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Family Financial Assistance 1986-2002

Introduction

Despite well-documented evidence of increasing child poverty in New Zealand, little attention is being paid to preventative measures aimed at supporting family incomes. The neglect of family assistance is one of the factors responsible for a rise in the incidence and severity of child poverty in New Zealand. This discussion document analyses the effect on families of the failure to adequately adjust family support for inflation, and the effect of increased targeting of the payment.

Welfare benefits, including the state pension are regularly adjusted for inflation. This adjustment is not regarded as new spending in annual budgets and is automatically included. Family assistance however is the poor relation in the welfare system. Reflecting this, there have been no increases since 1998, and **the latest budget provides for no increase in family assistance over the next five years**. This backgrounder explains the origins of family assistance and changes over time, and also provides an analysis of how families at different points on the income scale have fared.

Background

In 1946 the Family Benefit became fully universal and was paid at the rate of 10 shillings per week per child. Beaglehole (1993) noted that

> *A woman with two children received the equivalent of at least a full day's pay for a labourer as benefits, unlike wages, were not taxed. Most women received more as the average number of children born to mothers in the 1950s was 3.4.* (p10).

At the launch of the CPAG 2001 report in Wellington in January, the Deputy Prime Minister recounted how, in his family, the family benefit in the 1940s was enough to pay the rent. However in the post war period the Family Benefit was not indexed and the changes that were made to it were insufficient to maintain its purchasing power. Relative to average wages, its value declined from around 8% at the end of the war to about 3% by 1983. It remained unaltered at its 1979 level of $6 per week per child until it was finally abolished in 1991 when it represented under 1% of average wages.

Family support was introduced on 1 October 1986. It amalgamated several existing rebates and family payments to provide a single refundable tax credit based on joint parental income and the numbers of children. One of the important underlying rationales for this change was that all children would be treated the same regardless of whether the source of parental income was low wages or a benefit. Family Support was paid initially paid at $36 for the first child and $16 for other children and abated for gross joint family income above $14,000 by 18 cents in the dollar. From **1988** Family Support abated by 18 cents in the dollar from joint parental income of $17,500 up to $27,000, and by 30 cents in the dollar above that. From **1990**, rather than being equally divided, family support was all paid to the primary caregiver. This could be paid weekly on the basis of estimated joint income or as an end of year adjustment payment once all annual income was known.

Family Support is administered by the Department of Inland Revenue, although Family Support is paid by WINZ for those on benefits. If, at the end of the financial year, actual joint income level turns out to be higher than estimated, families may have to repay some of their Family Support. The income calculation for Family Support includes any maintenance received, but allows any maintenance paid or child support contributions to be deducted. The income of a parent who does not live with the care giver and child(ren) is not taken into consideration.

In 1990, the Labour government initiated a wide-ranging review of the social security system. The Budget of that year proposed some important changes for families and for the benefit system to be introduced following the 1990 election. This new approach incorporated the important principle that the standard unit for benefits should be the individual. Thus the benefit of a couple would be twice the benefit of an individual who would have an add-on if he or she lived alone.

A new Family Benefit was announced as an amalgam of the old universal Family Benefit and the Family Support tax credit. It was designed to abate in much the same way as the Family Support had done but only down to the value of the Family Benefit, which provided a universal tier. **Critically it was linked to the standard universal benefit level which in turn, was to be linked to wages through indexing to prices within a band of relativity to average wages .**

The election of the National Government in November 1990 saw the concept of the Universal Benefit and the new Family Benefit abandoned. In a controversial move, in December 1990 it was announced that social security benefits would be cut from April 1 1991. Families with children on benefits such as the unemployment benefit had a decrease of between $25 and $27 a week representing a severe decline in disposable income.

In 1991, the Family Benefit was amalgamated with Family Support and the entire amount subject to abatement. The threshold and abatement rates were not adjusted with the effect that abatement at 30 cents in the dollar extended further into the $30,000s income range, especially for large families. In 1993 and 1994 some adjustments were announced as shown in Table 1

Table 1 Family assistance adjustments in the 1990s

Family Support was increased from 1 April 1991 by the amount of the Family Benefit which was abandoned. For additional children aged under 13 years Family Support increased by $2 per week to $24 (from 1 Oct 1993) and to $27 (from 1 Oct 1994). For those aged 13 years and over, the rate became $35 (1993). Prior to October 1993 for two or more dependent children over the age of 16, the first child rate of $42 was paid for both. This treatment ceased under the new structure for new claimants.

Abatement of Family Support. From 1 October 1994 for gross joint family income above $20,000 (changed from $17,500) family support reduces by 18 cents in the dollar up to $27,000 and by 30 cents in the dollar for incomes above $27,000 (unchanged).

New rates for family support 1996/8.From July 1996, the per child Family Support rate was increased by $2.50 rising to $5 by July 1998, with bigger increases for dependent children over 16.

New principles for family assistance 1996

The 1996 budget introduced a new concept for family assistance through a raft of measures under the banner of Family Plus. The most significant of these is the Child Tax Credit. The original name for this was the Independent Family Tax Credit, a name which reveals it ideological underpinnings. The assistance was restricted to families ‘independent’ of the state. Neither parent can be receiving an income-tested benefit, a Veteran’s pension, New Zealand Superannuation, a student allowance, or ACC for more than 3 months. As with other aspects of Family Plus, which include a parental tax credit and a family tax credit (of minor importance and not further discussed here), the family is only eligible for the number of days in the year in which criteria are met.

Table 2 Weekly maximum rates of Family Support and CTC

	Prior to July 1996	**From 1 July 1998 Family support**	**From July 1998 Family support and child tax credit**
For the eldest child:			
Aged 0 to 15 years	$42.00	$47.00	$62
Aged 16 years or over	$42.00	$60.00	$75
For each additional child:			
Aged 0 to 12 years	$27.00	$32.00	$47
Aged 13 to 15 years	$35.00	$40.00	$55
Aged 16 years and over	$35.00	$60.00	$75

Rather than providing a needed catch up in family support for all low income families, only those who qualified for the CTC had a meaningful boost to their family assistance. Now family payments were to be partially dependent on the source of parental low income.

In 1996, while in opposition, the Labour party publicised its intention, if elected, to amalgamate the CTC with family support, so all children would be treated the same again. **It is disappointing, therefore, that**

since the election of the Alliance/Labour coalition government in 1999, the CTC has not been a topic of political discussion. Table 2 shows the increased rates of family support from July 1998, which were introduced in two stages from1996. There were no further adjustments for 1999, 2000, 2001, nor are any projected out to 2006.

The real value of financial assistance 1986-2001.

The value of cash family assistance for a family on a given income is simply the annual amount received in the form of family support, CTC and, prior to 1991, the family benefit. Real assistance has fallen both because *ad hoc* adjustments to the level of maximum assistance have not fully compensated for inflation, and because as wages rise with inflation, entitlement to family support is lost when the threshold is unadjusted.

Table 3 shows the changes in the real value of family assistance from 1 October 1986 to the 2002 financial year for a typical low income one-child family. This could be either a sole parent, or two-parent one-earner family. It is assumed that the family's income rises in line with movements in the average wages as measured by Average Total Weekly Earnings (AWE Statistics NZ). Two positions are indicated, one where there is entitlement to the CTC, the other were there is no entitlement. The position for 2002 is forecast using the Budget 2001.

The analysis shows the maximum family support for a one-child family has risen only 11.9% over the 15 years since 1986. Today's maximum value of $47 would actually be around $72 if proper annual adjustments for inflation had been made. Many low-income families do not receive the maximum payment however as their incomes are over the abatement threshold. A one-child family on 3/4 of Average Weekly Earnings (AWE) was entitled to $35 in 1986 ($60 in 2002 dollars). A similarly placed family in 2001/2 is entitled to $23.60. In real terms this is a 60% drop in purchasing power, and the family needs an extra $1880 a year to have the same real value of family assistance in 2001/2 as in 1986.

For 2001/2, the first abatement threshold would need to be raised to $24,000 and the first child maximum family support to $72 to restore the 1986 value. **The deterioration in the value of the assistance is cumulative in its effects which is why it is vitally important that inflation adjustment is done on a regular basis**.

While the one-child family did not receive a boost when Family Support was first introduced in 1986, nor subsequently as discussed above, the larger family has fared better. Family Support for second and subsequent children was increased in 1993, in 1994 and in 1996 and 1998 and for the second and subsequent children under 13 is now $32 per child. Had indexation applied since 1986 this would now be $38, so the loss has been lower than for the first child. Nevertheless as Table 4 shows, a three-child family with all children under thirteen on AWE has also suffered a severe erosion in the purchasing power of its family assistance since 1986. The effect is even more marked for the middle income family above AWE because of the loss of Family Benefit and the increased targeting of the assistance for incomes above $27,000. If this threshold had been adjusted for inflation since 1988 when it was introduced it would now be $37,400.

Families with older children appear to have fared better, as the Family Support amount for a second child 13 or over was significantly increased in 1993 and in 1998. However there have been increases in user charges and loss of other assistance for older teenagers. This requires detailed and careful research to ascertain the real position of those with older children and this is not attempted here.

Table 3 One child family on 0.75AWE

	Oct 1986	**Year ended March 1993/4**	**Year ended June 1999**	**Year ended June 2001**	**Year ended June 2002 est**	**1986-2002 % change**
Average consumer price index June99 quarter = 1000	625	909	1002	1044	1075	72%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	42	42	42	47	47	11.9%
Maximum value of FS in 2001 $	72			47	47	-35%
Average total weekly earnings ($)	412	587	656	669	686	66.6%
Income threshold for abatement	14 000	17 500	20000	20,000		43%
Annual income for low income family ($)	16 070	22 877	25584	26091	26754	66.5%
Family's weekly nom Family Support ($)	35	23.4	27.60	25.9	23.6	
Family Assistance in 2001 dollars	60.2	27.6	29.6	26.7	23.6	**-60.1%**
Including the CTC	60.2	27.6	45.7	42.1	38.6	**-36%**

Table 4 Three child family (all under13)

	Oct 1986	**Year ended March 1993/4**	**Year ended June 1999**	**Year ended June 2001**	**Year ended June 2002 est**	**1986-2002 % change**
Average consumer price index June99 quarter = 1000	625	909	1002	1044	1075	72%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	86	88	111	111	111	36%
Maximum value of FS in 2001/2 $	148				111	-21 %
Average total weekly earnings ($)	412	587	656	669	686	66.6%
Income threshold for abatement	14 000	17,500	20,000	20,000	20,000	
2nd abatement threshold		2,7000	27,000	27,000	27,000	
Annual income for low income family on AWE ($)	21424	30524	34112	34788	35672	
Family's weekly nom Family Support ($)	60.30	32.80	52	48	37	-38%
Family Assistance in 2001/2 dollars	103.7				37	**-64%**
Including the CTC	60.3	32.80	97	93	82	
Including the CTC 2001/2 dollars	103.7				82	**-21 %**

The addition of CTC has significantly improved the picture for those families who qualify. Even so, from Table 3, the one child family on ¾ of the average wage still has a loss of 36% of real assistance since 1986. But the 2-child family at this level is entitled to $85.6 a week, a real loss of only 13%, and the three child family gets $132.60 which essentially restores them to the 1986 level. However the failure to raise the $27,000 threshold in line with inflation negates some or all of the advantage for middle income families. Table 4 shows the 3-child family on the average wage has had a 20% decline in real assistance even with the CTC. For the one-child family, by the time the average wage income level is reached there is no entitlement to any assistance at all.

There was no improvement to family support in the 1999, 2000 or the 2001 budgets. The budget table forecast the position for families for the years ended June 2002 to 2006. Over this time frame nominal GDP is expected to increase by 24%, and inflation is expected to be nearly 10%, but there are no projected increases to family assitance. Families are significantly affected by food prices that appear to have risen more rapidly than the CPI itself. For example in the year ended May 2001, the food index rose 6.2%. Of this fresh fruit and vegetables rose 16.5%, meat 11% making it even harder for parents to chose healthy food. **Annual inflation is running at more than 3% for the year ended June providing the seventh consecutive annual increase in the index**. Families can expect to fall further behind both in real terms and relative to rising living standards as this decade unfolds.

The issue of inflation adjustment is not entirely ignored. Ironically, the 2001 budget included a commitment to raise the minimum child support paid to the Crown by liable parents.

> ‘The Child Support Amendment Bill increases the minimum rate from $10 a week to $12.75 a week or $663 a year from 1 April 2002. The minimum rate has not been adjusted since it was set in October 1990. The increase reflects the actual and expected movement in the Consumer Price Index from March 1990 to March 2002. In the future the real value of the minimum payment will be automatically maintained.’ About 79,000 liable parents would be affected by this change.’ Ministerial announcement 22nd June 2001.

This selective approach is unacceptable. If it is fair for liable parents’ contribution to be indexed it is also fair for state support to be indexed. Failure to properly adjust and then index family assistance works against the possibility of a knowledge economy, and against any hope of repairing and restoring the social cohesion lost over the past 15 years. **CPAG believes that far too many children in New Zealand are poor as a consequence of reduced income support and reduced provision of public goods such as health and education**.

WINZ statistics show that there are 307,000 children in New Zealand whose parents access a main benefit. These children are not eligible for the CTC and have experienced a severe loss of purchasing power Family Support since 1986. To give each of these children the maximum entitlement to the CTC would cost approximately $250m pa. This would be a highly cost effective way to reduce poverty as only the poorest families (who currently are excluded) would gain.

More desirably, as CPAG has argued, the Child tax credit should be extended to all families as a universal and indexed payment. This would cost over $500m and should be done in conjunction with tax scale changes as outlined in the CPAG submission to the tax review (view at http://www.cpag.org.nz/). We must bring this issue in front of the politicians and challenge political parties to declare what they are going to do.