

Moving towards individualisation of entitlement

**Child Poverty Action Group Summit:
“Whakamana Tāngata: Where to from here?”
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Whakamana Tāngata and where to from here

- So, my immediate answer to *Where to from here?* Is:
 - **Raise all main benefit rates.**
 - **Extend IWTC to beneficiaries.**
 - **Reform delivery process.**
- **...and do these in ways which are in line with longer term change, which should include a greater element of individualised entitlement**

Individualisation – what is it?

- Unit of assessment is the individual.
 - I.e: eligibility and entitlement amount depends only on your own circumstances and income.
- Most of welfare system and all Working for Families tax credits use the couple as unit of assessment.
- Income tax and ACC are individual-based.
- Child Support is a hybrid – assessed on the *ex*-partners' combined incomes but is individualised as far as current partnership status goes.

Individualisation – what is it?

Couple-based assessment originates from ideas about marriage and gender roles –

- marriage as lifelong partnership and norm for child-raising,
- male bread-winner/female-carer roles.

These assumptions have long, long since ceased to hold:

- No longer have a male breadwinner wage
- Or Castles' “wage-earner’s welfare state”.
- Female labour force participation is high.
- Sole-parenthood now common.
- Divorce/separation and re-partnering/blended families now common.

These are *old* facts now. Unit of assessment was discussed in 1972 & 1988 Royal Commissions and in tax reviews.

Why individualisation?

The biggest problems with couple-based assessment are:

- i. Requires a way for the State to determine who is and is not in a relationship
 - Affects how people can live their lives; creates fear; results in debts and prosecutions.
 - Imposes early, very significant, relationship decisions or discourages people from forming relationships if they fear they may run foul of Social Security and family tax credits laws.
 - The State's determination will inevitably be wrong sometimes, with significant consequences
- ii. Requires those in relationships to conform to the income- and cost-sharing assumptions inherent in policy (or bear the cost if not)
 - Currently little is known about financial management choices; but many, especially repartnered and step/blended families may not want to share all income and costs.

Also, current system is a muddle of inconsistent assumptions.

The mess of assumptions in the current working-age welfare system

Assumptions:

- Costs and income are shared if living together and a couple.
- Costs and income are shared if not living together but are a couple.
- Costs or incomes are not shared if living together but not a couple.
- Costs of partner's children are shared if living together as a couple.
- Costs of partner's children are shared if not living together but are a couple.
- If separated, the non-resident parent's child support is for sharing costs of children only, not for parent with care's living costs...
- ...but if the parent with care is on benefit, child support is assumed to be for costs of children and costs of parent (and is retained by State up to full value of benefit).

Assumptions continued – the AS

Implicit assumptions in AS rates are also odd:

- Single person = 1 bedroom
- Rate for couple alone is same as rate for sole parent with 1 child but less than 2 singles.

= 1½ bedrooms??

- Rate for couple with one child is same as rate for sole parent with 2 children and higher than couple alone but less than 2 singles.

= 1¾ bedrooms???

...and, beyond that, no increase in rates whether 3, 4, 5, 6, 7... children

Some thoughts on where to from here

A complete solution to the issue of relationship status is very difficult (and possibly not even a desirable endpoint).

Two possible approaches, neither perfect, either:

- i. Change the definition to be fairer and fit better with people's lives

Or:

- ii. Change entitlements so that relationship status makes no difference

Or some of both.

Changing the definition & its implementation

Certainly lots of room for improvement.

- One simple example: the current Work & Income website is misleading. A 'relationship in the nature of marriage' must meet *both* of two tests: emotional commitment & financial interdependence. An undifferentiated list of things 'to consider' does not make this clear.
- And plenty of other examples...

...but all definitions will have problems

- E.g.: the 3-year Property Relationships Act approach still requires defining a start date, has major horizontal equity problems, and still assumes by choosing to marry/live together long-term people are choosing to fully share costs of each other's children.

Relying on discretion/judgement, rather than rules might help but is variable in application, open to abuse/biases and to political/administrative manipulation without explicit policy change.

Change entitlements so that relationship status makes no (or less) difference

I will focus my remaining comments on this second option, i.e., individualising entitlement so that relationship status is a less important factor in entitlement.

First a couple of cautions...

A Universal Basic Income is not the answer

- A full UBI is individual. No reference to partnership status would be necessary. BUT
- To meet the 60% BHC poverty threshold, or even the max payable under current benefit rules, it would need to be about \$20,000pa plus universalise FTC for all children.
- Could be less than that but then either:
 - Accept poverty with no mechanisms for addressing it
 - or
 - Start reproducing welfare add-ons again...
... which (among other things) reintroduces the whole issue of relationship status...

| | 60% Rel Poverty threshold BHC* | Social Assistance MAX | | UBI at \$20,000 + \$8,000 per ch |
|---------------|--------------------------------|-------------------------------|-------------------------------|----------------------------------|
| | | Max now w FTC + IWTC +AS1 max | Max now w FTC + IWTC +AS1 max | |
| Single | 15,340 | 19,968 | 16,848 | 20,000 |
| SP+1 ch | 29,640 | 31,616 | 29,016 | 28,000 |
| SP +2 ch | 36,660 | 39,728 | 36,608 | 36,000 |
| SP +3 ch | 43,420 | 44,512 | 41,392 | 44,000 |
| Couple | 26,520 | 31,200 | 27,040 | 40,000 |
| C +1 ch | 47,840 | 42,068 | 37,648 | 48,000 |
| C +2 ch | 54,860 | 46,800 | 42,380 | 56,000 |
| C +3 Ch | 61,620 | 51,584 | 47,164 | 64,000 |
| *2017 dollars | | | | |

Social insurance is not the (complete) answer

Social insurance (à la European countries and NZ's ACC) is individual-based.

BUT

- All SI systems are underpinned by a social assistance tier for those who don't qualify for SI or have exhausted the entitlement period.
 - That lower tier is flat rate and assessed on joint income of the couple.
- The question for NZ is should we extend the role of SI and if so where and how? (about which more later)

Extending individualisation within the existing system:

(i) Welfare benefits

- Core idea is only one adult main benefit rate.
- That requires:
 - Sole parent = single rate.
 - 'Couple' rate = 2 x single rate.

Currently:

S = \$218.98

SP = \$339.69

C = \$364.94

C w Children = \$391.00

- Can be done without making anyone worse off by changing structure of Accommodation Supplement (AS).
 - Which is not to say it is *should* be done...

A purely hypothetical example (using 2018 rates)

- Single rate available to any qualifying person, no reference to relationship status
- IWTC abolished and added to the FTC
- AS at current single person max, plus child add-on where adult lives alone with child(ren) - \$100 for first child, \$65 for all subsequent (as now)

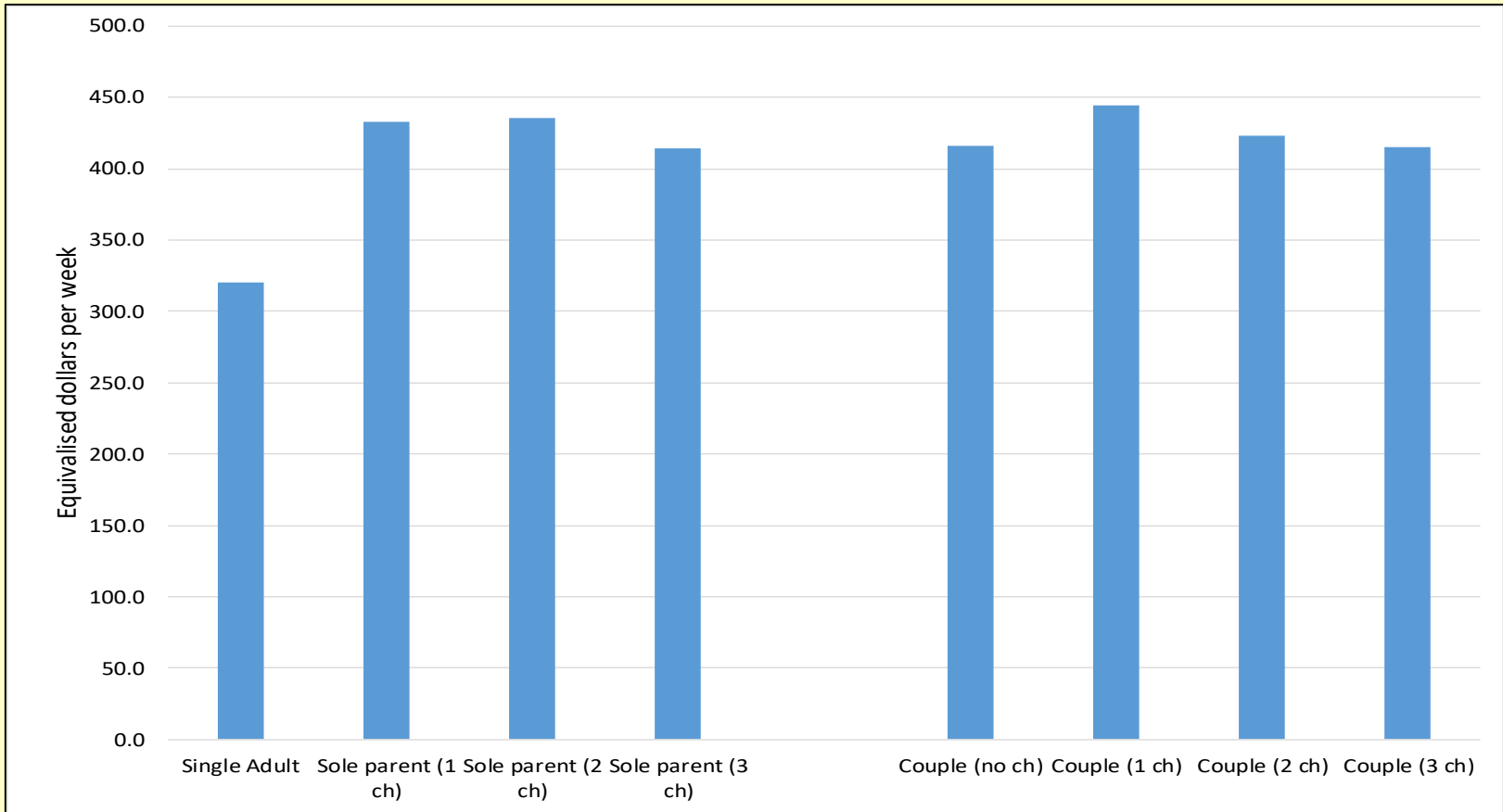
| | Current (June 2018) | | | | Possible alternative | | | | Difference |
|------------------------------|---------------------|-----------------|--------|--------|----------------------|-----------------|-----------------|---------|---------------|
| | Main benefit | AS max (Area 2) | FTC | TOTAL | Main benefit | AS max (Area 2) | FTC (with IWTC) | TOTAL | |
| Single Adult | 215.34 | 105 | 0 | 320.34 | 215.34 | 105 | 0 | 320.34 | 0 |
| Sole parent (1 child) | 334.05 | 155 | 113.04 | 602.09 | 215.34 | 205 | 185.54 | 605.88 | 3.79 |
| Sole parent (2 ch) | 334.05 | 220 | 204.29 | 758.34 | 215.34 | 270 | 276.79 | 762.13 | 3.79 |
| Sole parent (3 ch) | 334.05 | 220 | 295.54 | 849.59 | 215.34 | 270 | 368.04 | 853.38 | 3.79 |
| Sole parent (4 ch) | 334.05 | 220 | 386.79 | 940.84 | 215.34 | 270 | 474.29 | 959.63 | 18.79 |
| Couple (no ch) | 358.88 | 155 | 0 | 513.88 | 430.68 | 210 | 0 | 640.68 | 126.8 |
| Couple (1 ch) | 384.50 | 220 | 113.04 | 717.54 | 430.68 | 210 | 185.54 | 826.22 | 108.68 |
| Couple (2 ch) | 384.50 | 220 | 204.29 | 808.79 | 430.68 | 210 | 276.79 | 917.47 | 108.68 |
| Couple (3 ch) | 384.50 | 220 | 295.54 | 900.04 | 430.68 | 210 | 368.04 | 1008.72 | 108.68 |
| Couple (4 ch) | 384.50 | 220 | 386.79 | 991.29 | 430.68 | 210 | 474.29 | 1114.97 | 123.68 |

Source: Fletcher 2018. *Individualising entitlements in New Zealand's benefit and social assistance systems*, Wellington: Superu.

Implications of this example

- More generous to ‘couples’ – but that is the point.
- Would effectively create a ‘parenting payment’, equal to single benefit rate, for all main carers not work-tested (i.e youngest child under 3).
 - So could replace Best Start and PPL (or person could choose PPL or benefit).
- Cost would be significant and would depend on behavioural responses.
- Does not get rid of the need to raise the core rate.
 - Single alone gains zero in this example; sole parents gain very little.
- Still requires working out how to individualise FTC, and abate it.
- To the extent households do actually share costs/incomes, this example matches equivalisation scales better than now (except for singles alone).

Per person equivalised dollars per week in this hypothetical example*



Source: Fletcher 2018. *Individualising entitlements in New Zealand's benefit and social assistance systems*, Wellington: Superu.

*This calculation uses the Revised Jensen equalisation scale

Extending individualisation within the existing system:

(ii) Extending ACC to cover sickness & disability

- A case where extension to social insurance approach is arguably warranted.
- Inequity between treatment of incapacity for work due to injury (ACC) and sickness & disability (welfare).
- Always part of Woodhouse's intention & consistent with his 5 principles.
- Could operate as per injury now: a short period covered by sick leave entitlement followed by earnings-related compensation (funded through earner levy not employers).
- Would need to ensure those not in work were at least as well supported as now.
- Would give ACC a valuable role in prevention and rehabilitation related to illness.
- Cost - ?? IGPS currently investigating an approximate costing.

Extending individualisation within the existing system:

(iii) Redundancy & involuntary job loss

- NZ currently has very weak redundancy provisions.
- ‘Future of work’ and climate change work transitions (and possible recession) all suggest redundancies are likely to become more of an issue in future.
- Current system does not support couples reliant on two low-paid jobs because of the couple-based unit of assessment.
- Investigate a limited-term (6 months?) payroll-levy funded earnings-related redundancy scheme (ie another area where SI could usefully be extended).
- Both this and ACC extension would also reduce the use of – and the inequalities of – private income-protection insurance.

Conclusions

Where to from here?

- First act on WEAG's findings about adequacy and poor delivery
 - Raise main benefit rates; include IWTC in FTC; reform delivery.
- Move towards individualisation in several areas:
 - Redesign components of benefit package to at least lessen cost of being deemed to be in a couple relationship.
 - Extend ACC to cover incapacity to work due to ill-health/disability
 - Establish a payroll-levy funded national redundancy scheme.