



**Box 56-150
Mt Eden
Auckland**

Webpage: <http://www.cpag.org.nz/>

June, 2005

**Child Poverty Action Group
Submission on the Single Core Benefit proposal**

Contact persons:

Donna Wynd Researcher, (09) 270-2995

Janfrie Wakim, CPAG , Box 56-150, Mt Eden, Auckland (09) 520 -0201

Child Poverty Action Group advocates for better policies for children. We thank the Ministry of Social Development for the opportunity to make a submission on the proposed Single Benefit reform. As in all major social policy development in this area, the way in which children are affected must be placed at the centre of these reforms. There has been no consideration given to the effects of the benefit reforms on children in the material viewed to date. We urge the Ministry to take into account the impact of any reforms on the children they will directly affect.

Introduction

Child Poverty Action Group agrees that the benefit system is badly in need of reform and supports the concept of simplification in principle. We also support assisting beneficiaries into work, subject to their abilities, childcare obligations, and support services.

We have considered the material concerning the single benefit proposal, and we have some concerns about moving to a single core benefit as outlined in the paper presented to the Cabinet Policy Committee, 2 February 2005.

While access to income from working is important to improve the living standards of low income families, we are concerned that there is too much emphasis on work as the primary means of participating in society. We feel that a missing part of the discussion to date has been recognition of the crucial role that the welfare system plays in providing income security to families in adversity and for those who are caregivers. Logically, if the price of inclusion is working, then those who cannot work will be disadvantaged, as they are already in respect of the Child Tax Credit and its replacement, the In Work Payment.

Specific details of the proposed single core benefit:

1. We note there will be two possible “streams” for beneficiaries, with the default stream being “rapid return to full time work”. As regards beneficiaries with children, we make the following observations:

- 1.1. Children must be included in any assessment of whether a beneficiary is deemed capable of returning to full-time or part-time work. While we note that caregivers – sole parents and the nominated carer in a couple with dependent children – are likely at this stage to be placed in the “development stream”,¹ we are concerned that “support” for moving into full-time work will, in practice, translate to

¹ Child Poverty Action Group suggests, for the record, that this stream be entitled something less patronising.

pressure on parents to undertake inappropriate employment or risk losing their benefits.²

1.2. We note that the single benefit reform is supposed to complement the Working for Families package, and the In-Work-Payment that is such a critical part of it. Child Poverty Action Group stresses, yet again, that the In-Work-Payment discriminates against those children whose parents are unable to work, and that all beneficiaries and low-wage earners ought to be eligible for extra support to ensure that their children have the best possible chance being well fed, well housed, and well educated. We recommend that all child related payments be made on the same basis for all children. Furthermore we recommend that part of the child-related payments be universal, in view of the low take-up rates and administrative difficulties that plague the present, highly targeted system of family assistance. The universal payment would go with the child, regardless of circumstances such as their parent's work status, or families whether their families split up and/or regroup.

2. We hope that the process of setting core benefits will be open and transparent. Current core benefit levels are woefully inadequate, as evidenced by the increasing number of beneficiaries applying for Special Benefits.³ Core benefit adequacy must be measurable, and monitored to ensure that it remains at a level that can provide families with necessities, something benefits are clearly failing to do at the moment.

2.1 We note the Cabinet paper refers to the need to bring support for people with ill health or disabilities onto the same core rates as other beneficiaries. Core benefit rates have been cut under Working for Families, resulting in lower core benefits for most families and a widened gap between those on Invalids Benefits, and other beneficiaries. Clearly, if a single core benefit is to apply to all beneficiaries, then either the Invalids Benefit must be cut, or the benefits of non-invalids must

² Examples of inappropriate work include jobs with unsuitable hours for parents with school-age children, shift work, or work with uncertain and variable hours that result in high transaction costs for those receiving an OSCAR subsidy, for example.

³ Ministry of Social Development Statistical Report for the Year Ending June 2004.

be increased. We are extremely concerned that it will be the former, with the Invalids Benefit being reduced to the rate received by other beneficiaries. Such a move would simply put invalids at the same financial disadvantage as other beneficiaries. Because rules for the Special Benefit were tightened as of April 2005, and will be tightened still further when it becomes Temporary Additional Assistance in 2006, lowering the core Invalids Benefit will result in more families facing the risks the Ministry itself has identified as being associated with inadequate income.⁴

2.2 We note that a range of options is to be drawn up for “integrating payments for people with ill health or a disability in and out of work.” The transition in and out of work is an issue for all beneficiaries given the changing nature of the work environment. If the aim of the reforms is to simplify the system, then people should not be disadvantaged as they move in and out of work. On the contrary, this must be made as simple as possible in order to ensure continuity of income for beneficiaries and their families. Nevertheless, the sick get better and circumstances change, so it is unrealistic to expect these top-ups will be maintained indefinitely. Our concern is that there is no detail as yet for us to be able to comment on the suitability of this integration.

3. The paper refers to the move to a cost-based system for those with disabilities. We submit that, far from simplifying the existing system, such a move would be complex for both staff and beneficiaries, and impose high transaction costs on people with disabilities. Child Poverty Action Group cannot support a move to a cost-based system. We outline our reasons below.

3.1 The move to a cost-based system for those unable to work suggests that it is envisaged that core benefits will provide only a minimal income, while expenses over and above “normal” household expenses will be covered. Clearly, this is no guarantee of an adequate income. We have concerns with the basis on which allowable costs will be decided, including who makes that decision, whether

⁴ Ministry of Social Development (2005), Children and Young People: Indicators of Well-Being in New Zealand.

costs will be paid in full or in part, as is presently the case with the Special Benefit, what limits will be placed on costs, and how those limits be decided. There is potential for unfairness and inconsistency in the administration of each of these issues. We are also concerned that there be simple and clear rights of appeal when beneficiaries disagree with Work and Income assessments. Moreover, if disabled persons are “encouraged” into poorly paid work, to what extent are the additional costs they will still be incurring be met?

- 3.2** Presumably, Work and Income will need to be satisfied that costs are on-going and unavoidable, or something similar. We are concerned that the burden will fall on disabled people to prove these costs, and that the burden of proof will prove unacceptably high for many people. Nor is it clear whether costs will be paid in advance, calculated on a periodic basis, or if, as is the case with ACC, costs must be met from the beneficiary’s pocket and reimbursed at a later date. If this is to be the case, then people will simply not get the services they require, because it is highly unlikely that they will have sufficient ready cash to meet expenses, particularly one-off, substantial expenses. While it may be possible to borrow from Work and Income in order to meet immediate expenses, it is difficult to see how this could possibly be a simplification of the existing system.
- 3.3** We are also aware as a result of our own research that repeatedly having to apply for allowances and reimbursements often puts people off applying for their entitlements. It seems implicit in any cost-based system that costs would need to be proved on an ongoing basis. We are therefore concerned that families will not get the support they need if they need to keep re-applying for benefits and supplements, and justify having to do so.
- 3.4** We further note that a cost-based system of payments is simply another means of targeting. This is at odds with the stated goals of simplifying the system and providing financial security for those who cannot work, and further stigmatises beneficiaries.
- 3.5** With the above in mind, Child Poverty Action Group does not support the move to a cost-based system of support for beneficiaries. To do so is to totally ignore

the rationale for Sickness and Invalids Benefit, including the insurance rationale. Child Poverty Action Group submits that invalids and sickness beneficiaries must be entitled to a core benefit that enables families to meet their day-to-day expenses, as well extraordinary costs and a child benefit, both of which should be portable in the event that they obtain part-time or low-paid employment. Invalids should not be put in the position of having to constantly prove they are incurring extra costs in order to get income over and above an inadequate core benefit. In reality, many invalids will not get jobs that enable them to live independently of state support. This in itself should not be grounds to exclude them from normal social activities.

3.6 Child Poverty Action Group suggests that, for those on Invalids Benefits, a better approach would be that adopted by the UK. New Deal offered a higher core benefit rate for those seriously ill, and a portable top up for those in work. Participants also received medical *and psychiatric* services from the NHS to assist them back into work.

4. We note also that the preferred option at this stage is to move towards a rules-based system.

4.1 While we endorse the principle that it is Parliament, not unelected officials, that ought to make decisions regarding the expenditure of public money, Child Poverty Action Group is concerned that this will not only fail to “recognise the diversity of people’s needs and outcomes”, it will make the process of claiming entitlements more difficult for beneficiaries. While one rationale for this move is that it will free up time for caseworkers, it is also likely to increase the frustration of both beneficiaries and caseworkers when the rules cut across the specific needs of individuals. We are also concerned about the transitional arrangements for those who are presently receiving benefits and allowances, particularly Special Benefits, but may not be eligible for them under new rules. It is imperative that nobody be made “worse off” by changes to discretionary allowances.

- 4.2 We are mindful, too, that the more complex a system, the more potential there is for fraud. The prospect of extra cash for those who successfully defraud the benefit system provides an incentive not to work, but to make it look like one is incurring significant costs by not working.
5. According to the press statement pertaining to the Single Benefit, it is hoped that the new system will be simpler with one single core benefit. However, we note that it is proposed that this will be accompanied by a set of rates for singles, couples, families with children etc. In other words, it will not be a single benefit, and it will not be any simpler than the present system. Moreover, it is anticipated that payments for invalids will be “very complex”, and this appears to be borne out by the complexity inherent in the proposals for a cost-based system. If simplifying the system is indeed a driver for the reforms, then replacing one hopelessly complex system with another will simply defeat that purpose. Child Poverty Action Group welcomes genuine reform that simplifies the existing system, and makes entitlements easier to access and understand. We cannot endorse a reform that replaces one set of complexities with another.
6. At present, the unit of assessment for income tax is the individual. The unit for benefits is with the single person or couple, and any dependent children. We note that the Cabinet Committee considered that this is one of the fundamental assumptions of welfare provision in New Zealand. Given the changing nature of families, this assumption is of great concern. A reform of the welfare system MUST address the unit issues. It would be more consistent and administratively easier to align benefit income assessment with that used by the tax system, that is, the individual. This is particularly true if partners of beneficiaries are to be work tested.
7. Child Poverty Action Group submits that the opportunity be taken to standardise income assessment periods for benefits.
- 7.1 At present, there is a range of income assessment periods, including current weekly (Unemployment and Sickness Benefit), current annual (Family Support), expected income for the next month (Childcare subsidy). This is confusing for

beneficiaries and staff. In the case of the childcare subsidy, our research suggests that not only does the monthly income assessment impose too great a transaction cost on many recipients in low-paid work with variable hours (for instance rest home workers), they also run the risk of having to pay money back the following month if the income assessment was incorrect. The same applies to Family Support. Clearly, beneficiaries perceive having to repay money as a financial burden.

7.2 In other jurisdictions, overpayments in one year are not repaid, rather income is adjusted for the upcoming year, and payments varied accordingly. Child Poverty Action Group prefers this approach, and suggests that it is easier to administer and understand, and would result in greater uptake of supplemental entitlements such as childcare. We note the arguments in favour of weekly income assessment, and submit that this imposes significant transaction costs on beneficiaries, and risks them being without any income at all if for any reason the system falls over, for example a phone call is not logged, the beneficiary forgets, or one or both parties fails to keep track of the necessary paperwork. The more difficult it is to initiate and maintain payment, the greater the likelihood that people will simply fall through the gaps. Our research suggests that difficulty in rolling over eligibility is a large part of the reason people do not claim childcare allowances.

8. We note that it is proposed that the present abatement levels of \$80 and \$180 continue to apply to extra income earned by unemployed and sole parent beneficiaries. These abatement thresholds have been in place for many years, and it this would appear to be a good opportunity to review these thresholds, and to give consideration to indexing them in the future.

8.1 We further note the argument that changing abatement rates would involve “significant” fiscal costs. The goal of any benefit reforms must be to provide financial security, not fiscal savings at the expense of the poor. At the minimum wage of \$9.50 per hour, \$80 is approximately 8.5 hours work. A sole parent who works 19 hours work at the minimum wage, has an effective marginal tax rate on

earnings of over 90%. An abatement rate of 70 cents in the dollar over low income limits is a disincentive to work part time. Part time work often leads to full time and/or better paid work. Part time work will not be taken up where the effective marginal tax rate for earnings over \$80 exceeds 90 cents in the dollar. Most people prefer to work full time, and will do so if the opportunity is available. In turn, most prefer to work part time rather than not at all. The present abatement rates are a clear signal that part time work is not worth pursuing. While we recognise that the reforms are designed to move people into full time work, a person working part time is still making more of a contribution to the nation's growth figures than someone not working at all.

8.2 Child Poverty Action Group suggests that the abatement thresholds be substantially increased, and the abatement for the Unemployment Benefit be restructured into two tiers, as presently applies to the Domestic Purposes and Invalids Benefits. Moreover, if the goal of the reform is simplification, and there is to be one core benefit, then it is logical to have one threshold and abatement regime for all beneficiaries.

- 9.** If, as proposed, nobody is automatically allocated to the work development stream, we have concerns about how high the burden of proof will be set. We are concerned that, in the drive to get people into work, individuals with little or no capacity to work will fail to meet the required thresholds. Who will have the burden of proof, and what procedures will be in place for appeals? We are also concerned that people will be left without an income while the procedures are gone through or appeals are heard. We are aware that many beneficiaries have multiple and complex problems. How is it intended that these be addressed?

Traditionally invalids have found it difficult to get employment because they are inefficient. One solution to this was sheltered workshops, but these have long since been abandoned in the interests of mainstreaming. We are concerned that invalids will be deemed work-ready by default and effectively left to their own devices rather than rehabilitated where possible on order that they can hold down a job. While the latter option is the best outcome for all concerned, it does raise the question of who

will pay. If the Ministry is concerned about the fiscal costs of raising the benefit thresholds, there can be no doubt District Health Boards will be equally as concerned about having to address the needs of sickness and invalids beneficiaries in order to prepare them to work. The government has shown no enthusiasm for providing specialist services for beneficiaries with high and complex needs in the past, and we are sceptical that they will in the future.

- 10.** Child Poverty Action Group notes the Cabinet paper states: “excessive grandparenting would run counter to the purposes of the reform, and limit the gains to be made.” This appears to fly in the face of assurances that “nobody will be financially worse off” as a result of the proposed changes, and “savings arise from moving people into work, not from cuts to benefit levels.” However, the child component of core benefits has already been deducted from core benefits, Special Benefits have been reduced, and are likely to be reduced further when they become Temporary Additional Supplement. In addition, some families who are presently receiving the Child Tax Credit will no longer be eligible for that assistance in 2006 when it becomes the In Work Payment. Further, it appears that core Invalids Benefits are to be cut, and the extra allowance is to become part of an added-on Disability Allowance. As already noted, benefit levels are already inadequate, and grandparenting will be the only thing that will prevent some beneficiaries having benefits cut. We urge the Ministry to commit to the principle that nobody will be worse off, and to abandon attempts at fiscal savings by renegeing on promises to the least well-off families.

We note that financial security will be achieved by “assessing and providing full and correct benefit entitlement.” What measures will be put in place to ensure they are? Our research suggests there is a significant gap between the benefits some families receive and what they are entitled to. Will this be addressed as part of the reforms?

- 11.** It is apparent that work testing will play a significant part in the reforms. It also appears that those in the development stream will “be able” to participate in development activities.

11.1 What sanctions is it anticipated will be put in place for people who refuse to participate in work testing, or more low-level community activities? More importantly, what arrangements will be put in place for the financial security of their dependents? Child Poverty Action Group is very concerned that, yet again, tight targeting and compulsory work testing and related activities will result in the children with the greatest need being singled out, and punished for the behaviour of adults. We note that the effects of these policies on children are not considered at all in any of the documents we have perused, and it is in the application of sanctions that children are most vulnerable.

11.2 Similarly, there is no indication that poverty reduction is any sort of goal for these reforms. On the contrary, on the information available, it appears they are aimed at establishing and maintaining labour markets. Child Poverty Action Group cannot endorse the government's role in maintaining labour markets at the expense of our most vulnerable children.

12. There are several more general issues we believe need to be raised.

12.1 We observe the term "sustainable employment" is used often in the documents. We hope this refers to well-paid, stable employment, however we also note that in the past Work and Income has defined "sustainable employment" as loosely as three months off a benefit.⁵ Clearly, this is not sustainable employment at all. If short-term work is perceived as sustainable, then we again impress upon the Ministry the requirement to have the transition on and off benefits as seamless and trouble-free as possible. Short-term jobs, and periods with uncertain or no income do not ensure financial security for families. They ensure stress, and open the door to other problems such as domestic violence.

12.2 Similarly, we note the frequent use of the term "the right job." Evidence suggests that Work and Income is less interested in matching the right person to the right job than getting people off the rolls into any job at all. We are aware

⁵ See Ministry of Social Development, *Evidence to date on the working and effectiveness of ALMPs in New Zealand*.

from a range of anecdotal evidence that tertiary graduates are being shunted into semi-skilled and unskilled work. This makes it more difficult for them to find better-paid work. We suggest that Work and Income be encouraged to take this slogan seriously, in order to efficiently utilise the skills of those who are seeking work.

12.3 Again, we urge the Ministry to make an effort to assess take-up rates for benefits, and to make sure that those entitled to them apply. We note that a similar recommendation was made in the 2003 Attorney-General's report "*Social Security Benefits: Accuracy of Benefit Administration*". If the system needs to be simplified to encourage people to claim entitlements, then every effort should be made to do so.

12.4 Ultimately, if this reform is to be remembered kindly, it must be about ensuring the security of the less well-off, not engineering the labour market, or fiscal savings. This after all is the purpose of the welfare state. If Work and Income clients do indeed receive personalised case management, and access to services to help them overcome barriers to work such as mental illness, drug and alcohol addiction, and poor skills, then it must be acknowledged up front that this will not come cheaply. If clients do not get the services they need, but simply get put into unsuitable, low-paid jobs with little security and difficult to access supplementary benefits, then talk about doing better for these groups is simply public relations hype. Building an inclusive society and ensuring people's well-being must be the goal, not economic growth. Overseas evidence tells us that divided societies do not grow as well as cohesive ones, and the explicit division between deserving workers and undeserving others which this reform promotes can only further divide us and all our children.