



**NEW ZEALAND
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Individualising entitlements in New Zealand's benefit and social assistance systems

A report prepared for Superu

Michael Fletcher
Auckland University of Technology

June 2018

ISBN: 978-1-98-854023-8

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Executive Summary

The purpose of this report is to examine the possibility of modernising the welfare and social assistance system to remove or reduce reliance on the couple-based unit of assessment and associated requirement for relationship status testing.

Entitlement to most benefits and social assistance transfers in New Zealand are based on the couple's joint income where people are defined as partnered. Income tax – which is the reverse side of the benefit transfers coin – however is based on individual assessment without regard to a person's relationship status. While the system was relatively unproblematic when the prevailing social structure was dominated by stable legal marriage among parents and a one-earner family with wages set with a view to support the whole family, those conditions have long since ceased to apply in New Zealand, as a result of changes in labour market behaviour, wage-setting and the prevalence of partnership dissolution and sole parenthood. As a result, the heavy reliance on the couple unit of assessment, in conjunction with tight targeting of assistance and an unclear definition of a 'relationship in the nature of marriage' has become increasingly out of step with how New Zealanders live and work and an increasing source of problems for those in need of social assistance.

These problems include serious impacts on single people and sole parents and their potential partners as a result of reduced entitlements if they are defined as partnered, and potentially high costs for both families and the taxpayer if they are deemed to have infringed the rules. A range of significant impacts also affect couples, many of whom are ineligible for core benefit support if one partner becomes unemployed, even if the other partner's income is at minimum wage levels.

The system as a whole involves a large number of inequities and differences in the way otherwise similar people are treated dependent on whether they are defined as partnered or not. Assumptions of economies of scale from sharing accommodation and of income sharing within and across households are also internally inconsistent and based on minimal and out-of-date information. The lack of good data on how people do in fact share incomes and costs is a key problem facing potential reforms.

The report explores the potential to remove couple-based assessment from the system entirely and develops a hypothetical structure of assistance that achieves this while ensuring no beneficiaries are worse off than under present rates of assistance. This example is only one of many possible ways of approaching the issue. It serves to demonstrate that couple-based assessment can be avoided, although the additional cost is likely to be considerable.

The main findings of the report are that it would be possible to completely individualise the welfare and social assistance systems and remove any need for relationship-status testing. One approach to doing this, based on the current policy instruments and designed to ensure no beneficiary is worse off than under current rules, is have only a single adult rate of benefit which any person who meets the criteria for entitlement can receive and to alter both the Accommodation Supplement and the

¹ I am grateful for comments on an earlier draft from Len Cook, Malcolm Menzies, Susan St. John and Simon Chapple, and for editing and proofreading by Ann-Marie Nansett.

Working for Family tax credits. However, while possible, this has a number of draw-back and would be costly.

The report also briefly discusses partial options that reduce the reliance on joint income assessment, including the possibility of a limited-duration individually-assessed unemployment social insurance scheme targeted at the lower paid, and the possible extension of the individually-assessed ACC cover to people with disabilities and illness. Alternative ways of defining relationship status that give greater certainty and more control to the individuals involved are also canvassed. If the need for relationship-status remains there will inevitably be grey areas and some degree of subjectivity, however one option for reducing this is to place greater emphasis on co-residence as a defining factor. This has the advantage of according more closely with assumptions about cost-sharing.

The report makes the following recommendations:

1. *Carry out a detailed study of income-sharing in New Zealand.* The way in which income is shared within families, whānau and households is central to decisions about the unit of assessment for benefits (and taxes). Existing New Zealand research is limited and outdated. The study should include:
 - A survey of the international literature on income-sharing in developed countries
 - An empirical study of practices in New Zealand, including both generalisable quantitative analysis and in-depth qualitative research.
2. *Investigate options for alternative ways of defining relationship status for the purposes of benefit and social assistance entitlements.* If a distinction between partnered and single people is to remain a part of the welfare and social assistance system, a clearer definition that is easier for people to understand and easier for welfare agencies to apply is needed. This analysis should include considering ways of reducing the scope for discretion and subjective judgement, while still allowing flexibility for exceptional circumstances. Options include placing greater emphasis on co-residence as a defining criterion. It should also consider whether closer alignment is needed with the definitions around partnership status in the Property (Relationships) Act 1976, and the recommendations on amendments to that Act arising from the current Law Commission review.
3. *Further investigate options for restructuring benefits, accommodation assistance and family tax credits that better align each instrument to its core purpose and better aligns with economies of scale arising from sharing accommodation rather than assumptions about economies of scale associated with relationship status.*
4. *Investigate options for better supporting low- to middle-income couples, especially those with children, by extending individual entitlement in cases where only one partner has employment.* This should include options for, and costs and benefits of, i) individual entitlement to the core benefit where the individual meets the eligibility criteria and ii) a tightly-capped, limited-term social insurance scheme for workers who lose their job due to sickness or redundancy.
5. *Investigate the costs and pros and cons of including incapacity to work due to disability or illness in the ACC scheme.* This would include individually-assessed entitlement to earnings-related compensation, as well as rehabilitation, funded through the earners and non-earners accounts.

Introduction

Entitlement to most benefits and social assistance payments in New Zealand is based on the couple as the unit of assessment. That is, if a person is deemed to be partnered their entitlement to assistance and the amount receivable depends on the joint income of them and their partner. The couple is used as the unit of assessment in all main working age benefits, New Zealand Superannuation, Student Allowance, supplementary assistance such as Accommodation Supplement and Childcare and Out-of-School care subsidies, and third-tier hardship assistance such as Temporary Additional Supplement. Working for Families tax credits, the new Best Start payment where it applies to children aged one to two years and the new Winter Energy Payment are also all assessed against joint income.

Income tax, however, is assessed on an individual basis with no regard to a person's relationship status or a partner's income. Entitlement to ACC earnings-related compensation for those who lose income as a result of an accident is also individualised, as is Paid Parental Leave.

Historically this mixed system of individualised taxation and couple-based benefits and tax credits was relatively unproblematic. Underpinning the social assistance system developed from the late 1930s was a prevailing social pattern with two fundamental components: stable couple relationships based on legal marriage; and the male-breadwinner/female-care family model which involved low labour market participation by mothers and labour market and wage-setting policies intended to provide men with an adequate family income. Those conditions have long since ceased to hold but modifications to the system – such as the introduction in 1974 of the statutory Domestic Purposes Benefit for sole parents – have struggled to keep pace with changing family circumstances such as the growth in divorce and partnership dissolution, sole parenthood and 'blended' families and changing labour market circumstances such as high female labour force participation, the growth in insecure employment, low wages and the need for two incomes to support families on low pay. This has led to problems, especially for sole parents, due to the lack of clarity of the relationship status test, lack of support for some couple families, a range of inequities and inconsistencies in the assistance available and a financial penalty if sole parents repartner. Superu's family and whānau status reports shows that on average partnered people face fewer difficulties than singles and that sole parents, especially those with younger children, are more likely than other family types to experience difficulties across multiple social and economic domains (Superu, 2017, pp. 9-10).

The purpose of this paper is to investigate the possibility of modernising welfare and social assistance in New Zealand by removing or reducing the reliance on couple-based assessment and the associated need for relationship-status testing.

The paper is structured as follows. Section 2 briefly summarises the current context of welfare reform. Section 3 discusses problems with the couple-based system and Section 4 provides a brief background. There have been few New Zealand academic studies relating to relationship status, the most notable exception being St John *et al.* (2014), but the topic was canvassed in both the 1972 Royal Commission on Social Security and the 1988 Royal Commission on Social Policy. A description of current work-hours, benefit receipt and child poverty among sole parent and couples with dependent children is provided in Section 5. Section 6 sets out the relevant information on eligibility rules and payment and abatement rates for the current working age benefit and social assistance programmes. This is laid out in some detail partly to make clear the complex and, at times, inconsistent rules relating to relationship status, and partly because the current provisions provide the baseline from which to consider possible alternatives. This is followed in Section 7 by a

discussion of options for individualising entitlements. This section first examines a possible structure of assistance that involves no reference to relationship status at all, and then goes on to discuss possible ways of reducing some of the negative effects of couple-based assessment without eliminating all relationship status testing. Section 8 provides some brief conclusions and recommendations.

Current context of welfare reform

There are a number of important welfare reform issues facing New Zealand. These include the extent to which current benefit rates are too low to provide an adequate safety net and protection against poverty, poverty traps arising from the current abatement regimes, debt accumulation and stigma associated with the way the welfare system has been administered and how welfare receipt has been framed in public discourse. The focus of this paper, individualisation of entitlements and the role of the couple-based unit of assessment, sits within this wider set of issues.

The 2008 – 2017 National-led Government conducted a welfare reform process following the report of its Welfare Working Group (Welfare Working Group 2011), however that report focused on stricter administration of benefits and on the introduction of actuarially-based future liability estimates rather than on more fundamental issues of how well the current system is meeting its objectives and the needs of New Zealanders. The recently elected Labour-led Government has indicated that it intends to establish a work programme to consider welfare issues and interactions between the tax system (itself being reviewed by the Tax Working Group) and the benefit system. Its confidence and supply agreement with the Green Party of Aotearoa/New Zealand includes a commitment to “overhaul the welfare system”; and, in her 2017 Speech from the Throne, the Governor-General stated “This government will consider the long-term changes which need to occur to our systems of welfare and employment and education, to look at how we value people, how we define decent employment and how we ensure people have sustainable incomes”. In May 2018 the Government had just announced the formation of a Welfare Experts Advisory Group tasked with considering a full range of welfare issues, including interactions with taxes and the Working for Families tax credits.²

This paper examines how restructuring the social assistance system towards individualisation of entitlements could potentially contribute to achieving the objectives expressed by Government, by making it better aligned to how New Zealanders live and work in the 21st Century.

Problems of the couple-based system

The current mix of individual- and couple-based units of assessment in the benefit and social assistance system creates a number of problems. Many of these affect children and the adults caring for them, as discussed fully in St John *et al.* (2014). Anderson and Chapple (forthcoming) also provides an overview. The following briefly summarises the range of problems.

² The author has been appointed as the Specialist Advisor to this Working Group. The bulk of this paper was drafted before that appointment and the paper draws only on information in the public domain or data made available by Stats NZ.

The existing system fails to meet the twin principles of horizontal and vertical equity. Horizontal equity requires that people in essentially similar circumstances should be treated similarly. Vertical equity is about tax-benefit progressivity: those with a greater capacity to pay should pay more tax than those with less capacity to pay.

No system can be expected to be perfect in respect of these principles, however, arguably, as the New Zealand system has become more and more out of step with people's work and family lives, it has performed less and less well. In part this is due to the disjunction between the individual-based tax system and the couple-based social assistance system. Tax and welfare cannot be considered separately as welfare and social assistance transfers are simply negative taxes. In a world of one-earner couple-based family units this mattered less because a given couple's income was at least more or less the same as the income of the single earner in that family. With much more varied family patterns and living arrangements and with most couples having two earners, individual taxation combined with couple-based thresholds and abatements for social assistance create multiple inequities throughout the system. For example, a dollar earned by a single person on the Jobseeker Support benefit is subject only to income tax; the same dollar earned by the same person if he or she is partnered to a beneficiary who earns \$80 per week is subject to income tax plus a 70 percent abatement of benefit. Similarly, two unemployed people who live in the same household can each receive the Jobseeker Allowance of \$215 per week and can each earn \$80 per week before abatement; if those same two people are deemed to be a couple they receive \$71 per week less from the married Jobseeker rate of \$359 per week, and can only earn \$80 per week between them before the benefit is abated. The income of a sole parent beneficiary's flatmate does not affect their entitlement to Sole Parent Support of \$334 per week; but if that flatmate is defined as their partner they are regarded as a couple and if their combined income exceeds \$80 per week the benefit will be abated, falling to zero if their combined earnings reach the benefit cut-out point of \$630 gross per week (equivalent to 38 hours at the minimum wage).

These examples illustrate that the definition of who is and isn't in a relationship in the nature of marriage is crucial for the level of support provided. However there is considerable difficulty in operationalising a workable, clear, fair and efficient definition of relationship status. This potentially affects anyone who is receiving assistance or the partner of a person who is. It creates problems for those on New Zealand Superannuation and working age benefits, and can loom large as an issue where one or both of the people have dependent children.

A body of law has built up regarding the definition of relationship to be used in respect of the Social Security Act 1964 following the 1997 *Ruka* case and the resulting Joychild report (see St. John *et al.* 2014 for a detailed description of these). However, the test of a 'relationship in the nature of marriage', which hinges on the twin criteria of 'financial interdependence and emotional commitment' still has a large element of subjectivity and the point at which the line is crossed remains unclear to both administrators and individuals affected.³ Co-residence is not a necessary (or sufficient) requirement. Nor is a sexual relationship. The indicators of financial interdependence suggested by the Ministry of Social Development (MSD) include factors that would commonly apply to other types of relationship (e.g., that financial support doesn't presently exist but that the person would help someone out financially if they needed it).

³ A recent example of this was an error by a Work and Income case manager in telling a sole parent beneficiary that she was in a relationship because she had been on two dates with the same man, which he had paid for.

While there are clearly some cases where individuals knowingly choose not to disclose a change in their relationship status to MSD or Inland Revenue, it is also clear that there are many situations where the problem is a lack of clarity around the practical application of the relationship status test.

At the time of the introduction of the Social Security (Fraud Measures and Debt Recovery) Amendment Bill in 2013, the then Associate Minister for Social Development reported that of the \$48 million debt established by MSD in the previous year (over half of which related to relationship status), \$22 million was established as 'overpayments' rather than fraud (Borrows, C [Hansard 27/8/2013]).⁴ The result is beneficiaries facing debts to the MSD, and/or Court action. The consequences of infringing the rules can be severe. The costs of prosecutions, appeals, imprisonment and debt recovery can be very high for the families involved and for the taxpayer (for details see MacClellan, 2016; St John, MacLennan, Anderson, & Fountain, 2014). There is at least anecdotal evidence that a fear of unintentionally running foul of the relationship test deters some people from forming friendships or intimate relationships even when these do not constitute a relationship under the law (Tolley, 2017).

A further issue is that the assumption of equal sharing of income is likely to be incorrect for some families. The only two New Zealand studies of intra-family income sharing are based on qualitative interviews carried out in the 1990s and are unlikely to reflect current situations accurately. However, even then, the larger of these studies found that while full income-pooling was the most common family money allocation system, a range of other methods existed including independent control of own-incomes (Fleming, with Taiapa, Pasikale, & Easting, 1997). They also found that separated people who had repartnered tended to use a different money allocation system in the second relationship. This is consistent with the point above that people's preferences and behaviours, especially in blended or step-parent families, may not align with the joint income assumptions contained in the welfare and social assistance systems. The second study focused on independent money management among a small group of couples who had deliberately chosen a cohabitation rather than marriage. The study found that most of this group shared costs equally but did not share income fully with the result that when incomes were unequal there was considerable inequality in spending power (Elizabeth, 2001).

A closely connected second problem follows from the fact that the joint income test assumes two people in a relationship will share their income to provide for each other and for any dependent children living with them. If, for example, a Sole Parent Support recipient is deemed under the current rules to have entered a relationship, that person is expected, under the rules of the system, to seek financial support for living costs from their partner in the first instance rather than from the benefit. These cost- and income-sharing assumptions built into the benefit and social assistance rules may, or may not, be at odds with how the two people want to manage their affairs. This is especially likely in respect of children: except for any child support receipts (which are often low), the new partner is assumed to take on financial responsibility for the sole parent's children. As well as raising questions as to whether this is an appropriate policy assumption for present-day New Zealand society, it also imposes a large and early decision on the development of relationships, one

⁴ It is worth noting that, to the extent it regards its role as to minimise expenditure, MSD has an incentive to interpret the relationship-status rules strictly in respect of sole parents on a benefit but that until recently it had the opposite incentive in respect of tertiary students under the age of 24. This is because for students under that age entitlement to the Student Allowance was based on parental income unless the student was partnered (or had a child) in which case it was based on the income of the student and their partner. This problem was 'solved' by individualising the age rule so that entitlement was based on parental income up to age 24 irrespective of whether the student had a partner or was married (unless the student had a dependent child).

which may have the effect of discouraging people from entering relationships or result in them organising their lives in ways that comply with the rules rather than their preferred choices.

A problem of a different type affects couples. As discussed in more detail in Section 5, typically both partners in couple families have paid work, even when their youngest child is of pre-school age. For many of these families, two incomes are necessary to provide a reasonable standard of living. The current couple-based income tests mean that if one partner in a couple becomes unable to work because of illness, disability or redundancy, they will not usually be entitled to a benefit payment because of their partner's earnings. This can have a severe, and sometimes long-lasting, impact on the family's living standards and capacity to meet their housing and other costs. With the expected rise in structural labour market change due to new technologies (Fletcher & Rasmussen, 2018), this will almost certainly become a more significant problem. Better-off couples may mitigate this risk through the private market by buying income-protection or mortgage insurance but few lower-income couples would have such cover, especially if they are renting.⁵

Lastly, couple-focused rules are based entirely on a nuclear family model. Many families, especially many Māori and Pacific families, share costs and incomes over a wider family or whānau group. In some instances, the current rules may be advantageous for such families, but in other cases where, for example, the available income is spread over a wider group than just the couple and their children, the rules will be disadvantageous. In both cases, the current system is inconsistent with the way people are actually structuring their work and family lives.

To summarise, the current welfare and social assistance system is based on assumptions that no longer reflect New Zealanders' family and household living arrangements or present-day labour market realities. People's relationship status often makes a substantial difference to the support they receive but defining and policing relationship status is complex and often subjective. Moreover, the binary nature of the 'couple'/'single' distinction and the assumptions that the former have high economies of scale and share incomes while the latter do not is outmoded given the present-day diversity of living arrangements. We lack good knowledge of the true range of scale economies and income-sharing, but there is ample evidence that the reality is far more diverse than is captured by the current couple-based unit of assessment.

A brief background

Taxes and transfers (benefits and tax credits) are opposite sides of the same coin. The treatment of income for tax purposes is discussed in detail in St John, *et al* (2014) and Anderson and Chapple (forthcoming) and is not covered here other than to emphasise two points. First, although for periods in the past the New Zealand income tax system had elements of couple-based assistance in the form of either a 'spouse rebate' or provision for income-splitting, it has long been primarily individually based, and is entirely so now. Second, as Anderson and Chapple note, the last tax review – the 2001 'McLeod Review' – concluded that, whatever the conceptual advantages "given modern households' 'complex and changeable' nature, a 'tax system that tried to follow these complexities and changes would be even more costly'." (Anderson and Chapple, forthcoming, p8).⁶

⁵ The premium for income-protection insurance paying between 55 percent and 62.5 percent of a \$70,000pa income is around \$1,000pa (2016 data) (Source: <https://www.interest.co.nz/insurance/81668/investigation-how-much-youll-save-opting-mortgagerent-protection-over-income>)

⁶ Although there are some countries that do have couple-based tax systems.

The 1972 Royal Commission on Social Security noted that the system as it existed then was based on the family as its core unit. They favoured relieving need as the priority and therefore concluded that both spouses' income should continue to be taken into account when assessing benefit eligibility. They did not recommend shifting to a social insurance (individualised income replacement) model. In their view "to exclude the earnings of the husband or wife from the assessment of eligibility, would be to pay the benefit where the need did not exist" (Royal Commission on Social Security, 1972, p. 94).

Fifteen years later, the Royal Commission on Social Policy (1988) took a rather different view. It discussed the appropriate unit of assessment for the social security system at some length and considered several options (which this report returns to in Section 6). Its overall view is expressed as follows:

In the past the accepted pattern of family life was the one-income household. Even in 1972 the Royal Commission on Social Security treated this as the norm, and their recommendations are still in force today. A married couple is regarded as a single unit – the benefit is intended to be sufficient to support both spouses and any income of either spouse leads to a reduction in benefit. For unmarried people, however, the unit is the individual person.

There has always been an element of inequity in this. For example, a disabled person or a sole mother who (re)marries, immediately loses all benefit income; the new spouse is expected to provide total support.

In recent years the assumptions of the past have been challenged on several fronts. On the one hand we have been reminded that in the Māori tradition the unit is whānau or even hapū rather than the individual or the nuclear family. At the same time women have rightly claimed recognition as individuals for the part they play in the family either as home-makers or income-earners or both. It is clear that the present system can no longer be regarded as satisfactory.

(Royal Commission on Social Policy, 1988, Volume III, part 2, pp 483-4)

The Commission supported individualisation, concluding that 'changing social patterns and work trends suggest that we should be moving towards assessment of the amount of a benefit without reference to marital status or the income of a spouse' (Royal Commission on Social Policy, 1988 Vol II, p749). However, they took the view that at that time (1987) "society is still in a transition phase" and that, in addition, "a rapid move to individual entitlement would mean a very large increase in government expenditure with much of it going to people not in particular need". They therefore recommended a gradual approach (Royal Commission on Social Policy, 1988 Vol II, p749).

After the change in Government in 1990, the 1991 Budget reinforced the couple as the unit of assessment and sought to change the age pension into a targeted welfare benefit (St John, 1991). The pension changes were reversed but the tighter targeting of benefits and family tax credits against joint couple income remained.

The most detailed recent analysis, St John *et al.* (2014), discusses the way ‘relationship’ is defined in the welfare system, the interpretation of ‘relationship fraud’ and the implications of how potential fraud is investigated and prosecuted. It concludes with several key recommendations including:

- to expand the use of the individual as the unit for benefits
- pay all benefits, including New Zealand Superannuation, at the single rate by eliminating the married person rate
- meet extra costs of accommodation, including ‘living alone costs’ on the basis of need, size of household in which the individual resides and actual costs paid, through supplementary payments such as a reformed accommodation supplement
- when couples with young children are on benefit, entitle the mother (or primary caregiver) to the Sole Parent Support rate
- abolish the joint income test for extra earned income for couples on benefits.

(St John, *et al.*, 2014 p 39)

Anderson and Chapple (forthcoming), sets out the potential benefits of individualising welfare entitlements. It then goes on to conduct a ‘thought experiment’ (p11) based on individualising all current entitlements without changing any rates or other rules.⁷ This thought experiment was designed to highlight the likely cost of individualisation, its distributional impacts and possible changes in labour market and relationship-forming incentives. Anderson and Chapple’s (provisional) conclusion is that the cost is “likely to be several billion dollars” per annum. As discussed in Section 6, this approach overstates the true cost – plausible options to remove relationship status testing must involve changing various elements of the welfare and social assistance package, and that is central to managing the additional cost involved.

There is also some international literature on individualisation, or on analysis of ‘couple penalties’ (and premiums) in welfare systems (Adam & Brewer, 2010). A couple penalty exists when total after-tax state support rises when a couple splits up. Adam and Brewer (2010) provide a detailed analysis of couple penalties and premium in the UK welfare system. They conclude that the current UK system “is inconsistent in its approach, paying out benefits and tax credits according to family circumstances but levying income tax according to an individual’s income” (p75), but that the overall negative impacts on people’s partnership and earnings decisions are small and that the inconsistency is justifiable as it reflects the fact that governments use the tax/benefit system to pursue multiple objectives.

It is important to note that the problems associated with couple-based assessment are more urgent in countries like New Zealand and Australia than most European countries which have two-tier welfare systems. The higher-rate first tier is provided through social insurance, which is individually assessed.⁸ It is only for those who are not entitled to social insurance that the lower flat rate and jointly-assessed social assistance applies. Typically, these are people who do not meet the work-history requirements or those for whom the limited-term social insurance entitlements have expired. As discussed in the Options section, social insurance schemes have some strong points and can address some of the difficulties identified above. At the same time however, they tend to disadvantage those with weak or precarious labour market attachment and other groups such as mothers who have been out of the labour force after having a child because they do not have the earnings history to qualify for full insurance.

⁷ Thus for example, all primary carers would be entitled to the sole parent rate of benefit (subject to individual earnings) whether legally married, cohabiting or single.

⁸ Although social insurance old age pensions have different couple and single rates of payment.

Work-hours, welfare receipt and poverty among families

Understanding present-day employment participation and work hours of parents, their receipt of core benefits and the incidence and distribution of poverty, especially child poverty, is critical to considering the issues of the unit of assessment and relationship status. The data below shows how far New Zealand has gone beyond the one-earner to a situation where two full-time earners is the most common pattern for two-adult households. At the same time, the welfare system does not match this reality. The tightly targeted joint-income test means that it provides core benefit support for few two-adult families where one person is not employed and, while the child poverty *rate* is lower in two-parent households than in single parent ones, around half of all children below the poverty threshold live in two-parent households.

Work-hours

As mentioned above the Royal Commission on Social Policy favoured moving to individualised entitlement but took the view that society was, in 1987, still in a ‘transition phase’, and that “[t]here are still many one income [couple] households, and even when there is a second income, the total is more likely to be one-and-a-bit than two” (Royal Commission on Social Policy, 1988, Vol II, p749). Data from 26 years later suggest that the ‘transition’ the Commission referred to is now over – the one-income couple family is now a minority and the ‘one-and-a-bit-income’ family is less common than the two full-time-earner family.

Among two-parent families with dependent children, it is now the norm for both parents to be in paid work. Census 2013 data show that in total just over 60 percent of couple families with dependent children have both adults in paid work (see Table 5.1). One third of couple families have two full-time workers (30 hours or more per week) and a further 26 percent have one full-time and one part-time worker. One-earner families are less common: 29 percent with one full-time worker and a further 3 percent with one part-time worker. At the time of the 2013 Census, 7 percent of couple families with dependent children were not in paid work at all.

Table 5.1: Work-hours among opposite-sex couples with dependent children, by age of the youngest child⁹

| | All ages | 0 – 1 year | 1 – 2 years | 3 -4 years | 5 – 6 years | 7 – 13 years | 14–17 years |
|---------------------------|----------|---------------|----------------|---------------|----------------|-----------------|----------------|
| 2 Full-time | 33.4% | 15.1% | 24.2% | 29.1% | 33.2% | 40.4% | 49.1% |
| 1 Full-time & 1 Part-time | 26.2% | 14.5% | 25.9% | 28.6% | 30.7% | 29.2% | 24.0% |
| 2 Part-time | 1.2% | 0.7% | 1.1% | 1.1% | 1.2% | 1.4% | 1.3% |
| 1 Full-time & 1 Nil | 29.1% | 55.5% | 37.8% | 31.2% | 25.1% | 20.1% | 17.0% |
| 1 Part-time & 1 Nil | 3.2% | 3.2% | 3.1% | 3.0% | 3.3% | 3.3% | 3.1% |
| 2 Nil | 7.0% | 11.0% | 8.0% | 7.1% | 6.6% | 5.6% | 5.5% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Stats NZ, Census 2013, customised tables

⁹ These data exclude 1,479 same-sex couples with dependent children, approximately 0.4 percent of all couples with dependent children.

It is significant that this pattern emerges when parents' youngest child is still of pre-school age. Table 5.1 also shows the work-hours of couple families disaggregated by the age of the youngest child in the family. Unsurprisingly, when there is a child in the family under the age of one year, the commonest arrangement is for only one parent to be in paid work (59 percent). However, even when children are this young, 15 percent of two-parent families have two full-time workers and a further 15 percent have one full-time and one part-time worker.¹⁰ Once the youngest dependent child is over the age of 12 months, the proportion of couple families where both parents are working rises rapidly. Fifty percent of those with a youngest child who is one or two years old have two earners. Once the youngest is five or six, this figure has risen to 64 percent; and by the time the youngest is 14 or older almost three-quarters of couple families have two earners.

Moreover, although the percentage of couple families with one full-time and one part-time earner does rise until the youngest child is aged five or six, most of the growth as children get older is in families with two full-time earners. By the time the youngest child is of secondary school age, the proportion of 'one-and-a-half' income families is lower than among the group with a youngest child aged one or two years, and almost a half have two full-time earners. In other words, the pattern is that as the youngest child moves into pre-school and early school years, the primary carer (typically the female parent) moves back into work, either part- or full-time, and those who had been working part-time shift increasingly to full-time employment.

A significant additional point about the 'one-and-a-half' job couple families is that, aside from families where the youngest child is under three years old, it is families where the male parent has a high income that the female parent is likely to work part-time. Among families with a youngest child aged three or over, less than a quarter of the female parents work part-time if the male parent's income is under \$50,000 pa; whereas the equivalent figure is 38 percent in cases where the male parent earns over \$100,000pa.

These patterns suggest that, for low-earners especially, two full-time incomes are needed (or at least preferred) by couples with children. One implication of this is that simply loosening the current very tight abatement of benefits to accommodate some part-time secondary earnings for couples may not be sufficient for low-paid partnered parents.

Turning to sole parent families, the Census data show that sole parents with dependent children are considerably more likely not to be in work than are two parent families (Table 5.2). However, the proportion where the available adult (in the sole parent case) or adults plural (in the couple case) are in full-time work is about the same – 33 percent. Where the sole parent is living in a household with other adults, the proportion of sole parents working full-time is lower (28 percent) than if the sole parent family is living alone. This suggests that either the sole parent has other caring responsibilities such as an elderly parent, or that income is being shared across a wider family (or non-family) group allowing the sole parent to remain at home. Either of these situations does not fit well with the binary couple/single distinction in the present system.

As with couple families, full-time work by sole parents rises rapidly with the age of the youngest child, especially once that child is over seven years. By the time the youngest child is aged 14 or older, 52 percent of sole parents are working full-time. This age corresponds to the age at which the full-time work-test applies for sole parents on benefit.

¹⁰ If 'full-time' is defined as 35+ hours a week, these figures change to 12 percent and 18 percent respectively.

Also similar to the two-parent situation is the relatively minor role played by part-time work. For sole parents part-time work is most common when the youngest child is primary school aged, but even then it accounts for less than one-fifth of all cases – well below the level of part-time work across the labour market as a whole. While not directly related to the issue of the unit of assessment, this suggests current policy settings do not facilitate combining part-time work with receipt of (possibly abated) benefit plus tax credits.

Table 5.2: Work-hours among sole parents with dependent children, by age of the youngest child

| | Age of youngest dependent child | | | | | | |
|-----------|---------------------------------|------------|-------------|------------|-------------|--------------|-------------|
| | All ages | 0 – 1 year | 1 – 2 years | 3 -4 years | 5 – 6 years | 7 – 13 years | 14–17 years |
| Full-time | 33.1% | 9.1% | 15.6% | 23.0% | 29.4% | 39.8% | 52.0% |
| Part-time | 16.1% | 6.2% | 11.9% | 15.7% | 19.1% | 19.4% | 15.1% |
| Nil | 50.9% | 84.6% | 72.5% | 61.2% | 51.5% | 40.8% | 33.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Stats NZ, Census 2013, customised tables

Benefit receipt

Data on the number of benefits in force highlights the extent to which the welfare system is now geared towards providing support for single people only (see Table 5.3). Of the 289,800 working-age benefits being paid as at December 2017, 93.3 percent were being paid to single people and only 19,500 or 6.7 percent were being paid to couples. These latter were split fairly evenly between couples with and without children. Couples with children made up 5.8 percent of Jobseeker Support recipients and couples alone 3.8 percent. Payments to couples comprised 7.9 percent of Supported Living Payments, two-thirds of these being to couples with no dependent children.

Table 5.3: Number of benefit recipients by benefit type and family type, December 2017

| | Benefit type | | | | Total | As percent of total |
|------------------------|-------------------|---------------------|--------------------------|---------------|----------------|---------------------|
| | Jobseeker Support | Sole Parent Support | Supported Living Payment | Other | | |
| Single - no children | 98,861 | 65 | 74,068 | 11,550 | 184,544 | 63.7% |
| Single - with children | 12,420 | 60,613 | 8,218 | 4,450 | 85,701 | 29.6% |
| Couple - no children | 4,634 | 0 | 4,629 | 290 | 9,553 | 3.3% |
| Couple - with children | 7,102 | 0 | 2,395 | 493 | 9,990 | 3.4% |
| Total | 123,017 | 60,678 | 89,310 | 16,783 | 289,788 | 100.0% |

Source: Ministry of Social Development

The low number of couples receiving benefits reflects the fact that a partnered person is not usually entitled to any benefit if their partner is employed and earning above the tightly targeted benefit cut-out point. In effect, the couple-based unit of assessment (for benefits, not taxes) assumes partners will support each other financially, and the State provides additional assistance only if their total income is below a very low threshold (or, at somewhat higher thresholds, if they qualify for accommodation assistance or family tax credits). It is not possible from these data to tell the extent to which the figures also reflect decisions not to form, or remain in, partnerships because of the financial implications for one or both of the people involved (ie, the couple penalty inherent in the design of assistance).

Poverty

At the same time, poverty data show that 54 percent of children below the 60-percent-constant-value-after-housing cost poverty threshold live in two parent families (Table 5.4).¹¹ Children living in two-parent households (as distinct from two-parent family units¹²) make up 46 percent of all children below this poverty line, with 39 percent living in one-parent households and 13 percent in other household types. In other words, although the *rate* of child poverty is substantially greater among children in sole parent families, around half of all poor children are living in two-parent families or households (using this threshold¹³). Similarly, the rate of child poverty is extremely high among families whose main source of income is a welfare benefit, but at the same time 45 percent of poor children live in families whose main income source is market earnings. Looking further at this, among two-parent households, the child poverty rate for households with one full-time worker and the other not working is 17 percent, compared to 5 percent where both adults work full-time.

Figure 5.4: Proportion (rate) and composition of children below poverty threshold, by household and family type, 60 percent after-housing-cost, constant-value threshold

| | Rate | Composition ¹⁴ |
|---|-----------|---------------------------|
| By household type | | |
| Children in sole parent households | 53 | 39 |
| Children in 2-parent households | 14 | 46 |
| Children in other family households | 21 | 13 |
| By family type | | |
| Children in sole parent families | 46 | 46 |
| - in sole parent families on own | 59 | 39 |
| - within wider households | 20 | 7 |
| Children in 2-parent families | 15 | 54 |
| By main source of household income in the 12 months prior to interview | | |
| Market | 11 | 45 |
| Income-tested benefit | 85 | 55 |
| By work status of adults at time of interview (all households with children) | | |
| Self-employed | 13 | 6 |
| One or more Full-time | 10 | 34 |
| None Full-time | 66 | 59 |
| Of which, Workless | 75 | 46 |
| By work status of adults at time of interview (two parent households) | | |
| Both full-time | 5 | #n/a |
| One Full-time, one Part-time | 9 | #n/a |
| One Full-time, one workless | 17 | #n/a |
| All children, all households | 21 | 100 |

Source: adapted from Perry (2017), Table H.4. Reference year for constant-value (CPI-adjusted) threshold is 2007.

¹¹ This poverty line is one of the core measures of child poverty to be used under the proposed Child Poverty Reduction legislation currently before Parliament.

¹² A family unit is a single person with or without children or a couple, with or without children. More than one family unit may live in the same household.

¹³ Other thresholds give a slightly lower percentage.

¹⁴ The rate is the proportion of the relevant group that is in poverty. Composition is the share of all those in poverty that the group makes up.

The implication of these figures, in conjunction with the data above, is that the low level of benefit and social assistance payments combines with the very tightly targeted couple-based unit of assessment for entitlement to create an outcome where many low-earning couple households with children do not have sufficient income to put them above the poverty threshold if they do not have two earners.¹⁵

Current welfare and social assistance provision

This section briefly summarises eligibility rules, and rates for the main components of New Zealand's current welfare and social assistance provisions. Unless otherwise specified rates are those applying as at 1 April 2018 and relate to adults. The information is set out here for two purposes. First it is important to understand the complexity of the current system's mix of individual- and couple-based criteria. Second, the current rates and rules provide the 'baseline' against which to compare the options analysed in Section 7.

Main welfare benefits

There are three main welfare benefits – Jobseeker Support (JS), Sole Parent Support (SPS) and Supported Living Payment (SLP).¹⁶ JS is available to unemployed jobseekers or jobseekers with fewer than 30 hours work and whose income is below the abatement cut-out point. It is work-tested, although the work-test is waived for a period for those temporarily unable to work owing to illness.¹⁷ A non-entitlement period of 13 weeks applies in cases of voluntary unemployment or dismissal for misconduct. For couples, both partners are work-tested, except the partner is exempt if they have a child under age three in their care and are subject to a part-time work test (20 hours per week) if the youngest child is aged 3 to 13 years. The benefit is abated against joint couple income. Single people and couples may earn up to \$80 gross per week without any reduction in their benefit; above that the benefit is abated against combined income at a rate of 70 cents per dollar (above the \$80pw). A sole parent on any benefit can earn up to \$100 gross per week without affecting their benefit amount. Earnings between \$100 and \$200 per week result in a benefit reduction of 30 cents per dollar and the benefit is abated at 70 cents per dollar for earnings over \$200 per week.¹⁸

Accommodation Supplement (AS)

The AS is designed to assist with people's rent, board or mortgage costs. It is available to both beneficiaries and non-beneficiaries (although take-up by eligible non-beneficiaries is low). The way the AS is structured involves a complex mix of relationship-based and individualised recognition of the sharing of accommodation costs, as well as an attempt to recognise differences in housing costs in different part of the country.

The AS pays 70 percent of rent (or other accommodation costs) above an initial amount, called the 'entry threshold' and up to a maximum amount. The entry thresholds vary by family type and

¹⁵ And it should be noted that this is a 'constant value' threshold based on 2007 incomes. A threshold based on a more recent year would be higher (see the Child Poverty Action Group's submission on the Child Poverty Reduction Bill, 2018).

¹⁶ The Youth Payment, Young Parent Payment and Emergency Benefits are ignored for simplicity.

¹⁷ The separate Sickness Benefit was abolished in 2013 and sickness beneficiaries were included in JS.

¹⁸ There is provision for sole parents' earnings to be charged against benefit at the equivalent annual levels rather than weekly amounts.

accommodation type (they are higher for mortgage payments than for rent or board).¹⁹ The maxima vary by family type and region (there are four different geographically based ‘AS Areas’). The range of maximum payments is large: from \$45pw for a single person in AS Area 4 up to \$225pw for a couple with children living in AS Area 1.

Where people share accommodation, the AS has an implicit ‘family-based’ assessment of how rent²⁰ costs are shared. For example, where a group of single people flat together, entitlement to AS is based on each individual’s actual share of the rent (which may or may not be divided equally, depending on the choices of the people living together).

A similar situation applies if more than one ‘family unit’ shares accommodation. For example, if two couples share a house, AS for each couple is based on that couple’s actual rent; or if a sole parent lives with her/his parents and pays a contribution to the rent, the sole parent’s (and, for that matter, her/his parent’s) AS is based on what each family unit is actually paying.

The maxima also differ according to family size. A couple with children (any number of children) are entitled to a higher maximum payment than a couple with no children living with them. The maxima for a sole parent with one child are set equal to the maxima for a couple with no children and the maxima for sole parents with more than one dependent child are the same as for a couple with one or more children. This structure of payments is not internally logical and is almost certainly inconsistent with many people’s actual cost-sharing arrangements.

Table 6.1: Main benefit and Accommodation Supplement maximum rates

| | Single | Couple | Couple with 1+ children | Sole Parent with 1 child | Sole parent with 2+ children |
|---|--------|--------|-------------------------|--------------------------|------------------------------|
| Net dollars per week (at standard tax rate) | | | | | |
| Jobseeker Support (JS) | 212 | 354 | 379 | 330 | 330 |
| Sole Parent Support (SPS) | n/a | n/a | n/a | 330 | 330 |
| Supported Living Payment (SLP) | 266 | 443 | 468 | 374 | 374 |
| Maximum Accommodation Supplement (AS) | | | | | |
| AS Area 1 | 165 | 235 | 305 | 235 | 305 |
| AS Area 2 | 105 | 155 | 220 | 155 | 220 |
| AS Area 3 | 80 | 105 | 160 | 105 | 160 |
| AS Area 4 | 70 | 80 | 120 | 80 | 120 |

Working for Families and Best Start tax credits

New Zealand has three family tax credits, known collectively as the ‘Working for Families tax credits’.²¹ They have evolved over time since the mid-1980s when they were first introduced in part to compensate low-earners for the regressive impact of the introduction of GST (see St John, 1991). All three are income-tested (the universal Family Benefit was phased out in 1991) and the income test is based on joint family income. The Government elected in 2017 has announced changes to the tax credits and the introduction of a new ‘Best Start’ payment that will come into force from 1 July 2018. This report uses the new post-July provisions. Maximum payment rates and abatement details are set out in Table 6.2.

¹⁹ The entry thresholds are also higher for the Supported Living Payment, presumably intended to reflect the higher rate of that benefit.

²⁰ For simplicity, I will focus throughout on rent, rather than board or mortgage interest payments.

²¹ A fourth tax credit – the Parental Tax Credit – will be discontinued from 1 July 2018.

The Family Tax Credit (FTC) is a per-child payment payable in respect of all dependent children subject to the family income test.

The In-work Tax Credit is an additional payment available to parents/carers who are not in receipt of a main welfare benefit and who have paid work of at least 20 hours per week for a sole parent and 30 hours combined for a couple. It is paid at a set rate of \$72.50 maximum per week in respect of the first three children in the family with an additional \$15.00 per week for each child after that. The Minimum Family Tax Credit is a 'top-up' payment designed to ensure that a family is not worse off if moving off benefit and into 30 hours work for a couple, or 20 hours work for a sole parent. It is abated dollar-for-dollar up to the cut-out point (\$23,816 gross in the 2017-18 tax year).

The new Best Start payment (which comes into effect from 1 July 2018) is a universal (i.e., non-income tested) payment of \$60 per week in respect of each child under the age of one year. It is not payable to people while they are receiving paid parental leave payments. For children aged one or two years, Best Start is abated against joint family income. The abatement threshold is relatively high (\$79,000 gross per annum); the abatement rate is 21 cents per dollar above that.

The Government is also introducing a Winter Energy Payment payable to beneficiaries, and recipients of Veterans Pensions or New Zealand Superannuation over the period May to September. It is based on relationship status, with an annual rate of \$450 for single people and \$700 for couples and those with dependent children.

Table 6.2: Working for Families and Best Start Tax Credit Payments

| | Maximum weekly rate (from 1/7/18) |
|---|-----------------------------------|
| Family Tax Credit (FTC) maximum rates | |
| Eldest child | 113.04 |
| Each subsequent child | 91.25 |
| In-Work Tax Credit (IWTC), maximum rates | |
| Per family, one, two or three children | 72.50 |
| Additional payment per child, four or more | 15.00 |
| FTC & IWTC abatement threshold (joint family income) | |
| abatement rate per dollar over the threshold | 42,700pa 25% |
| Minimum Family Tax Credit (from 1/4/18) | |
| Cut-out point (joint income) for top-up (abated at 100%) | 26,156pa |
| Best Start payment (for each child under 3 years) | |
| For children under 1 year old: no income test (i.e., universal); (but not paid while PPL is being received) | 60.00 |
| For children aged 1 or 2 years: abatement threshold (joint family income) | 79,000pa |
| abatement rate | 21% |
| Winter Energy Payment (WEP) (for beneficiaries & NZ superannuitants) | |
| Single people: | 450pa |
| Couples; People with dependent children | 700pa |

Source: <http://www.treasury.govt.nz/budget/2018/families-package/families-package-dec17.pdf>

Other financial assistance

Paid parental leave (PPL) is a tax-funded payment for mothers or other carers who stop work to care for a new-born baby or child under six year old who has newly come into their care. To qualify a person must have worked an average of 10 hours per week for at least any 26 weeks over the year

prior to the child's due date. There are provisions for a woman to transfer part of the leave to her partner if they both meet the work criteria. PPL pays 100 percent of a person's weekly earnings up to a maximum of \$538.55 gross per week. Thus PPL is essentially individually assessed but still requires a definition of 'partner' for some of its provisions. From 1 July 2018, PPL will be extended from 18 weeks to a maximum of 22 weeks, increasing to 26 weeks from 1 July 2020.

The Childcare Subsidy (CCS) and Out of School Care and Recreation (OSCAR) Subsidy, which provide financial assistance for pre-school early childhood education and care and out-of-school care for children aged up to 14 years, are income tested against the individual parent's or caregiver's income, subject to the qualification that if that person has a partner there must be 'good and sufficient reason' why the partner cannot care for the child (most commonly, because the partner is working). The CCS is paid at four different rates depending on the parent's income, with the thresholds for the rates rising if the parent has two, or three or more children. For three and four year old children the parent may also be able to combine CCS with the Ministry of Education's 'Twenty hours ECE' subsidy although they cannot receive assistance for the same hours of care from both schemes.

Child support

A new child support liability formula was introduced from the beginning of the April 2015 tax year. The formula is essentially individualised in that it does not take account of the income of either of the parent's new partners if they have repartnered. The basis of the formula is estimates of what the couple would have spent on raising their child/children if they were still living together.

This amount is assumed (based on empirical evidence) to be higher for children aged 13 years or over and to rise, but at a diminishing rate, as the two parents' combined income rises. It also includes economies of scale in that it is assumed that two children cost less than twice one child (and similar for three or more children). The available income from which the amount to be spent on the child is calculated is the sum of both parents' income less a fixed living allowance for each of them. The amount to be paid by the paying parent is then adjusted on a graduated scale for care costs if that parent has care of the child for at least 28 percent of the time (equivalent to an average of two nights per week). Where a receiving parent is on a sole parent rate of benefit all child support payments paid by the other parent are retained by Inland Revenue to offset benefit costs up to the total amount of the main benefit being paid.

Child support payments (receipts) are deducted from (added to) joint family income for the purposes of calculating entitlement to Working for Families tax credits.

Options

This section considers possible options for removing relationship testing from the welfare/social assistance system or for ameliorating some of the negative consequences discussed above. The first option considered explores the possibility of restructuring assistance so that the couple is not used as a unit of assessment at all and so there is no need to define relationship status. The option presented here is intended to be indicative only – to illustrate principles that could be applied and demonstrate possible ways of providing at least the current level of assistance. The conclusion drawn is that, while full individualisation is possible, it would be costly and raises other problems as well.

The subsequent options then address two issues based on the assumption that the couple-assessment continues to apply in some parts of the system. The first of these considers alternative ways of defining a 'relationship in the nature of marriage' so that there is less subjectivity and uncertainty for those affected and for those administering welfare assistance. The second looks at aspects of the social assistance system where there is a strong case for extending individualised entitlement.

'Full individualisation'

The central problem for individualising welfare and social assistance is how to ensure all household structures, and especially sole parent family households, have an adequate level of assistance while also ensuring that additional expenditure is constrained to a manageable amount. Simply paying all parents the current sole parent rate of benefit (as in Anderson and Chapple's 'thought experiment') would be extremely costly and also result in some people being treated far more generously than necessary. The approach explored here aims to disentangle support for adults' basic living costs, support for children and support for housing costs from each other and use the separate instruments for each separate element of support. This is similar to some of the recommendations in St John *et al* (2014).

If there are to be no losers, inevitably individualising entitlements means that, in some circumstances, couples will be entitled to more assistance in total than is the case now. That, however, is the point – just as in the tax system, individuals are treated on the basis of their own income without reference to their partnership status. Thus a partnered person, seeking work, willing to be work-tested and with no or minimal income of their own, would be entitled to benefit assistance in their own right, rather than it being assumed that their living costs will be met first by a partner.

Table 7.1 summarises the relativities between benefit rates as at 1 April 2018. The amounts are expressed in dollars per week after tax. The figures reflect the current, somewhat arbitrary, implicit assumptions about economies of scale. For example, a couple on a benefit receives \$71.80 less per week than do two single people both on benefits. A sole parent with children (any number of children) receives \$118.71 more than a single adult, \$96.63 less than two singles on benefit, \$24.83 less than a couple with no children, and \$50.45 less than a couple with children. A couple with children receive \$25.62 more than a couple with none.

Table 7.1: Main benefit relativities (as at 2018 rates)

| Main benefit (net, weekly) | Differences (column minus row) (dollars per week) | | | | | |
|-----------------------------|---|--------------|-------------|-----------------------------|----------------------|------------------------|
| | Dollars | Single adult | Two singles | Sole parent (with children) | Couple (no children) | Couple (with children) |
| Single adult | 215.34 | 0 | 215.34 | 118.71 | 143.54 | 169.16 |
| Two singles | 430.68 | | 0 | -96.63 | -71.80 | -46.18 |
| Sole parent (with children) | 334.05 | | | 0 | 24.83 | 50.45 |
| Couple (no children) | 358.88 | | | | 0 | 25.62 |
| Couple (with children) | 384.50 | | | | | 0 |

If the only change made to current rates and entitlements was that each adult was entitled to receive the single adult rate, then a couple on a benefit with no children would receive \$35.90 each (\$71.80 combined) more than now; a couple with children would each receive \$23.09 more (\$46.18 combined); and a sole parent would receive \$118.71 less. Clearly this would not be a satisfactory outcome and would leave sole parent households substantially worse off than now.

One possible approach is to pick up on some of the suggestions made in St John *et al*, (2014), in particular:

- Pay the In Work Tax Credit (IWTC) to all qualifying families irrespective of benefit status and work-hours (in effect, abolishing it and building the higher rate into the Family Tax Credit).
- Reform the Accommodation Supplement and use it to meet extra costs of accommodation on the basis of need and household structure, not relationship status.²²

The effect of this is to a) separate out the additional costs of children and use the Family Tax Credit to meet these; and b) use the AS to address (dis)economies of scale.

How might this work? Under this approach there would be only one adult rate of main benefit – the single rate.²³ Any person who met the existing eligibility criteria would be entitled to it. That is, if they lacked their own income due to unemployment, sickness or caring obligations and meet the residency qualifications they would be eligible. The existing work-test could apply or a modified one could be adopted. The existing work test would mean that the person would be expected to be available for, and actively seeking, employment unless they had a waiver due to illness or were primary carer of a child under three years old.

The objective of the Working for Families (WFF) tax credits is to assist with the costs associated with raising children in low and middle income families. Individualising these tax credits is problematic in the sense that children are a joint responsibility of their parents. That said, the tax credits are negative taxes and earned income, also used jointly to support children, is taxed on an individual basis. As the benefit data above showed, a small number of couples and a large number of sole parent families do not get the full WFF package for their children because they are on benefits or do not meet the required weekly hours of work. Because the IWTC is a payment for children and has as one of its objectives to reduce child poverty, the Child Poverty Action Group has proposed adding IWTC to the first child Family Tax Credit. Adopting this approach would considerably improve the level of assistance provided to sole parent families on a benefit.

²² Note though, that more recently the Child Poverty Action Group has argued for less reliance on the Accommodation Supplement (which is conditional on actual rent paid) and greater use of the family tax credits to meet costs associated with housing.

²³ For simplicity I have ignored the youth rates of benefit and the higher Supported Living Payment rates although the same principles could be applied to these.

Individualising WFF raises the issue of whose income to abate FTC payments against. One approach would be to focus on the children’s legal parents or guardians: where both parents live in the same household with the children, the FTC could be nominally split 50:50 and half abated against the income of each parent. Alternatively, in this situation, the FTC could be abated against the income of the higher earner. Where parents live apart, FTC could be paid in proportion to the care time of each parent as occurs now, and abated against the income of each parent, with no reference to that person’s new relationship status. A potential criticism of this is that it treats step-families more generously than natural families. However, this is true only if it is assumed that partners in step- or blended-families do (or should) take on financial responsibility for each other’s children.

Under a full individualisation approach the Accommodation Supplement could be used to meet the variation in housing costs and the economies of scale from sharing accommodation to focus on the make-up of the household, not the assumed family structure(s) within the household. This will not be perfect for a number of reasons including, for example, that a partnered couple may share a one-bedroom house or flat where two singles living together may require two bedrooms. However, the current settings also depart from actual living arrangements.

An example of how these changes could fit together is set out in Table 7.2. This is only one of many possible configurations and is intended as a minimalist example that meets only the two criteria of individualising entitlements for beneficiaries and making no-one worse off than at present. This scenario comprises:

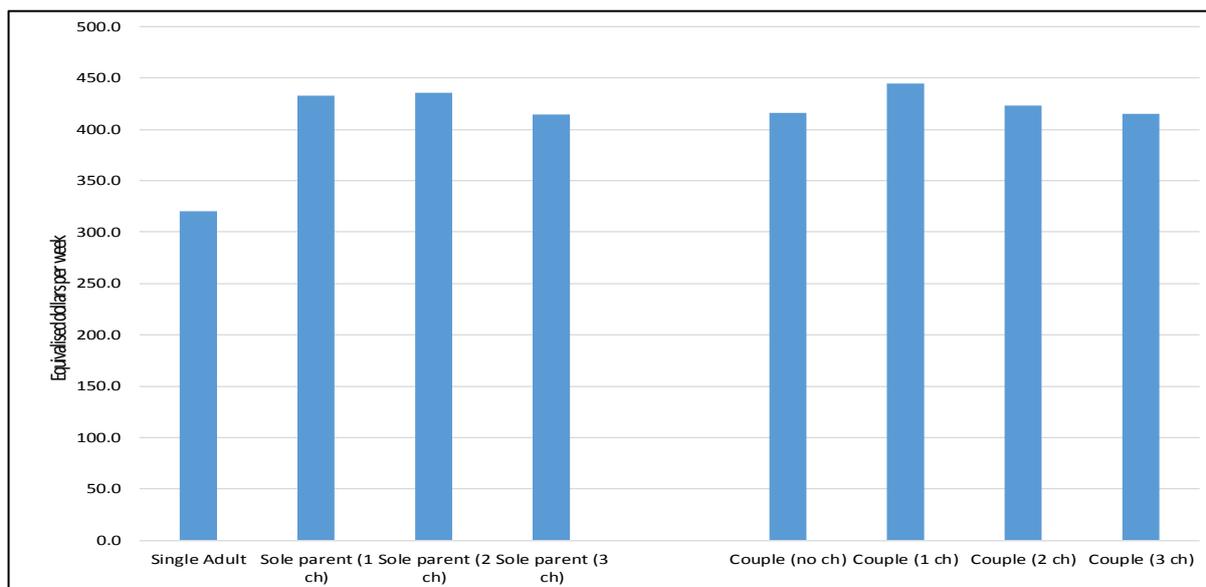
- A single rate of main benefit set at the current single adult rate but available to any qualifying person without reference to partnership status
- Current FTC rates but with the IWTC ‘folded into’ it so it is available to all who qualify for the FTC
- An AS (for AS Area 2 in this example) set at the current single-person maximum (\$105 per week for each adult) plus a child add-on AS component for households where the adult is living alone with children. This component is set at \$100 for the first child and an additional \$65 for all subsequent children (the same as exists in the current AS for sole parents with two or more children).

Table 7.2: Example of a possible individualised structure and differences compared to now for beneficiaries, by household type (1 July 2018 rates)

| | Current | | | | 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 children) | 334.05 | 220 | 204.29 | 758.34 | 215.34 | 270 | 276.79 | 762.13 | 3.79 |
| Sole parent (3 children) | 334.05 | 220 | 295.54 | 849.59 | 215.34 | 270 | 368.04 | 853.38 | 3.79 |
| Sole parent (4 children) | 334.05 | 220 | 386.79 | 940.84 | 215.34 | 270 | 474.29 | 959.63 | 18.79 |
| Couple (no children) | 358.88 | 155 | 0 | 513.88 | 430.68 | 210 | 0 | 640.68 | 126.8 |
| Couple (1 child) | 384.50 | 220 | 113.04 | 717.54 | 430.68 | 210 | 185.54 | 826.22 | 108.68 |
| Couple (2 children) | 384.50 | 220 | 204.29 | 808.79 | 430.68 | 210 | 276.79 | 917.47 | 108.68 |
| Couple (3 children) | 384.50 | 220 | 295.54 | 900.04 | 430.68 | 210 | 368.04 | 1008.72 | 108.68 |
| Couple (4 children) | 384.50 | 220 | 386.79 | 991.29 | 430.68 | 210 | 474.29 | 1114.97 | 123.68 |

As Table 7.2 shows, this configuration results in a nil increase for singles and negligible increases for sole parent households on a benefit. Two parents living together with their children are significantly better off – if they are both on benefit. In terms of equivalisation (before housing costs), this particular structure works out reasonably evenly, with the exception that a single person living alone has an equivalised income considerably lower (about 30 percent) than other household types (Figure 7.1).²⁴

Figure 7.1: Per person equivalised dollars per week for people in different household types, using the possible alternative figures from Table 6.2



Adequacy of the social assistance system is a separate issue from individualisation. However, it is important to note that these hypothetical settings continue to result in most family types on a benefit being below after-housing-cost poverty thresholds. While the total amount received is between the 50 percent and 60 percent before-housing costs relative to poverty thresholds,²⁵ the figures are based on each household receiving the maximum AS for AS Area 2 and do not take account of rent paid. Assuming a rent just sufficient to attract the maximum AS, the after-housing cost incomes of the sole parent and single households are substantially lower. For example, using the updated poverty line estimates in St John and So (2018), the single parent, one child household on a core benefit in AS Area 3 has an after-housing-cost income of around 34 percent of the (2018) median. Their analysis also showed that couples on a benefit in all AS Areas are worse off than are sole parents. Paying the single rate of benefit to each person in a couple would help address this.

It is beyond the resources of this project to estimate the fiscal implications of a full individualisation approach. As noted by Anderson and Chapple, that would be best carried out using Treasury’s microsimulation modelling. However, the data summarised in Section 4 is helpful for a very rough consideration of possible costs. While the cost of full individualisation is significant, it may not be as high as the ‘several billion dollars’ per annum suggested by Anderson and Chapple, although the actual cost would depend heavily on:

²⁴ These figures use the Revised Jensen Equivalisation Scale.

²⁵ That is 50 percent and 60 percent of contemporary median (using the 2016 data in Perry (2017)).

- a) the extent to which people who are not working but have an employed partner are fit and able to work and chose to apply for a benefit and be work-tested
- b) the effectiveness of that work-testing and job placement
- c) behavioural responses.

On the first of these points the assumption made here is that, for the most part at least, only those genuinely seeking work would enrol. Thus, for example, the partners of relatively high earning people whose preference is for a one-earner family arrangement would not apply for a benefit. A significant number who do become newly entitled to a benefit are likely to be people with long-term illness or disability which prevents them from working. One intended outcome of individualisation would be that this group is entitled to support. Another group eligible for support if they prefer not to be in paid work are those with primary caring responsibilities for a child under three years old.

Based on the Census data referred to above, there are in the order of 110,000 couples with a youngest child under three, about half of whom have one full-time earner and one not in paid work. There are a further 65,000 or so couples where the youngest child is over three and one partner is in full-time work and the other doesn't have paid work or works fewer than 10 hours per week.²⁶ Even if a half of these were to receive a single rate of benefit the additional cost is in the order of \$950 million. If the proportion was two-thirds, the extra cost would be more like \$1.3 billion. This cost could be reduced by savings from Paid Parental Leave and, possibly, Best Start.

There are about 55,000 couples under 65 years old and with no dependent children where one partner works full-time and the other has fewer than 10 hours paid work. If half of these also received an additional single benefit the extra cost would be around \$300 million; if two-thirds the figure would be \$400 million. It is not possible with the data available to get any rough estimate of the cost of the change to AS in the example in Table 7.2. Impacts on people in work would also add to the cost.

These very approximate estimates suggest the cost of individualising all entitlements would be in the order of \$1.5 billion to \$2 billion. As emphasised above, this is purely on the basis of hypothetical settings that avoid groups of beneficiaries being paid less than now. It is not the purpose of this report to consider spending priorities beyond noting the obvious point that gains from additional expenditure on individualisation have to be weighed up against gains from addressing other problems with the current welfare system, including the level of payments and their adequacy in providing protection against poverty.

The distributional impact of a structure of this sort also requires proper modelling analysis. It is clear however that part of the additional expenditure will go to people in couples that have a relatively high joint income. For example, a person not work-tested due to sickness or incapacity or because they have primary care of an under-three year old child would be eligible for a core benefit irrespective of their partner's income. This would be regarded as regressive through a joint-income, couple-based lens but not if (as in taxation) people are viewed as individuals entitled in their own right.

A further important consideration is the impacts of a design like this on the primary carers of young children. As sketched out here (although there could be many different variations), the primary carer of a child under three would not be work-tested and could therefore opt not to be in paid

²⁶ The cut-off of fewer than 10 hours per week has been chosen arbitrarily as a way of capturing those whose employment hours are low enough that they might qualify for benefit.

employment for that long. (And if they had subsequent children the total period could be considerably longer.) There is strong empirical evidence that too long a period out of the workforce has a negative impact on mothers' subsequent earnings. There is a risk therefore that full individualisation along the line set out above has the unintended effect of damaging partnered mothers' long-term earnings.

Possible options to address parts of the problem

The above demonstrates that it would be possible to construct a system that involves no testing of relationship status at all but that it has a number of significant drawbacks and potential new problems. This section canvases some options that could potentially address different parts of the problems created by the use of a couple-based unit of assessment and reduce the reliance on relationship status testing in ways that might improve the operation of the current social assistance and welfare systems.

One approach within the current framework to reduce the impact on couples who lose one income would be to entitle an unemployed (or sick or disabled) partnered person to the single rate of benefit without regard to their spouse's income. Thus if a person is available for work and is work-tested (or exempt due to sickness or disability), then they could receive a main benefit, while all other entitlements such as AS and family tax credits would continue to be assessed on the basis of joint-couple income. A limited version of this approach was adopted between 1985 and 1991 when the Sickness Benefit was made available for up to three months without consideration of a partner's income.

Going a step further, an individually-assessed limited-duration social insurance scheme could be introduced for those who lose their jobs and income due to sickness or redundancy. Such a scheme could allow a period of, say, six or 12 months, where a person who had been in employment was entitled to a social insurance payment without reference to their marital circumstances. This approach is similar to that used in many European countries. The payment could be funded through a general payroll levy and linked to a percent of prior earnings. A cap on the maximum payment provides a mechanism to choose how tightly to target the social insurance payment to those with relatively low prior earnings.

The benefits of this approach are that it allows people a period to adjust to a change in circumstances or to manage a period of loss of income. It also has the potential to protect people against at least some of the financial impacts of transitions due to technological change while spreading the costs across the whole economy via a payroll tax. A disadvantage is that such social insurance schemes typically require some minimum employment history and therefore those with insecure employment or who have been out of the labour market or working only part-time while, for example, caring for children tend to get no (or reduced) entitlement.

Another aspect of extending individually-assessed entitlement, which is beyond the scope of this report to cover fully, is the option to extend ACC to cover disability and long-term illness as was originally envisaged by the Royal Commission that led to ACC's establishment. That report, *Compensation for Personal Injury in New Zealand* (known as the 'Woodhouse Report' after the Commission chair Justice (later, Sir) Owen Woodhouse) at the time of the development of the ACC system (Royal Commission of Inquiry into Compensation for Personal Injury in New Zealand, 1974). As well as rehabilitation and assistance with workplace modifications and the like, this would mean

the individually assessed earnings-related compensation that applies in ACC would also be extended to this group (Duncan, 2016).

Several justifications can be advanced for such a change. First, there are strong grounds for arguing that more of the financial costs associated with disability and illness should be borne by society as a whole rather than, as currently happens, by the individual and their partner or family. Second, extending cover to people unable to earn due to disability or illness would reduce the stark difference in the level of financial support available to this group relative to those whose incapacity was the result of accidental injury or disability or disease. (Although, of course, it creates a new boundary-line somewhere else in the system, for example between unemployment and those with long-term illness.) A further point to note is that there is empirical evidence analysing outcomes for comparable cohorts of (ACC-eligible) injury victims with people who suffered a stroke showing that the ACC recipients had better wellbeing outcomes and a more rapid return to work (McAllister *et al*, 2013).

In addition, as Duncan (2016) points out, the very large reserves built up by ACC as a result of the decision to shift the scheme from pay-as-you-go to fully-funded provide an opportunity to help manage the financial implications of the transition to an extended scheme.

The definition of relationship

Finally, if the distinction between 'single' and 'partnered' is to continue to be used in at least parts of the welfare system, consideration needs to be given to alternative ways of defining a 'relationship in the nature of marriage' and of operationalising the application of the definition. The current definition is unclear, subjective and appears subject to variation in application depending on the prevailing policy climate regarding the treatment of sole parents on a benefit.

Inevitably any definition involves a trade-off between simplicity and clarity on one hand and flexibility to deal with the wide range of real-world circumstances on the other. One possibility would be to make co-residence (ie, living together) a minimum requirement for defining two people as partnered. This has the advantage of improving simplicity and is also more in line with the assumption that the couple enjoy the benefits of economies of scale in living costs. It would, of course, not eliminate the need to use other tests to determine whether two people who live together are in fact partners. It would also require an exceptions clause in cases where people were deliberately structuring their residential arrangements for the purposes of qualifying for additional assistance.

Another possibility would be to allow some sort of transition period, so that when sole parents (or others, but the issue will mainly affect sole parents on benefit) form a new relationship they remain entitled to the sole parent rate of benefit, and the same Working for Families tax credits, for a period of time, such as six months or a year. This would allow the relationship time to develop without risking benefit entitlement. While this approach has considerable common-sense appeal, one disadvantage is that the relationship status test still depends on some date – ie the date at which the transition period is deemed to have begun. It also maintains the assumption that couples take on financial responsibility for each other and each other's children.

Another, more radical, possibility is to reinstate some form of distinction between legal marriage and de facto relationships. Such an approach could possibly be linked to potential changes to the

Property (Relationships) Act 1976, which is currently under review by the Law Commission. It would mean that couples could, in effect, choose whether they wished to be regarded legally as couples for the purposes of financial support and shared ownership of assets by virtue of choosing to legally marry. Those that chose not to marry would be regarded as individuals for both these purposes unless they had also opted for the same shared ownership of assets as a married couple. This concept has a potentially wide range of large ramifications well beyond the scope of this paper.

Conclusions and recommendations

Relationship-status testing in the welfare/social assistance system saves expenditure by allowing policy-makers to target assistance towards meeting the additional financial needs of sole-parent households. In New Zealand's current welfare and social assistance system this targeting is carried out on the basis of a categorisation between 'single'/'sole-parent' and 'couple'/'couple-parent' families and households. This categorisation is increasingly too binary to reflect the reality of how people live and is also too blunt to map onto the living standards of different households.

The main practical disadvantages are:

- a) the often-serious problems facing sole parents and their prospective partners due to the subjective nature of the current test itself and the financial penalty that is often associated with being deemed to be a couple
- b) the low level of support for couples where only one partner loses their income.

The hypothetical example developed here is only one of many possible ways of individualising entitlements. The example showed that it is possible to remove all reliance on relationship status testing. Doing so involves a considerable increase in expenditure. The extent to which this additional cost is deemed justified depends in part on the weight one attaches to the lack of support for couples where only one is able to earn (for example, partnered people who are unable to earn due to disability or illness). It also depends on whether one accepts the validity in present day New Zealand of the assumption that as soon as two people are deemed to be a couple they should be expected to support each other and each other's children, drawing only on State support to the extent their joint income is insufficient to do so. Arguably, a welfare and social assistance system fit for 21st century New Zealand society needs a more flexible approach to cope with the variety of family structures, living arrangements and child-rearing patterns.

A key conclusion in this regard is the lack of up-to-date information available on how couples and others share costs and incomes. The existing studies relating to New Zealand are over 25 years old and are limited to relatively small qualitative studies. Good decisions on how to better align assistance with how people live require better information on the economies of scale associated with sharing accommodation and other costs and the sharing of incomes within and across households. More detailed analysis of fiscal costs and distributional impacts is also needed.

That said, there are a number of partial steps towards less reliance on couple-based assessment that warrant more immediate further investigation. In particular, the evidence is clear that low-income couples with children require two incomes to provide a reasonable minimum standard of living but that the current tightly targeted, couple-based assessment for core benefits results in very few couples with children qualifying for benefits. Individualising entitlement to the core benefit or introducing a limited-duration, individually-assessed, social insurance for unemployment would

considerably improve this situation. Similarly, extending the individually-assessed ACC scheme to people unable to earn due to disability or long-term illness would address a situation where the majority of this group do not qualify for core benefit support if they are partnered and would resolve the longstanding disjunction between the couple-based and less generous entitlement to welfare for people whose incapacity is due to illness or disability and individually-based entitlement to ACC cover for those who are injured in an accident.

Lastly, while the difficulties in defining relationships and the problems these cause for people affected cannot be completely avoided while relationship status testing remains part of the system, there are a variety of ways in which the definition, and the way it is administered could be altered to give people greater certainty and more control over whether they are defined as partnered or single.

Recommendations

1. *Carry out a detailed study of income-sharing in New Zealand.* The way in which income is shared within families, whānau and households is central to decisions about the unit of assessment for benefits (and taxes). Existing New Zealand research is limited and outdated. The study should include:
 - A survey of the international literature on income-sharing in developed countries
 - An empirical study of practices in New Zealand, including both generalisable quantitative analysis and in-depth qualitative research.
2. *Investigate options for alternative ways of defining relationship status for the purposes of benefit and social assistance entitlements.* If a distinction between partnered and single people is to remain a part of the welfare and social assistance system, a clearer definition that is easier for people to understand and easier for welfare agencies to apply is needed. This analysis should include considering ways of reducing the scope for discretion and subjective judgement, while still allowing flexibility for exceptional circumstances. Options include placing greater emphasis on co-residence as a defining criterion. It should also consider whether closer alignment is needed with the definitions around partnership status in the Property (Relationships) Act 1976, and the recommendations on amendments to that Act arising from the current Law Commission review.
3. *Further investigate options for restructuring benefits, accommodation assistance and family tax credits that better align each instrument to its core purpose and better aligns with economies of scale arising from sharing accommodation rather than assumptions about economies of scale associated with relationship status.*
4. *Investigate options for better supporting low- to middle-income couples, especially those with children, by extending individual entitlement in cases where only one partner has employment.* This should include options for, and costs and benefits of, i) individual entitlement to the core benefit where the individual meets the eligibility criteria and ii) a tightly-capped, limited-term social insurance scheme for workers who lose their job due to sickness or redundancy.

5. *Investigate the costs and pros and cons of including incapacity to work due to disability or illness in the ACC scheme.* This would include individually-assessed entitlement to earnings-related compensation, as well as rehabilitation, funded through the earners and non-earners accounts.

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