20 and 2020/21 datasets.

Graph 3 shows the AHC incomes as percentages of this estimated equivalised median.



The AHC incomes of the households with children have increased by 3.5 to 6.2 percentage points of the estimated equivalised 2019/20 median. These increases are not insignificant, but they are nowhere near the ~10 to 20 percentage points increase which would have allowed these households to reach the estimated 50% AHC poverty line (which is a proxy for the Government's main AHC income measure of child poverty).

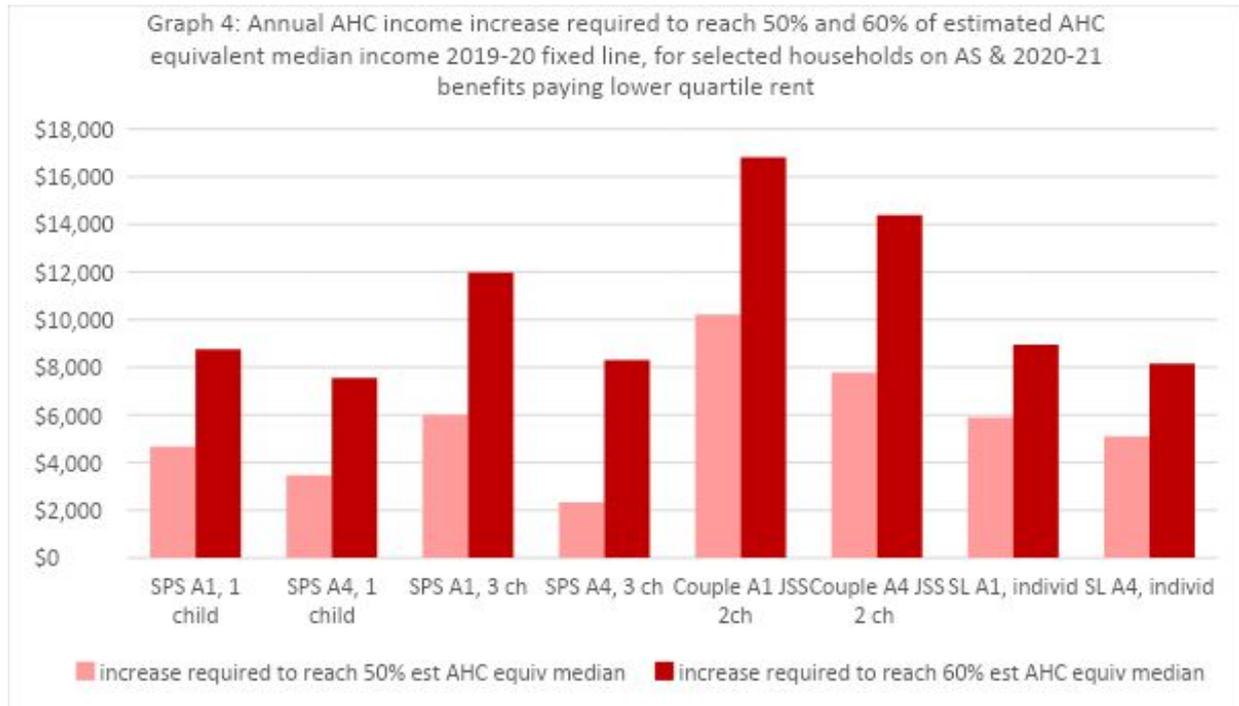
The increases for our individuals receiving benefits, without dependent children, are more significant on this measure (6.3 percentage points on average): in theory, the example SL and JSS recipients jump from mid 20s percentages (23% to 27%) to hover around the 30% mark (29% to 33%). Yet this is still prohibitively low for anyone needing to live alone. To reach the 50% AHC median income poverty line, they need a further ~\$5000 – \$6000 a year in the hand after they've paid rent, in addition to what they will have after housing costs in 2020/21 which is ~\$9,000 - \$10,100pa (Graph 4).

The WEP doubling (plus inflation indexing) allows the single NZ Super recipient in Area 4 to move to just over the 50% estimated AHC median income threshold.

Graph 4 shows how much more net income our example benefit-receiving households with children require in 2020/21 in order to reach 50% and 60% of the estimated AHC median equivalised income. This illustrates how inadequate core benefit incomes are, even with the 2020/21 increases. The 2020/21 AHC incomes for our six example households with children need to increase on average a further ~\$110 a week (~\$5745 a year) to reach a poverty line proxy of 50% AHC equivalised median income (estimated 2019/20 fixed line) and ~\$215 a week (\$11,300 a year) to reach a poverty line proxy of 60% of the same.

Those averages are linked to reasonably wide ranges. The household closest to the 50% line – the sole parent with three children living in AS Area 4 – still requires an additional \$45 a

week to reach it. For a household below key poverty lines, missing out on \$45 a week can make a huge difference. The household with children which is furthest away from the 50% line – the couple with two children in AS Area 1 – requires an additional \$195 a week to reach the 50% line, an increase of 45% on their current AHC disposable income.



Hypothetical effects without WEP doubling

- The WEP doubling is only a one-off for 2020/21, and not a permanent change. In order to have an indication of what this means for 2021-22 and into the future, we looked at how incomes would have changed for 2020/21 if WEP had remained the same, and not doubled. Without the WEP doubling, the average increase for all 10 example households would have reduced by \$11.58 per week over the year, from \$39.12 to \$27.58.
- As a percentage of estimated AHC equivalised median income 2019/20, the doubling of the WEP represents 1.1 to 1.7 percentage points per household.
- Without WEP doubling, the couple with two children on Jobseeker support in AS area 1 would require ~\$208 extra per week to reach the 50% AHC poverty line, instead of ~\$195.

Acknowledgments

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References

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St John, S., & So, Y. (2018). How effective are 2018 policy settings for the worst-off children? Institute For Governance And Policy Studies Working Paper, Victoria University of Wellington, Wellington.

https://www.victoria.ac.nz/_data/assets/pdf_file/0009/1656351/WP18-02-Child-poverty.pdf

Stats NZ (2020) Child poverty statistics: Technical appendix 2018/19, Table 5: Median Household Income:

<https://www.stats.govt.nz/methods/child-poverty-statistics-technical-appendix-2018-19>

Stats NZ webpages (viewed April 2020):

- [Measuring child poverty: Concepts and Definitions](#) (including New Zealand's [10 official measures of child poverty](#))
- [Measuring child poverty: Equivalence scale](#)
- [Measuring child poverty: Fixed-line measure.](#)

Work and Income (n.d.) viewed May 2020: Temporary Additional Support Introduction webpage.

<https://www.workandincome.govt.nz/map/income-support/extra-help/temporary-additional-support/introduction.html>

Appendix 1: Details of the selected household examples

For each of the six situations below, this paper analyses two examples: one in AS Area 1 (the most expensive housing regions in NZ, as calculated for the Accommodation Supplement) and one in AS Area 4 (the least expensive), to make a total of 12 example households, 10 of which are receiving benefits, and 2 of which are receiving NZ Superannuation.

- Sole parent with 3 dependent children aged over 3, in a 3-bedroom house on Sole Parent Support (SPS)
- Sole parent with 1 dependent child aged over 3, in a 2-bedroom house on Sole Parent Support (SPS)
- Couple with 2 dependent children aged over 3, in a 2-bedroom house, both on JobSeeker Support (JSS)
- Single with no dependents in a one-bedroom flat on a Supported Living payment (SL)
- Single with no dependents renting one room in a 3-bedroom house on Jobseeker Support (JSS)
- Single with no dependents in a one-bedroom flat on NZ Superannuation (NZS)

All 12 households pay a proxy of lower-quartile rent for their housing type and AS Area, based on a bundle of deposits recorded by Tenancy Services Aug 18- Jan 19:

- Area 1 proxies based on lower-quartile rent deposits in Mangere, Mangere East, Papatoetoe South, Otara and Glen Eden
- Area 4 proxies based on lower-quartile rent deposits in Invercargill suburbs, Opotiki and Whakatane Rural.

Appendix 2: Estimated AHC equivalised median income

When analysing income as a percentage of AHC equivalised median as in Graph 3 above, the results partially depend on which equivalised median income is used. For explanations of fixed and moving equivalised median income lines, see the “fixed line measures” section of the StatsNZ webpage “[Measuring child poverty: Fixed-line measure](#)”. Of New Zealand’s [10 official measures of child poverty](#), five are measurements of AHC income as a percentage of the equivalised median, of which one (“b”) uses a fixed line measure (2017/18 is the base year) and four (f, g, h and j) use moving line measures.

Fixed line

For our analysis here, we have used an estimated 2019/20 median as a fixed line (ie, we have used the same estimated median for both 2019/20 and 2020/21 data sets). It is important to put more emphasis on fixed line measures when recession or worse is emerging. It is likely that when the household figures for 2020/21 become available the median will have fallen - and therefore using a moving median may show falling rates of children poverty when we know that hardship is rising.

Estimate of median

Stats NZ has not yet released an official 2019/20 median equivalised income, so we have based our estimate of the 2019/20 AHC figure on Stats NZ's 2018-19 AHC figure (Stats NZ, 2020). We have estimated the 2019/20 figure to be 3% more than the 2018-19 figure. If anything, based on recent history, this is an under-estimate of how much the equivalised median will have increased: for the four years previous to 2019/20, AHC median equivalised income increased an average of 4.1%pa (Stats NZ, 2020).

Equivalence Scales

This paper uses the modified OECD scale, as is used for official NZ AHC child poverty measures. For an explanation of equivalence scale, see [Stats NZ's "Measuring child poverty: Equivalence scale" page](#). We note that the OECD scale assumes strong economies of scale that are questionable once accommodation costs are subtracted.

Table 1: Dollar value of poverty lines for different household types, AHC 2019/20, as used in this paper (Template adapted from table 4, St John & So (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)
		1.3***	1.6	1.9	1.8	2.1	2.7	3
40%	\$12,566	\$16,336	\$20,106	\$23,875	\$22,619	\$26,389	\$33,928	\$37,698
50%	\$15,708	\$20,420	\$25,132	\$29,844	\$28,274	\$32,986	\$42,410	\$47,123
60%	\$18,849	\$24,504	\$30,158	\$35,813	\$33,928	\$39,583	\$50,892	\$56,547
100%*	\$31,415	\$40,840	\$50,264	\$59,689	\$56,547	\$65,972	\$84,821	\$94,245

* Median = 1.03 x \$30,500 - ie a 3% increase on the 2018-19 median household equivalised disposable income after housing costs as calculated by Stats NZ (2020), in order to achieve an estimate of the 2019/20 figure

** Row shows the number of adults and children in each household as ([# adults], [# children])

*** Row gives the equivalence scale for the number of children and adults in the household, using the modified OECD scale of 0.3 for every child and 0.5 for every additional adult