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Sheltering our children from COVID-19 fallout:

New Zealand must raise incomes for the financially vulnerable instead of cutting their incomes on 1 October 2020 as planned

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About Child Poverty Action Group

Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, made up of academics, activists, practitioners and supporters. CPAG has a strong education and research skills base which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty. CPAG believes that the country's high rate 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 the poverty they live in. If you are not already supporting CPAG and you would like to make a donation to assist with ongoing work, please contact us at the address below or through our website: www.cpag.org.nz

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Key points

- Under current Coalition Government policy, incomes for all households receiving benefits and/or superannuation will reduce by $63 a week for families and couples, and $41 a week for single adults, from 1 October 2020, when the scheduled five-month Winter Energy Payment (WEP) period ends.
- The Coalition Government doubled WEP as a one-off in 2020 as a mechanism to mitigate the COVID-19 crisis and its effects, and to "support our most vulnerable at this time" (Robertson, 2020). The "Winter Energy" name is thus currently something of a misnomer: its doubling was a response to COVID and subsequent economic uncertainty – and this uncertainty will continue far beyond 1 October, due to the still-unfolding global situation.
- In spite of this 2020 WEP increase, and the $25 increase to core benefits from April 2020, current income levels for families receiving core entitlements are already inadequate, as evidenced by legally-mandated measures, lived experience and foodbank demand (Martin, 2020). Reducing family incomes further by the significant amount of $63 a week from 1 October will increase toxic stress, debt, food insecurity, social isolation and other harms that will waste whānau creativity and energy, including limiting their opportunities to participate in their communities and school activities, and detrimentally affect children living in poverty and their future potential. Because Māori are disproportionately forced into financial positions where they need to receive benefits, it will further entrench state breaches of te Tiriti o Waitangi. Pasifika, women, people with disabilities and, of course, children are also disproportionally forced into these precarious financial positions.

Thus, instead of decreasing incomes for financially vulnerable families, we call on the Government to increase their incomes.

Recommendation

CPAG recommends immediately extending the Working for Families In-Work Tax Credit to all low-income families, and continuing the current WEP past 1 October 2020 as a stop-gap measure, at least until the welfare system is reformed following Welfare Expert Advisory Group (2019) recommendations and family incomes are increased to adequate levels.

Our recommendation would assist the Government in reaching its targets to reduce child poverty, and would mean that recession scenarios, which show that an additional 70,000 children may be forced into poverty, could be mitigated (CPAG, 2020).

Research Summary

The modelling below, for households receiving benefits and core entitlements with 1-3 children and paying lower quartile rent in Area 1 (high-cost housing regions eg Auckland) or Area 4 (low-cost housing regions eg rural Whakatane and Invercargill suburbs) shows:

- After October 1, if the WEP expires as planned, After-Housing-Costs (AHC) residual incomes for 13 out of our 16 model households will be below 40% of the equivalised median moving line (this is an estimate of the lowest legally-mandated AHC child poverty measure (StatsNZ, 2019)), and one household will drop to below 30%. In contrast, on current WEP-inclusive incomes, 4 (instead of 13) of our 16 model households have AHC incomes below this 40% line.
- After October 1, if the WEP expires as planned, all 16 model households with children will be ~$31-$205 *per week* below an estimated 50% AHC equivalised median income fixed line 2017-18 (a primary legally-mandated child poverty measure (StatsNZ, 2019)), with inadequacy being deepest for couples.
- There is a large gap between our model households receiving benefits and equivalent model households paying the same rent but receiving the 12-week COVID Income Relief Payment[2] instead: a gap of $115 per week for sole parent families and $473 for couple families. In other words, our sole parent families on the COVID Payment have up to 42% more AHC income, and our couple families on the COVID Payment have up to 148% more AHC income, than equivalent families receiving benefits.
- All of the model households receiving the COVID Income Relief Payment are at or above the 50% AHC poverty line (estimated fixed line measure). Because the COVID Payment is much higher than a welfare benefit and is not reduced for a partner income unless it is very high, couple-led households are worst-off on a benefit yet least-worst-off on the COVID Payment.
- If our model families on benefits became eligible both for a continued 2020 WEP post-1 October and the equivalent of the In-Work Tax Credit (currently *not* government policy), this would be enough for most of them to reach the 50% AHC fixed line, and it lifts all of them over the 40% moving line. In dollar terms, they would receive $135 more a week per household than they are currently scheduled to receive after the planned 1 October 2020 income reductions.

[2] This is *not* the wage subsidy. The COVID-19 Income Relief Payment is tax-free and does not count toward abatement thresholds for the Family Tax Credit, although it does for Accommodation Supplement. Those eligible are people who have lost their jobs between 1 March and 30 October 2020 due to COVID-19, and who are receiving no income from paid work; their partner's income is not taken into account until it reaches $2000 gross a week. The rate used in this paper is the $490 rate for those who have lost fulltime jobs. If a sole parent or both people in a couple are receiving the COVID Payment, they are ineligible for the In-Work Tax Credit.

Modelling Methodology

In May 2020, CPAG released a paper modelling the 2020/21 core entitlements income averaged out over the April 2020/21 year for 12 model representative households receiving income support and paying lower-quartile rent, including 6 model households that included 1-3 dependent children, aged 3 to 13 (McAllister, 2020). We expressed these core entitlement incomes as a percentage of equivalised median income after-housing-costs (AHC) (an estimate of the moving line measure, used for two of the supplementary annually recorded child-poverty measures (StatsNZ, 2019).

In this current paper, we extend the same model (estimated moving line AHC income; core entitlements of benefit, Accommodation Supplement (AS), Family Tax Credit (FTC); lower-quartile rent) to 16 model households with 1-3 dependent children aged 3 to 13 (sole parents on Sole Parent Support and couples on Jobseeker Support; see Appendix 1 for input and household details; Appendix 2 for an explanation of the AHC income median). But instead of focusing on the yearly average as we did in our previous paper, here we examine weekly incomes:

- Current weekly incomes (due to be cut 1 October 2020) ("WEP-inclusive")
- Weekly incomes scheduled to come into effect after the WEP period ends on 1 October 2020, for the following seven months ("October default")
- Weekly incomes for equivalent households receiving the fulltime COVID Income Relief Payment ("COVID Payment"), FTC and AS
- The WEP inclusive income plus the equivalent of the In-Work Tax Credit ("WEP & IWTC inclusive")

We've also analysed the weekly dollar amount difference between weekly incomes and the *fixed* line of 50% of AHC equivalised median income, as this line is one of four primary child-poverty measures against which each government must set targets (StatsNZ, 2019).

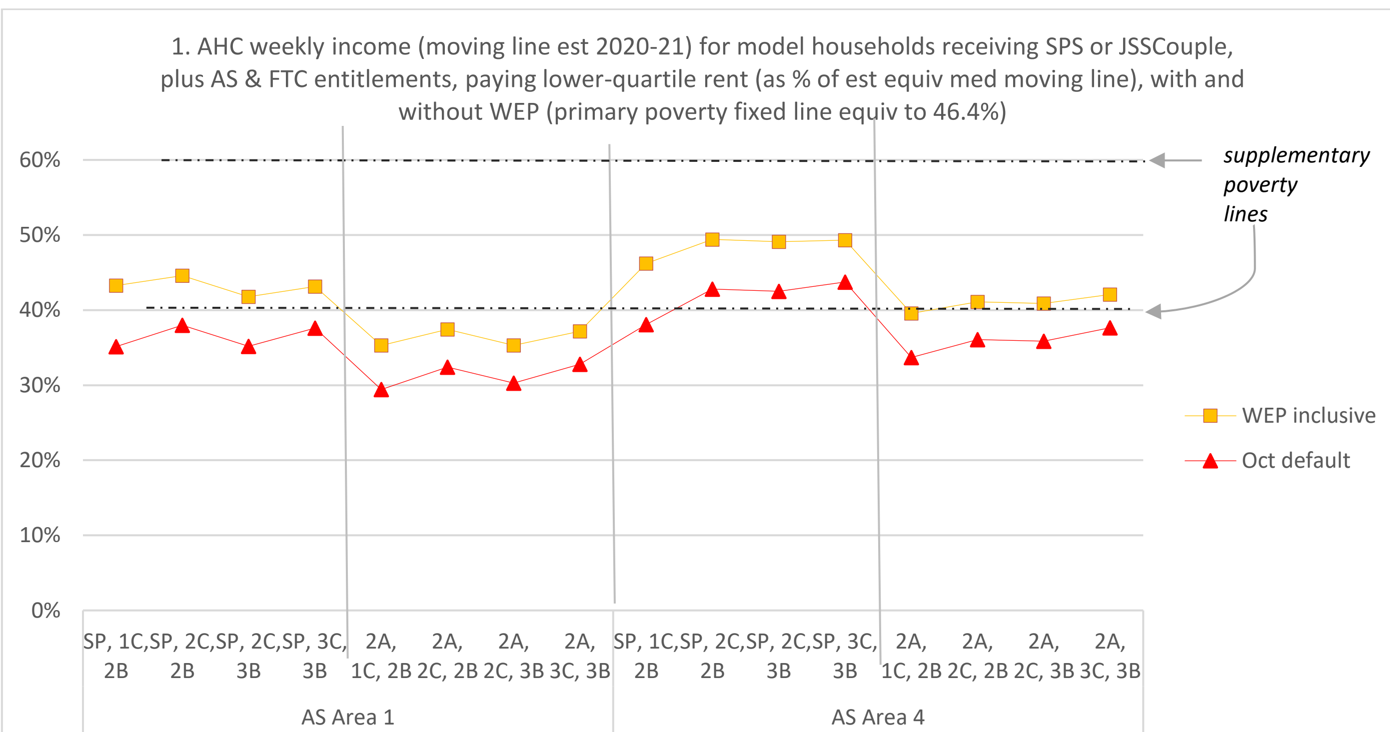
Results

Current WEP-inclusive incomes vs October-default incomes

- The current WEP-inclusive incomes for our model households include benefits, Family Tax Credits, AS and WEP. October-default incomes for our model households are the same except that they do not include the $63 WEP, as WEP is due to end on 1 October 2020.

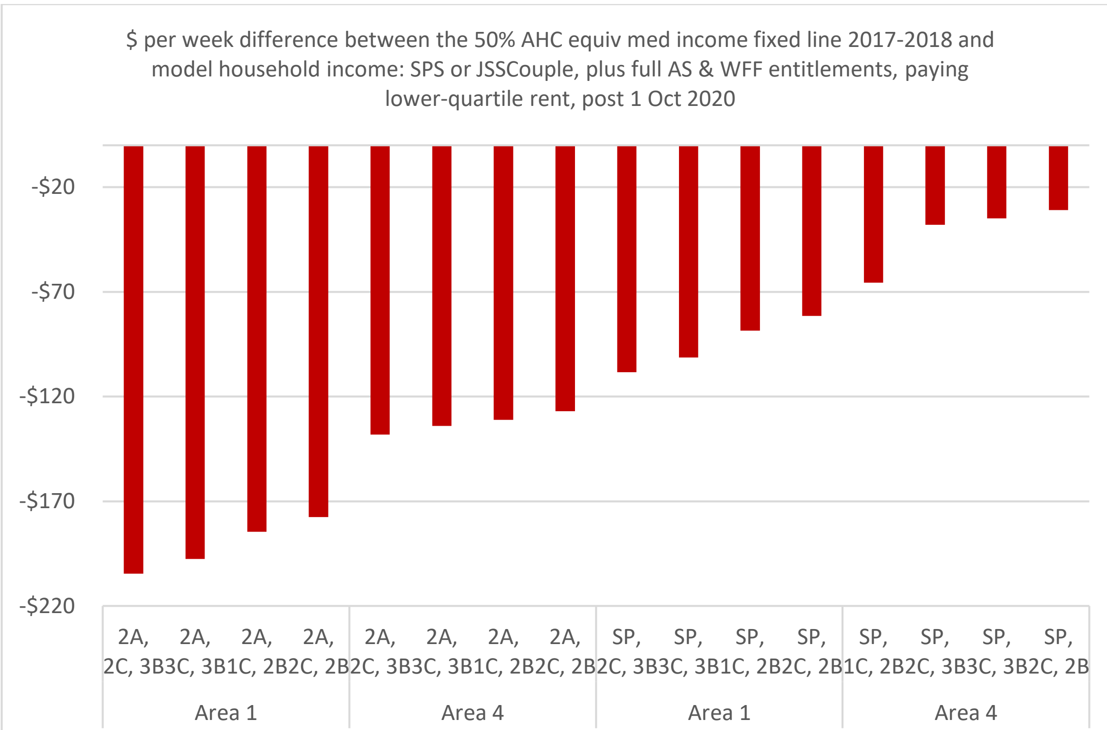
Graph 1 below shows both current and October-default weekly incomes as a percentage of AHC equivalised median, estimated moving line.

- The orange squares show current WEP-inclusive weekly incomes for our model households. The range is 35%-49% of AHC median: 12 of the 16 households are currently on or over the 40% line. All model couple households in Area 1, however, are below even the 40% supplementary poverty line (second quadrant) at 35%-37%. Not shown: on the fixed line measure, only 4 of the 16 households, sole parent model households in Area 4, reach the 50% line, one of four primary child-poverty measures against which each government has to set targets ([StatsNZ, 2019](#)).[3]
- The red triangles show October default incomes without WEP: these incomes are extremely low: 29% to 44% of AHC moving median for the model households.
- Only three of 16 model households – all sole parent households in Area 4 (third quadrant) with 2 or 3 children – are above the 40% line at 43%-44%, eight fewer households than currently. Again, couples in Area 1 have the lowest percentages (29%-33%).
- The $63 per week reduction on October 1 represents a reduction in income of between 4 and 8 percentage points per household, as a percentage of AHC moving median (vertical gap between red triangles and orange squares). AHC incomes (money left after paying rent) will drop 10%-19% in dollar terms for these households after October 1.



[3] This primary AHC 50% fixed line measure is equivalent to 46.4% of the moving line median measure shown in Graph 1.

- Graph 2 below shows how much more money in dollar terms each household will require in order to reach the legally-mandated primary AHC poverty line of 50% AHC equivalised median income (fixed line) after the WEP period finishes on 1 October. (Note the household order is different from other graphs, ordered from largest dollar amount required to lowest).
- Our model households receiving October-default core entitlements require between $31and $205 more per week in order to reach the 50% AHC income fixed poverty line. In order to reach the 60% AHC income moving poverty line, they require between $166 and $394 more per week (not shown).

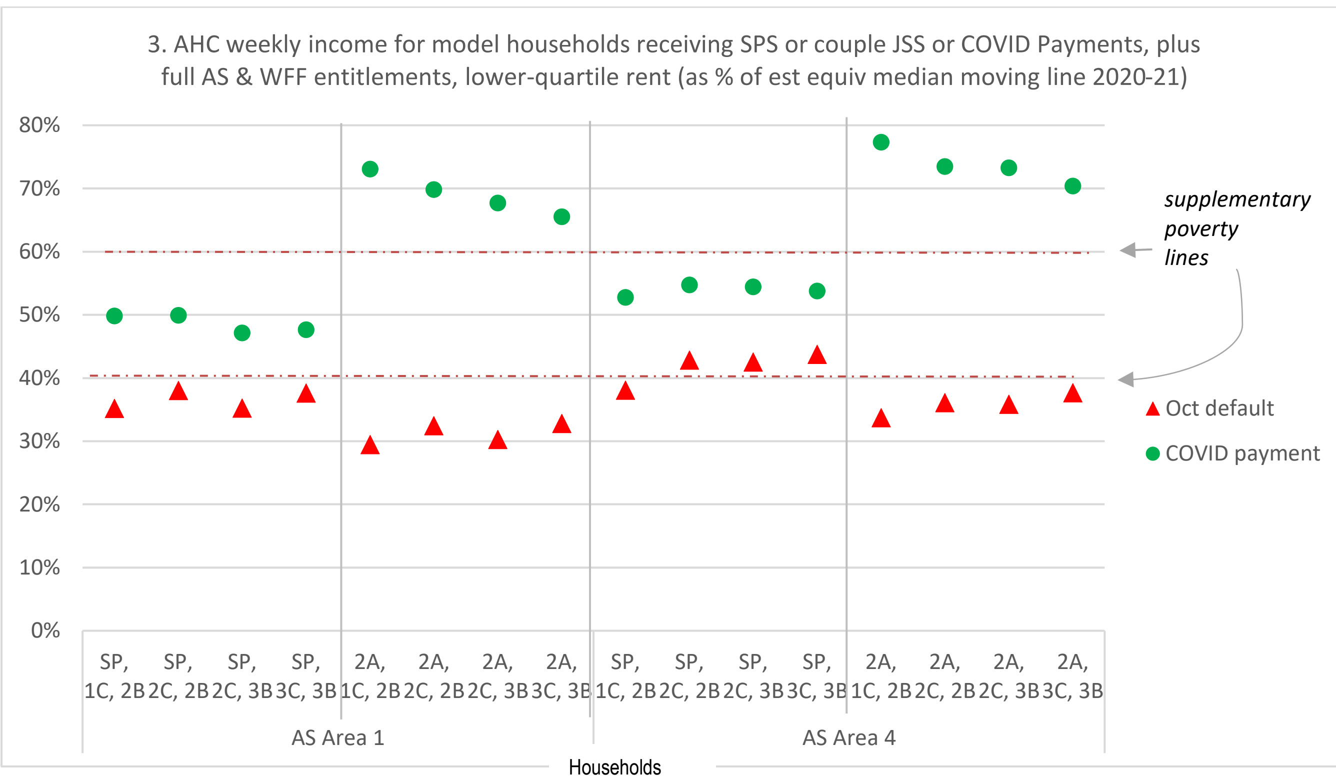


Comparison with COVID Payment

- Our sole parent model households receiving October-default benefit entitlements (ie, without WEP) will each receive $115 less a week than equivalent sole parent households receiving the COVID Payment. This means those model households receiving the COVID Payment plus AS and FTC have 23%-42% more income left in the hand after they've paid their housing costs than those receiving October-default benefit entitlements.
- For all our couple model households, the gap between those receiving October-default entitlements and those where both partners are receiving the COVID

Payment is $473 a week. Those model households receiving the COVID Payment have 87%-148% more AHC income than those receiving October-default benefit entitlements. The large size of this gap is because, commendably, the COVID Payment is not paid at a lower rate just because of marriage or relationship. This is in contrast to our non-individualised welfare system which penalises couples for their partnerships (CPAG, 2019; WEAG 2019).

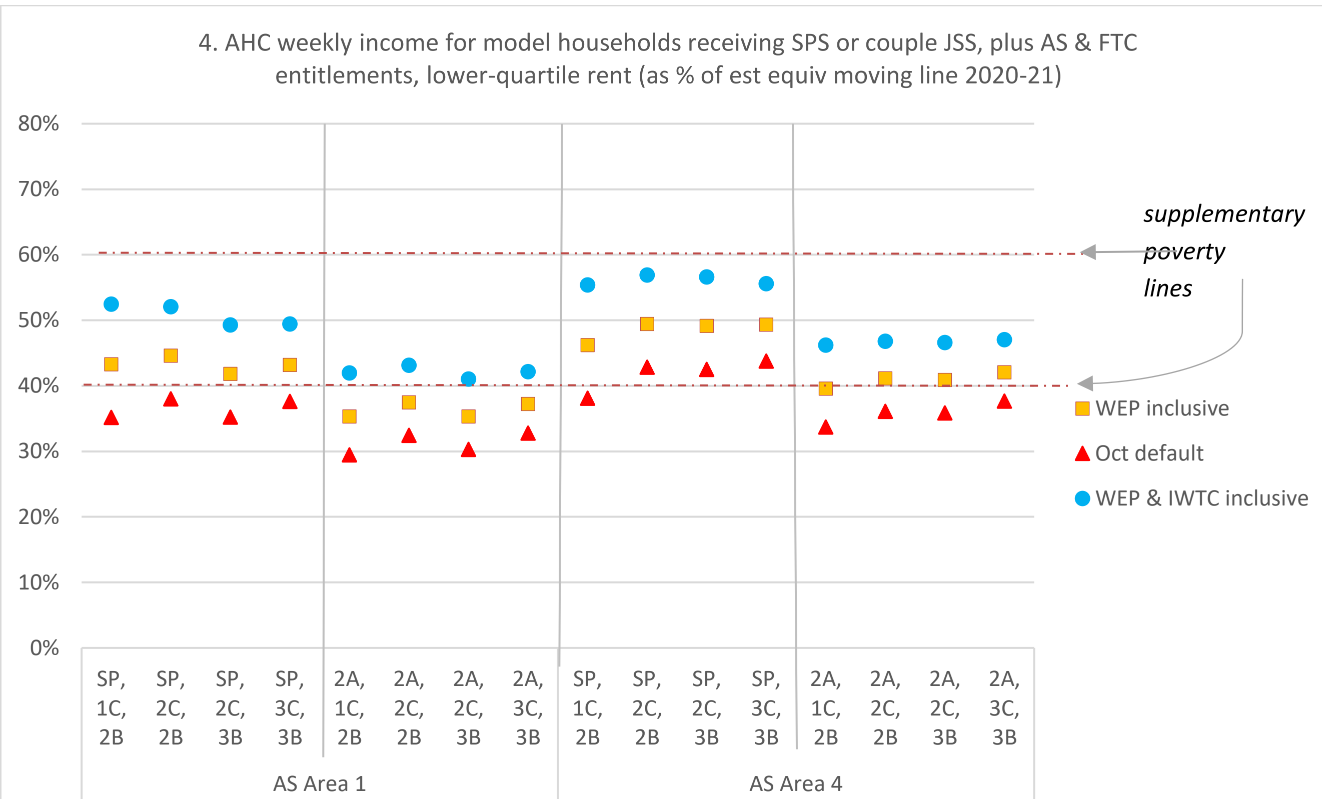
- Graph 3 below shows that $115/$473 gap as a percentage of AHC equivalised median incomes, moving line estimate. Model households on COVID Payments receive 47%-73% of AHC equivalised median incomes (graphed green circles, each directly above their equivalent red-triangle benefit-receiving household). This is 8 to 43 percentage points higher than equivalent households receiving October-default (no WEP) benefit entitlements.



- Of the COVID Payment households, sole parents in Area 1 have the lowest incomes as percentages of AHC equivalised median moving line estimate at (47%-50%). On the fixed line measure, however, the COVID Payment is high enough for all families to reach the primary AHC poverty line of 50% (not shown; equivalent to 46.4% on graph 3).

WEP & IWTC inclusive

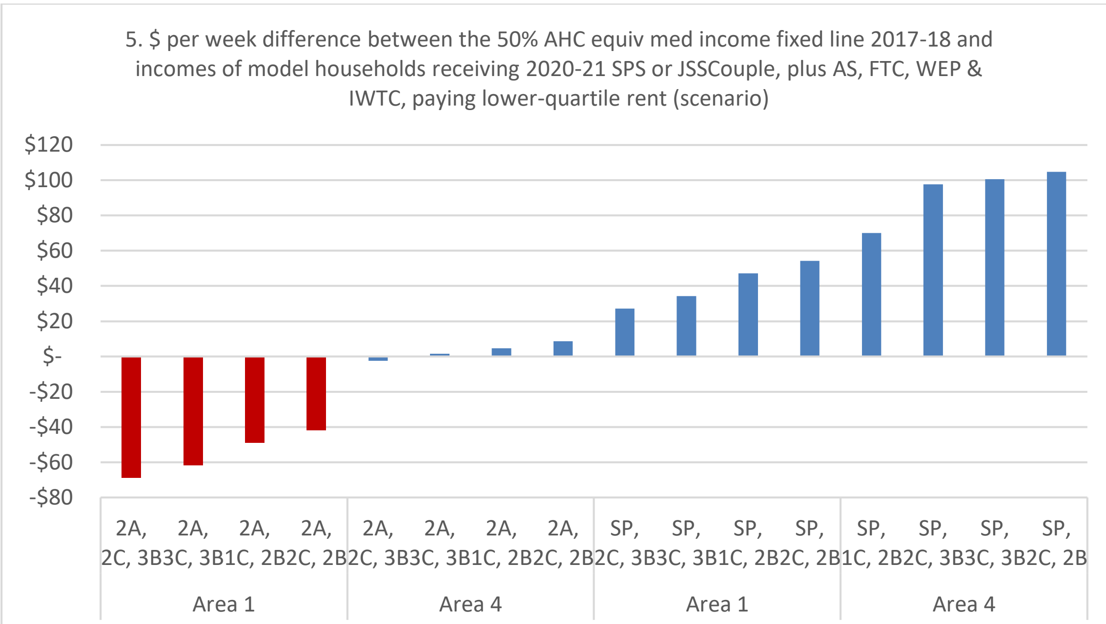
- Graph 4 below shows the weekly incomes for model households receiving both the WEP and the In-Work Tax Credit (blue circles); and the October-default incomes (red triangles) and the current WEP-inclusive incomes (orange squares) already seen above.
- If our model households receive both WEP and an IWTC equivalent, sole parent model households in both Area 1 and Area 4 have an income range of 49% to 57% on the moving line estimate measure. All the couple model households are over the 40% line, at 41% to 47%.



- Graph 5 below shows how much more money in dollar terms each household requires in order to reach the primary AHC poverty line of 50% AHC equivalised median income (fixed line), if they are receiving both WEP and IWTC. (Note the household order is different from other graphs, ordered from largest dollar amount required to lowest). Twelve of our model households receiving WEP and IWTC inclusive core entitlements are either nearly at or above the 50% line.

- Our couple model households in Area 1 however, still require up to an additional $69 a week in order to reach the 50% poverty line, which points to how low the couple's per-person benefit rate is. Nevertheless the WEP and the IWTC together make up nearly two-thirds of the deficit that these lowest-income couples will have compared to the 50% AHC line when they're only receiving the October-default entitlements.

- None of the households would reach the supplementary poverty line of 60% of AHC equivalised median (moving line), requiring a further $30-$258 to do so (not shown).



Discussion

This modelling is indicative only of the level of support required across the board by families receiving core benefits – the number of households in any one category differs, and different families will have different expenses (including housing) and different levels of informal and other support. Many will be in overcrowded housing – increasing material hardship – in an attempt to avoid dire income poverty. The medians used here are estimates only, and while any one poverty measure does not tell the whole story, the indicators are alarming.

This exercise is not designed to measure the numbers of families in poverty but rather aims to investigate income adequacy for those on core benefits alone. No account is taken of any part-time income for example. Our model households do not include those eligible for Best Start payments for children under 3. Many households, due to their income inadequacy, would seek supplementary assistance from MSD eg Temporary Additional Support (TAS). But not all eligible families receive TAS, and the *maximum* TAS available to sole parent families is $112 per week and for couple families it is $128 per week – not enough to guarantee income adequacy, particularly for couples whose entitlements are currently the most inadequate. On the other hand, all our model households are assumed to receive the full AS (which not all families in need qualify for), and all are receiving all their core entitlements, which is not always the case.

This modelling clearly indicates the scale of the income inadequacy that our most financially vulnerable families are exposed to under current government policies. If household incomes for our most financially vulnerable children reduce by $63 a week on 1 October 2020, as they are scheduled to do, the resulting deeper income inadequacy will lead to further severe hardship.

Our conclusion of significant income inadequacy is also backed up by current COVID-related concerns raised by social services and schools: about young people having to leave school to work (1news, 2020) – a pathway that can lead to lifelong precarious work and further intergenerational poverty (Rua, 2019); about youth homelessness (Manaaki Rangatahi, 2020); about digital exclusion (Biddle, 2020); and about food insecurity. The charity and foodbank sectors are experiencing unprecedented demand – Auckland City Mission foodbank demand almost trebled between March and June – pointing to a deepening of severe poverty (Martin, 2020). Although it is unclear how much of the additional demand is from people receiving benefits, MSD hardship grants have dramatically increased (by 33% between March and June 2020 quarters) to record levels (MSD, 2020). Meanwhile, rheumatic fever – a disease of deprivation – continues to kill 130 people a year (Fallon, 2020) and rates of the disease rose 25% in the first five months of 2020 (Quinn, 2020). The 2020 Budget Child Poverty Report predicted that COVID would mean rates of children in material hardship would "rise sharply" (Treasury, 2020). Such a rise is not unavoidable; indeed, such predictions based on current policy settings should be treated as warnings not *fait accompli*: we need to do something fast because more children are more vulnerable to poverty in 2020 than they were last year.

Recommendation

CPAG recommends immediately extending the Working for Families In-Work Tax Credit to all low-income families, and continuing the current WEP past 1 October 2020 as a stop-gap measure, at least until the welfare system is reformed following Welfare Expert Advisory Group (2019) recommendations and family incomes are increased to adequate levels.

Costs and off-set

We estimate this stop-gap measure will cost an additional $2.3 billion calculated on a yearly basis– $500m to extend the IWTC to families receiving benefits and $1.8m to keep the 2020-level WEP for 12 months – although it could cost less, if WEP is changed from an opt-out to an opt-in scheme for those receiving NZ superannuation who aren't currently receiving additional support such as the AS or a disability allowance (St John, 2020a). This amount pales in comparison to what has been spent elsewhere in COVID relief, and yet it would have a much needed impact for child poverty reduction.

In addition, it will also help reduce the cost of hardship assistance (which was $723M for the year to June 2020 (MSD, 2020)) and government foodbank support, both of which are highly likely to continue to rise significantly on current policy settings.

In-Work Tax Credit

The IWTC eligibility rules have been ruled discriminatory and as causing material harm (HRC, n.d.), yet there has been a long-term reluctance on the part of successive governments to extend the IWTC to families receiving benefits, on the grounds that this would lower work incentives (St John, 2020b). However, other schemes which directly lower work incentives are government-endorsed and already in use: TAS abates 100% dollar-for-dollar on any income earned; AS reduces by 25% for those above a low income threshold and not on a benefit; WEP stops completely as soon as a family goes off a benefit regardless of how low their income is; and the COVID Payment stops completely as soon as a family earns any money from paid work.

As CPAG has long argued, the IWTC is a very poorly designed work incentive; there are many ways to incentivise work that do not penalise children. If a work incentive is required, a lower rate of abatement on earned income is an obvious one. In any event, arguing in a recession that a child-related work incentive is required to motivate people to find work is inappropriate and cruel. A sole parent who loses their job due to COVID also loses their IWTC, just when their family needs more support.

In the current COVID recession and prior to a welfare overhaul, it is entirely appropriate that the emphasis for stop-gap measures (such as the COVID Payment or our recommendations) is on income adequacy. Moreover, the Coalition Government's Welfare Expert Advisory Group recommended an increased FTC to effectively replace the IWTC and effectively ensure all low-income children are treated the same for the Working For Families tax credits (WEAG, 2019).

Concluding remarks

Our recommendation would assist the Government in reaching its targets to reduce child poverty, and would mean that scenarios which show an additional 70,000 children may be forced into poverty in this recession could be mitigated (CPAG, 2020).

Our recommendation will ensure that communities and whānau who care for children and who continue to wait for income relief, manaakitanga, and dignified support – and who have already waited for decades! – will at least be able to wait in a little less discomfort, in just a little bit more shelter, while the economic storm of COVID rages on.

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Appendix 1: Details of the selected household examples

For each of the eight 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 16 example households. All households receive the Accommodation Supplement, and the Family Tax Credit.

- SP, 3C, 3B: Sole parent with 3 dependent children aged over 3, in a 3-bedroom house on Sole Parent Support (SPS)
- SP, 2C, 3B: Sole parent with 2 dependent children aged over 3, in a 3-bedroom house on Sole Parent Support (SPS)
- SP, 2C, 2B: Sole parent with 2 dependent children aged over 3, in a 2-bedroom house on Sole Parent Support (SPS)
- SP, 1C, 2B: Sole parent with 1 dependent child aged over 3, in a 2-bedroom house on Sole Parent Support (SPS)
- 2A, 3C, 3B: Couple with 3 dependent children aged over 3, in a 3-bedroom house, both on JobSeeker Support (JSS)
- 2A, 2C, 3B: Couple with 2 dependent children aged over 3, in a 3-bedroom house, both on JobSeeker Support (JSS)
- 2A, 3C, 2B: Couple with 2 dependent children aged over 3, in a 2-bedroom house, both on JobSeeker Support (JSS)
- 2A, 1C, 2B: Couple with 1 dependent children aged over 3, in a 2-bedroom house, both on JobSeeker Support (JSS)

In addition, for each of these 16 households, we analysed equivalent households receiving the COVID Income Relief Payment, the Family Tax Credit and the Accommodation Supplement (AS slightly abated for couples, as the COVID Payment put them over the AS abatement threshold).

All 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.

We are looking to extend our model to larger families for future papers. The FTC and IWTC are sensitive to the number of children whereas the AS does not change after three family members are accounted for.

Appendix 2: Estimated AHC equivalised median income

When analysing income as a percentage of AHC equivalised median, the results are partially the product of 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 measures of child poverty, five are measurements of AHC income as a percentage of the equivalised median, of which one ("b" , looking at 50% equiv median) uses a fixed line measure (2017-18 is the base year) and four (f, g, h and j, including 40% and 60% equiv median) use moving line measures.

Moving line (40% and 60% supplementary measures)

The median we have used here is an estimate. For our analysis here, we have assumed zero change from an estimated 2019-20 median, due to recession. Stats NZ has not yet released a 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).

Fixed line (50% primary measure)

We've followed StatsNZ methodology by adjusting the 2017-18 base year by the household living-costs price index income quintile 1 (after removing housing costs).

Equivalence Scales:

This paper uses the modified OECD scale, as is used for government 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 for moving line (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, in order to achieve an estimate of the 2019-20 figure. For the fixed line analysis this figure is $29,180 (adjusted from baseline of June 2017 of 28,100).

** 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