

Working For Families A benefit Cut

Why Working for Families is not
working for poor families

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“WORKING FOR FAMILIES”

THE BIGGEST BENEFIT CUT SINCE 1991

“OVER 50,000 BENEFICIARIES WILL HAVE THEIR ENTITLEMENT CUT”

The Labour Government's 2004 *Working*

For Families package introduced changes that will bring about the biggest benefit cut since Ruth Richardson's 1991 *Mother of all Budgets*.¹

Although most of the changes in the package were not due to take effect until years later the legislation for the package was passed under urgency the day after the 2004 budget without any public input.

The benefit cuts reduce entitlement to hardship assistance for the poorest families in New Zealand.

James and Mary

James and Mary apply for the unemployment benefit after 1 April 2006. They are married with two children aged 12 and 17. They live in Auckland and pay \$275 per week in rent.

The *Working For Families* Package means their total income will be \$15.87 less per week that it would have been in April 2004.

Income Type	2004	2006
Unemployment Benefit	\$308.00	\$289.84
Accommodation Supplement	\$131.00	\$130.00
Family Support	\$92.00	\$132.00
Hardship Assistance	\$ 36.71	\$ 0.00
Total Income	\$567.71	\$551.84

Currently hardship assistance is provided by the Special Benefit. However, on 1st of April 2006 Special Benefit will be axed and replaced with a form of hardship assistance known as Temporary Additional Support. This new mechanism for addressing hardship is deliberately designed to both provide less financial support than Special Benefit and be less flexible than Special Benefit.

The scrapping of Special Benefit and replacing it with Temporary Additional Support will mean that over 30,000 beneficiaries will have their entitlement cut on the 1st of April 2006.² When the

provision is fully in force the cut will affect over 50,000 beneficiaries and people on low incomes.

Perversely, the benefit cuts are “targeted” so that those families in the most financial hardship will have the biggest benefit cuts. At the same time, the *Working For Families* Package targets the increase in assistance mainly to people on annual incomes over \$30,000.

¹ The 2004 benefit rates used in the case studies have been adjusted to take account of the CPI changes over the two years since the 2004 budget in accordance with the rules as they were in 2004. This allows for accurate dollar figure comparisons of the current benefit rates with the rates paid prior to the Working For Families package. 2004 Family support rates have not been adjusted as, unlike many benefit rates, they were not subject to an annual CPI adjustment.

² The 30,000 people whose entitlement is cut on 1 April 2006 are those who although eligible for Special Benefit are not receiving a Special Benefit. These people's entitlement is not grand parented.

We estimate the overall savings to the Government of this benefit cut will be around \$50 million per year. Although this sounds like a lot of money it is quite small compared to the 1.2 billion cost of the *Working for Families* package.

In essence, the axing of Special Benefit is taking \$50 million dollars out of the pockets of the poorest families so as to marginally increase the incomes of families with an annual income over \$60,000 per year.

Special Benefit is New Zealand's last welfare safety net. It is the benefit that ensures many families can put food on the table for themselves and their children. It has played a crucial role in New Zealand's welfare system for over 30 years. It is this assistance that Labour will be cutting in April 2006.

“A LIE BY ANY OTHER NAME IS STILL A LIE!”

Labour says it's not a benefit cut as no existing person's benefit will be cut.

According to this argument we could pay *new* MPs the minimum wage and claim this was not a cut in MP's wages as no existing MP's pay would be cut – it would just mean new MPs got less than existing MPs!

BENEFIT CUTS BY STEALTH

Unlike Ruth Richardson's *Mother of all Budgets*, the Labour Government's benefit cut is being done by stealth. The Government is “grand-parenting” existing payments of Special Benefit – but all new applicants will face the full force of the cut as of 1 April 2006.

The Government claims that no one will be worse off. By this it appears to merely mean that no one receiving a Special Benefit just prior to the benefit cut will have their benefit reduced.

However, many *new* applicants will receive less than they would have under the current rules (were they to receive their full and correct entitlement under these rules).

Grand-parenting is just a way of disguising the impact of the benefit cut. People are less likely to notice the cut when it is a cut to what they could have received rather than a cut in what they are currently receiving.

This was how the National Government cut the Sickness Benefit rate in 1998 – something the Labour Party at the time described as a benefit cut.

“...overall savings to the Government of this benefit cut will be around \$50 million per year”

The 2004 budget changes replacing Special Benefit with Temporary Additional Support means reduced benefit entitlement for a large number of people.

Kathy

Kathy has a 16 year old daughter and 11 year old son. Kathy applies for the Widow's benefit after 1 April 2006 when her husband Kevin dies in a car accident. She lives in Wellington and pays \$260 per week in rent.

The *Working For Families* Package will mean Kathy's total income will be \$15.93 less per week than it would have been in April 2004.

Income Type	2004	2006
Widows Benefit	\$271.77	\$249.10
Accommodation Supplement	\$100.00	\$126.00
Family Support	\$ 92.00	\$132.00
Hardship Assistance	\$ 59.26	\$ 0.00
Total Income	\$523.03	\$507.10

How Special Benefit Works

1) **Formula Assessment:** A comparison is made between a person's income and essential cost including a standardized living allowance to cover such things as food, clothing, bank fees, child support, and other daily costs.

If the person has less income than costs they would normally qualify for a special benefit at a rate which is the difference between their income and their essential costs.

The payment is, however, capped at 30% of the person's allowable costs (excluding the living allowance).

2) Once the formula assessment is completed there is discretion to depart from it (either up or down) if doing so is justified by the person's circumstances.

SPECIAL BENEFIT AND TEMPORARY ADDITIONAL SUPPORT

TAS will have the same general structure as Special Benefit but with a number of significant changes.

The key changes are:

- \$21.09 of the applicant's accommodation costs will be excluded when assessing the applicant's costs,
- there will be a fixed maximum payment set at 30% of the person's main benefit plus 30% of the applicant's disability costs that exceed the maximum disability allowances paid,
- discretion will be removed, apart from the discretion to decline applications or costs,
- there will be a fixed list of costs that are deemed essential with most costs having a maximum weekly cap, and,
- payments will be for a maximum of 13 weeks – to continue to receive payment people will have to reapply every 13 weeks.

What we know about how Temporary Additional Support will work

A comparison will be made between a person's income and essential costs including a standardized living allowance to cover such things as food, clothing, bank fees, child support, and other daily costs. However, \$21.09 of the applicant's weekly accommodation costs will be ignored in the assessment as costs that are not on the fixed list of allowed costs (and any part of those costs that exceed the capped amount).

If the person has less income than assessed costs they would normally qualify for Temporary Additional Support at a rate which is the difference between their income and their assessed costs but with a cap set at 30% of the applicant's main benefit (increased by 30% of their disability costs that exceed any disability allowances paid).

There will be no discretion to increase the rate or include essential costs not on the list of allowable costs.

The benefit will be paid for a maximum of 13 weeks regardless of the applicant's circumstances though people can reapply at the end of the 13 weeks.

Sarah

Sarah is 17 years old and lives in Lower Hutt. Sarah came to New Zealand with her mother as a refugee. Sarah has significant disabilities. Due to her mother's death, Sarah's applies for the Independent Youth Benefit after 1 April 2006. She pays \$150 rent, has disability costs of \$75 per week and is repaying a washing machine at \$25 per week and a fridge at \$15.

The *Working For Families* Package will mean Sarah's total income will be \$27.69 less per week than it would have been in April 2004.

Income Type	2004	2006
Independent Youth Benefit	\$144.92	\$144.92
Accommodation Supplement	\$65.00	\$65.00
Disability Allowance	\$51.04	\$51.04
Family Support	\$ 0.00	\$ 0.00
Hardship Assistance	\$78.35	\$50.66
Total Income	\$339.31	\$311.62

The removal of discretion is, by itself, a fundamental shift in New Zealand's welfare system. With Special Benefit there was sufficient flexibility in the payment of hardship assistance to ensure that where genuine need existed Work and Income had the ability to provide appropriate assistance. However, TAS takes away this ability.

Special Benefit is the 'backstop' safety net in New Zealand's social security system. It is currently subject to a Ministerial Directive on how it should be administered but allows Work and Income sufficient flexibility to provide appropriate welfare assistance to those in genuine need.

Temporary Additional Support will in many

cases prevent Work and Income assisting with genuine need. It will further impoverish New Zealand's poorest families.

Unlike Special Benefit, TAS can only be granted for a maximum period of 13 weeks regardless of the applicant's circumstances. To continue to receive payment people will have to reapply every 13 weeks. Special Benefit, on the other hand, continues so long as entitlement continues though there are regular 3 and 6 monthly reviews of entitlement.

With the change to TAS, there will be a significant number of situations where genuine hardship exists for applicants who are unable to take any steps to alleviate this hardship but where nevertheless the applicant is either declined hardship assistance or the assistance provided fails to take account of all of their essential costs.

Bill and Moana

Bill has to give up work when he has a stroke leaving his left side paralysed. Bill and his wife Moana apply for the Invalid's benefit after 1 April 2006. They live in Invercargill and pay \$140 per week in mortgage and other accommodation costs. They are also half way through paying off their car which is needed to get Bill to the doctor. This costs them \$60 per week.

The *Working For Families* Package will mean Bill and Moana's total income will be \$31.83 less per week than it would have been in April 2004.

Income Type	2004	2006
Invalid's Benefit	\$362.32	\$362.32
Accommodation Supplement	\$35.00	\$35.00
Family Support	\$ 0.00	\$ 0.00
Hardship Assistance	\$59.04	\$27.21
Total Income	\$456.36	\$424.53

'Potentially Eligible' is a term used by the Ministry of Social Development to denote people who have accommodation and/or disability costs that would result in a formula deficiency under the special benefit Ministerial Directive. In practice, over 90% of people with potential eligibility, when assessed, are found to be actually eligible.

FULL AND CORRECT ENTITLEMENT?

Under the Labour Government, Work and Income has had a policy that everyone should receive their full and correct benefit entitlement. Unfortunately Work and Income's actions have not matched their words.

Advocates, working with the Ministry, have identified at least 77,000 beneficiaries who are potentially eligible to receive special benefit as of February 2006 (see definition at left). However, the actual number of potentially eligible beneficiaries who receive special benefit is only 47% nationally. Rates vary according to region and within regions. In some regions only 33% of potentially eligible people are receiving special benefit while in other regions over 50% are receiving special benefit. The variability is even greater when offices within regions are considered. Rates between local offices range from as low as 17% to as high as 71%. So actually receiving one's full and correct entitlement depends on where one lives.

The main obstacle to people receiving special benefit is Work and Income's failure to assess potentially eligible beneficiaries.

Examples of the Variability in Special Benefit Payments to Potentially Eligible Beneficiaries

Work and Income local office	Percentage of potentially eligible people paid special benefit
Orewa	71.2%
Motueka	70.6%
New Lynn	69.8%
Mt Eden	40.7%
Napier South	40.7%
Three Kings	40.5%
Ruatoria	17.7%
Balclutha	17.6%
Taihape	17.4%

RULES BASED SYSTEM

One of the justifications the Government has used for the move to a rules based non-discretionary form of hardship assistance is the difficulty of a discretionary system.

The low and variable take-up rates of Special Benefit is being used as evidence of this problem. However, as noted above, the issue of variability and low take-up rates is not about difficulties in exercising discretion but rather due to Work and Income's failure to assess applicants for their full and correct entitlements.

Labour's use of this argument is again deceptive in two respects. First, the existing Special Benefit is subject to a Ministerial Direction that sets out clear rules for determining entitlement. The Directive also sets out factors that can be considered to depart from the rules-based part of the Directive. Thus the current system – if properly administered – contains both a rules-based assessment and the ability, where appropriate, to depart from these rules. Second, the new TAS "rules-based" approach incorporates discretionary provisions only to refuse assistance or pay at a lower rate, not to meet need that may ordinarily fall outside of the rules.

Debbie

Debbie has two young children and applies for the Domestic Purposes Benefit after 1 April 2006. She lives in Dunedin and pays \$165 rent per week. She is also paying off a washing machine at \$20 per week.

The *Working For Families* Package will mean Debbie's total income will be \$6.93 less per week than it would have been in April 2004.

Income Type	2004	2006
Domestic Purposes Benefit	\$271.77	\$249.10
Accommodation Supplement	\$60.00	\$60.00
Family Support	\$79.00	\$119.00
Hardship Assistance	\$24.26	\$ 0.00
Total Income	\$435.03	\$428.10

CHILD TAX CREDIT AND IN WORK PAYMENT

From 1 April 2006 the In-Work-Payment will replace the Child Tax Credit. This change carries with it a cut in entitlement for some low-income families. While the Child Tax Credit was paid to any low-income families regarded as not "*substantially dependent on the state*" this is not the case for the In Work Payment. The Future Directions legislation has set an additional requirement that sole parents must be working at least 20 hours per week and couples at least 30 hours per

week (combined) to be eligible. Thus there will be many families that would have been eligible for assistance under the Child Tax Credit rules but will not be eligible under the In Work Payment rules.

Among those affected by this change are caregivers for children who are supported via child support payments from the other parent. Currently the caregiver is able to receive the Child Tax Credit but will not be able to receive the In Work Payment.

GRAND-PARENTING

People receiving special benefit and/or the Child Tax Credit before 1 April 2006 (if they are not eligible for the In Work Payment) will continue to receive these

payments under the existing rules. However, all new applicants will be assessed under the new Temporary Additional Support and In Work Payment rules. Thus for new applicants in the above situations there will be a significant reduction in entitlements. Further, Special Benefit (and Child Tax Credit) entitlement stops-and-starts quite often due to changes in a person's situation, it is unlikely the grant-parenting provisions will protect even existing people from this benefit cut for very long as changes in people's circumstances means they are frequently moving off and onto Special Benefit and the Child Tax Credit.

CONCLUSION

The axing of Special Benefit will increase the hardship of the poorest families:

- by ignoring \$21.09 of the applicant's accommodation costs in the assessment of an applicant's financial position.

This effectively reintroduces the old National Government's Special Benefit policy of the early 1990s whereby a person had to have a shortfall of income compared to essential costs of more than \$20 per week to receive hardship assistance.

- by removing discretion to take account of costs and circumstances outside the strict rules based system. This will prevent TAS fulfilling the role as New Zealand's backstop welfare safety net.

The result will inevitably be situations where people are in real need but where Work and Income will be prevented from providing help.

- by deeming only a limited number of costs to be essential and imposing weekly maximums for most costs will mean many applicant's essential and unavoidable costs will not be taken into account.
- by imposing a cap of 30% of the applicant's main benefit plus 30% of excess disability costs without the discretion to depart from this cap.
- by adding the requirement that people must reapply for this assistance even when there has been no change in circumstances. This imposes a high degree of bureaucracy both on applicants and Work and Income.

It was a shock that it was a Labour Government that axed Special Benefit – New Zealand's backstop welfare safety net. Labour, with strong community support, fought the then National Government's attempt to do this in 1994.

In the 1990s Labour recognised the crucial role Special Benefit played in the welfare system.

Now, by stealth Labour too has begun to attack New Zealand's poorest families, and has instituted fundamental welfare reform with no public debate.

About the Wellington People's Centre

The Wellington People's Centre is a non-profit organization formed in 1992 after the then National Government's major benefit cuts.

The objectives of the People's Centre is to provide low cost high quality accessible health and advocacy services to people on low incomes and benefits.