Stuck in the 80's: Benefit abatement rates

Abatement rates for benefits have not changed since 1986. The current regime traps people in poverty and encourages dependency on the welfare state. This policy affects most of the communities Lifewise works with.

What would Lifewise like to see?
An immediate review of the abatement ($80 rate limit on earning), one that allows people to work 15 hours a week (at minimum wage) and recognises the impact of inflation (on $80) since 1986. $80 in 1986 was worth approximately $250 dollars today or 15 hours of work, could encourage our whanau[1] to explore meaningful ways to engage with work and income, just as people did in 1986.

The benefit of our proposal is not only does our community benefit but it is a fiscally effective opportunity. Higher income means an increased tax take (in both GST and PAYE), and it is likely to reduce the cost of client management for WINZ as well as debt levels for WINZ clients because there are likely to be fewer requests for both hardship and food grants. This is a win-win situation for everyone.

For those that have been impacted by abuse, neglect by society and years of sleeping rough, it may take years to get to a place where the whanau are able to work full time. Volunteering and part time work should be actively encouraged, valued, and supported through the benefit system, through community enterprise and activities, and responsible and supportive employers. This is the first step in people exploring their strengths and opportunities.

Lifewise - what we do / who we are

Lifewise is a social development agency that develops new ways to solve challenging social issues. It has 150 years of legacy within the Methodist Church of New Zealand. Its mission is to challenge injustice, develop sustainable solutions, cultivate caring communities and provide optimism and hope.

On a day to day basis its 300 staff interact with hundreds of people at various stages of their lives. From the person living rough, to the three month-old settling into childcare, to the family starting to rebuild their life, to the young person with talents not disabilities.

Lifewise is well placed to provide insights into the lives and challenges of those that are disenfranchised. It introduced the Housing First model into New Zealand in 2016, and with partners now have a city centre programme that delivers housing to 100 chronic rough sleepers.

[1] Lifewise's community of people with lived experience of homelessness

It provides 36,000 low cost meals through its social enterprise, Merge Cafe and the Merge community team provide volunteer peer support to street whānau including supporting them to apply for the benefit.

This submission has arisen from research work carried out by Lifewise's Merge Community team and its community. This includes people with experience of homelessness, who provide peer support and are involved in community enterprise activities.

The Merge Community team has been examining the impact of earning additional income whilst on a benefit for Housing First whānau and social enterprise opportunities. The information provided in this submission reflects the concerns and experience of those who have been homeless and who have had the most difficulty accessing support from the welfare system. Their voices need to be heard by those designing an effective welfare system for the future.

What we have found

Since mid-2017, Lifewise has been exploring and testing social enterprise and earning opportunities ideas with the community. Every time we uncover an opportunity, our whanau instantly raises the specter of "what happens when I earn more than $80?"

Lifewise staff have explored this barrier, including interviewing people about their benefit, and working with them on the social enterprise ideas. We get the same feedback, "I don't want to earn over $80", "It screws up my benefit for weeks", "I just want to know what I am going to get each week". We have also witnessed how the stress of a reduced or declined benefit pushes someone two steps back with their wellbeing, attitude or goals.

For Lifewise, we don't want to put people at risk with their relationship with Work and Income, but at the same time we want them to have the opportunities to earn extra and gain empowerment. We are finding that the $80 limit is impacting on this.

We have found through our research that if we offer someone $200 extra, their total income will be $299.34. If we offer them just $80 worth of work, their total income would be $284.34. This means that they are only $15 better off, and from their view, that Work and Income have clawed back their money. For our whānau it is not just worth it!

In fact, not only is their jobseeker benefit impacted but if this is deemed regular work their social housing rent will also be increased by 25% which means our whanau are just $11.25 better off (using the $200 scenario). And that is without considering the costs of working; travel, food and clothing. (Appendix 1).

Case study

Shane's current experience

After 18 months in social housing, Shane, a 43 year old Maori man is keen to earn a little bit extra and get off the benefit. He's had it hard for a few years, living rough on the street for eight years after an accident tipped his world upside down.

For the past year, Shane has volunteered with a local charity, and that is helping boost his confidence and self-esteem. Prior to the street life, he worked on construction sites and trucking, but he missed out on some schooling. He doesn't know about finances, IRD and he's not keen on the computer. Over the past few years he has built up a mistrust of government and the system.

Earning extra – not easy

A local employer gets to know Shane through volunteering, and offers him some shifts. Shane is not sure, as he just wants to keep things simple, and not go over the $80 earning limit. His mates say to him "don't do it bro, it causes too much hassle".

He starts off earning the $80 before tax, but after a month the employer gets grumpy, he needs someone for more hours. Shane feels the pressure and decides to give it a go. He accepts two shifts for $200 before tax (12hrs at minimum wage).

His total income is now $299.34, but Shane only sees an increase of $15 after abatement rates deducted. He even finds his social housing costs increases.

Shane has to catch the bus to the job and pay for little extras. He is out of pocket, and running into debt. Shane has to keep going to W&I each week with his pay slip to declare, "I don't trust them, so I go in and look them in the eye". Shane starts to stress out and starts making mistakes at work.

It's just too much.

Shane doesn't turn up for work the next day, and starts to do a few cash jobs. It's not safe. Yet it's what everyone has to do.

This case study is a combination of whanau experiences and not an actual person.

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Shane's desired experience

In 2020, one of the first things changed around the welfare system, is the abatement levels. The system is now designed to support people to earn for two days every week, without impacting on their benefit.

Shane hears about this, and starts to think more about trying to earn extra and have something regular. He has a chat with the charity he volunteers for and they hook him up with a local enterprise.

Shane starts first working half a day for a month, and then after a while he has a regular two day shift.

Shane finds that after tax and benefit deductions, he still has additional $70 and its hassle free. He can pay for his bus, his lunch and a new shirt for work. He even manages to save for his trip to see his whanau in Northland.

The employer gets to know Shane, and after a while, starts to train him up in some things around the business. After a year, the employer offers Shane more shifts, and after a chat with his Work and Income case manager, Shane now works three days a week, with agreed regular check in on how things are going for another year and keeping his social housing status.

Shane now has a job he loves and he no longer needs to access hardship grants. He has a sense of hope for the future, but more importantly for him, he can help out his whanau with the little things in life.

Social enterprise opportunities also hit $80 barrier

One of the social / community enterprise ideas Lifewise are exploring has had its business model tested and refined by an Akina Social Sabbatical team made up of finance, marketing and logistic corporate staff.

They found our social enterprise has real financial and social possibilities. Yet the biggest hurdle they found was how to pay people without impacting them negatively.

In their report they noted that " *The $80-limit imposes a hard limit on what benefit recipients are allowed to earn additionally before a heavy taxation (70%) of money earned beyond the limit sets in. In the worst case scenario, it may even lead to less total income."*

Their recommendations included needing to ensure that the social enterprise activities should not leave anyone financially worse off; at least not without a clear alternative value proposition and ensure the whanau staff/contractors are fully aware of the impacts and benefit. (Social Sabbatical 2018 - “Walking Progress”)

Lifewise agree that there are many things that need addressing around the benefit system - from ensuring consistent caring and supportive attitudes of staff, to transparency of information, to ensuring people have an equal voice in the decisions that impact on them, to W&I decisions that causes unnecessary debt and stress levels.

We also appreciate that the benefit system has become complex. But what if you designed a benefit system that took a system view and designed for those not currently served well and impacted on the hardest. Then we might make some headway to changing things.

To start with, make it easy for everyone - start with changing the abatement level and stop making it a barrier.

Appendix #1: inadequate financial support through benefits

The benefit system in Aotearoa has suffered from 30 years of neo-liberal policies of “deliberate neglect and occasionally plain vandalism” (Fletcher 2018), driven by the principle that the unfettered market, low taxes and the reduction in the size of the state sector will provide the best policy settings to maximise wellbeing in Aotearoa.

These policies have failed overall. Ninety percent of New Zealanders are worse off than they were in the 1980s (Rashbrooke, 2013). At the recent Child Poverty Action Group summit “Rethinking the Welfare State for the 21st century”, Michael Fletcher (2018) made the following observations:

- 80% of benefit-led households have incomes below the 60% poverty line (i.e. 60% of average household income).
- Sole and couple families on benefit have “equivalised disposable after-housing-cost incomes that range from 21% - 33% of median” (quoting St John and So, 2018).
- Benefits have been falling relative to wages for 30 years.
- The gap between current weekly benefit income for a single person, compared to before the ‘mother of all budgets’ (1991) is a weekly deficit (excluding any family tax credit) of $146.
- The gap between current weekly benefit income for a single parent with two children, compared to before the ‘mother of all budgets’ (1991) is a weekly deficit (excluding any family tax credit) of $210.

In addition to the massive relative decrease in benefit spending-power, over the years, other factors, such as changes to the work regime, have conspired to put people on benefits in a more vulnerable position. Recent research has found that half of unemployed people return to the benefit system within 18 months of gaining employment (MSD, 2018).

Research has also shown that, even for a relatively settled group such as grandparents caring for their mokopuna, the experience of navigating Work and Income is often traumatising and difficult and sometimes futile (Gordon, 2018). For people who have become homeless or sleep rough, the barriers to getting income support are much greater, and the system is harder to navigate.

There are other aspects of the benefit system which are of particular concern to Lifewise, over and above those mentioned (in summary) above. In the remainder of this submission we wish to focus on one area of the benefit system that is overdue for a change, and could be reformed at little or no cost – benefit abatement rates for those earning an income from part-time work.

Benefit abatement rates

Benefit abatement rates have two components. They stipulate the amount that a person is able to earn from wages before losing a proportion of their benefit income, and also at what rate, or amount, a benefit will be abated as earnings from wages increase.

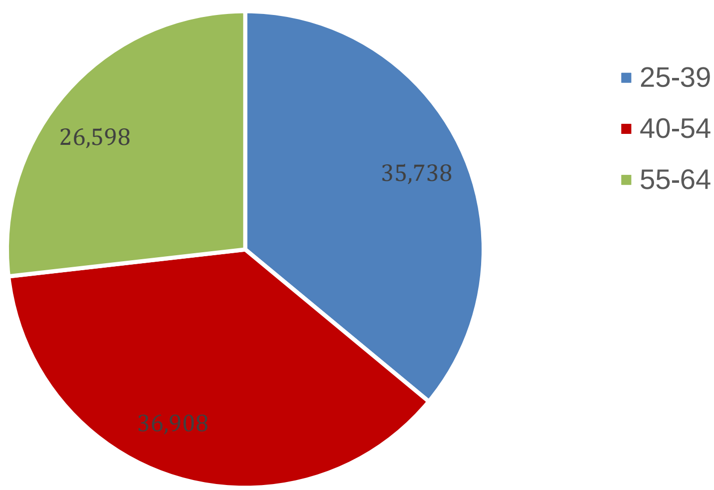
The rate of abatement is a crucial element of the system of benefits. It has the ability to lead people from welfare into work without suffering. On the other hand, it has the ability to act as a poverty trap and even a disincentive to work.

This aspect of the benefit system has been subject to what Michael Fletcher (2018) calls "deliberate neglect". Benefit abatement rates have not been adjusted for between 20 and 30 years.

For the purposes of this submission our focus will be on the Jobseeker benefit for over 25s. In June 2018, according to the MSD, there were 122,513 people on the Jobseeker benefit, or 4.2% of the population. This figure includes 18-24 year olds. For those aged 25+, there were 99,244 people on the Jobseekers benefit in June.

Jobseekers make up 44% of all benefit recipients and are the single largest group of recipients.

Age distribution of Jobseeker benefit recipients, June 2018

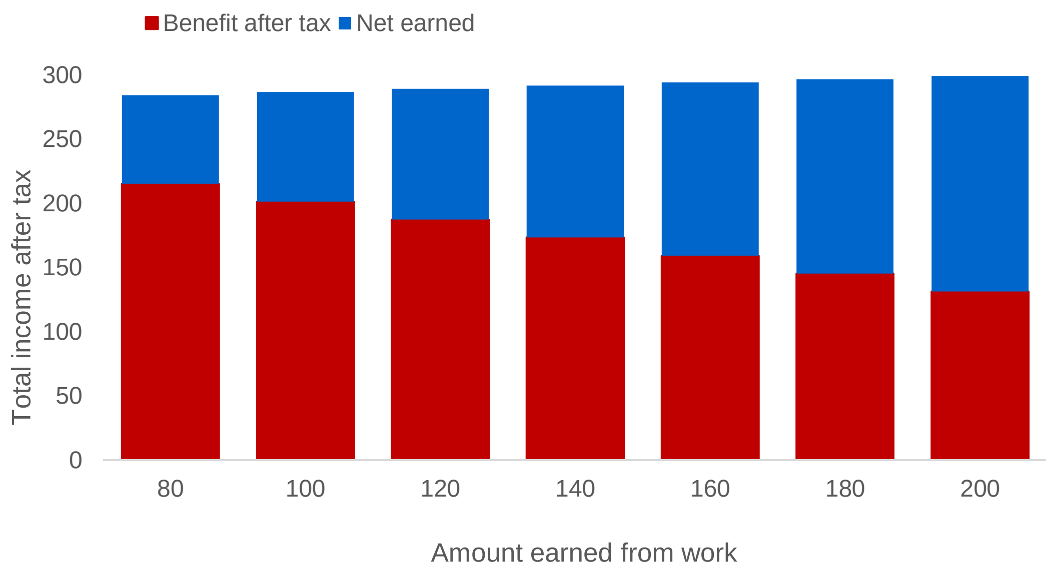


Jobseeker benefit recipients are distributed across the age range. More than half (55%) have been on the benefit for more than one year. The income for those on the Jobseeker benefit is $215.34 after tax. As noted above, if the single benefit had kept pace with wage and price movements over the years, it now would be paid at around $360 per week.

Benefit abatement rates for adult single jobseekers

For individuals over the age of 25, abatement of the Jobseeker starts once the weekly earnings from employment exceed $80 per week. The abatement rate is 70 cents in every gross dollar earned. In addition, the person must pay income tax on each dollar. About the first $40 of additional income (up to total income of $14,000 per annum), the income tax rate on each dollar will be 10.5 cents. After that, the tax paid is 17.5 cents in the dollar.

Therefore, for the 81st dollar earned, and every subsequent dollar, the net benefit abatement is 70 cents and taxation paid is 17.5 cents, leaving net additional income (before the accommodation supplement) of 12.5 cents. The following chart demonstrates how the abatement and taxation rates impact on net earnings as people earn more from employment.



In this example, earnings from wages increase in $20 per week increments. At $80 per week earnings, the person receives a net income of $284.34, while at $200 per week earnings, net weekly income is $299.34. In short, $120 in additional earnings produces only $15 after tax in additional income, due to the high abatement rate. This is a significant income trap and a massive disincentive for people to work.

The $80 per week rate at which abatement commences has not been altered since 1986. At the time, the minimum wage was $5.25 per hour, compared to $16.50 now. If the abatement rate had been adjusted in line with the minimum wage rate, it would currently stand at $251.43.

In 1986, the $80 abatement threshold was equivalent to 15 hours per week of work. Today, it purchases only around 4.8 hours of minimum wage work. If the abatement threshold was to be equivalised to 15 hours work now, that would require a threshold of $247.50 at minimum wage rates.

Finally, looking at wage inflation rates (using the Reserve Bank's Inflation Calculator), $80 in 1986 is now worth $257.23.

Looked at in all ways, and considering the hardship faced by people on this benefit, there is a strong case for the abatement threshold to be restored to the wage power of 1986, to allow earnings of around $250 per week before abatement begins.

While a rise in the abatement threshold would make a huge difference to the income opportunities and security of jobseekers, retaining the rate of abatement at 70% would still maintain the poverty trap of stagnant earnings, albeit at a higher income level.

It is the mix of both a higher abatement threshold and a gentler rate of abatement that will provide a secure and non-exploitative base for moving people from the jobseeker benefit into employment.

Income-related rents

Many Housing First participants have access to the income-related rent subsidy. Rents are calculated according to the person's income, at the rate of 25% of net income. Income-related rents are a way to ensure that low-income earners have affordable housing. However, as rents rise with income, when added to abatement regimes they further reduce net income and increase the likelihood of poverty traps.

As noted above, the net gain from the abatement regime for the Jobseeker benefit is 12.5 cents per dollar after $80 per week. As well, the additional income-related rental is charged from the first dollar of earnings.

This means that, at earnings of $80 per week, income-related rents will increase by $20 per week, reducing the net income outcome (including taxation) at $80 by $31.20, to $49.80.

For each additional dollar earned which, as noted above, yields a net income gain of 12.5 cents after taxes and abatement, a further 3.1 cents is lost in increased rental, leaving a net 9.4 cent income increase for each dollar earned above $80 per week.

It was noted above that the net income gain from earnings once a person on a Jobseeker benefit earns $200 per week is exactly $15, due to taxation and abatements. Once the increase in income-related rents is added, the net additional income from $200 per week in earnings is $11.25 per week.

Making changes

Jobseekers over the age of 25 who earn $200 per week and are in social housing receive a net $11.25 per week in additional income. If paid at the minimum wage, their net increase is just $1.08 per hour worked. If they have to take a bus ride to work, they are immediately in financial deficit. The benefit abatement regime is broken and needs to be fixed.

We advocate that the income earning threshold applied by Work and Income New Zealand be recalibrated for 2018 and be regularly reviewed. This will not only provide a basis for better lives for beneficiaries, but is a fiscally effective opportunity, as higher benefit payments are offset by an increased tax take (both PAYE and GST), lower additional support costs (such as food grants and hardship payments) and fewer visits required to Work and Income.

The current regime traps people into poverty and encourages dependency on the welfare state. The abatement rates are a major disincentive to gaining employment, as the costs of employment can so easily exceed the additional amount earned. There is certainly no incentive for people to work for more than a few hours, with such miniscule (or negative) returns.

While fiscally a relatively small change, the benefit abatement rates can make a big difference at the crucial interface between welfare and work.

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