THE UNIVERSITY OF AUCKLAND
NEW ZEALAND

BUSINESS SCHOOL

Retirement Policy and Research Centre

A commentary from the Retirement Policy and Research Centre

Welfare policies for a post-lockdown world

RPRC PensionCommentary 2020-5

29 April 2020

First published in Newsroom 23 April

Most policy analysts would agree that while national emergencies such as Covid-19 justify an immediate response, the policies chosen to cushion the impact should be adequately scrutinised and well-designed.

Welfare policies after lockdown

Broadly speaking, policies should be effective in alleviating poverty and sharing the pain, reflect agreed principles, and have minimal unnecessary fiscal consequences.

For workers, the immediate COVID-19 response was to keep employees linked to their employer with an employer-based wage subsidy for 12 weeks. This was understandable as a measure to have an immediate effect. Now it needs to be integrated into a modernised welfare system to meet the new realities of permanent job losses and redeployment.

The other three Covid-19 welfare measures to support those on low incomes all need rethinking. The first two: a modest $25 increase in weekly core benefits, a minor, poorly designed partial extension of the In Work Tax Credit need urgent scrutiny, but the third plank, the enhanced Winter Energy Payment, is the least well-targeted.

The first two have an annual cost of $600m and $32m respectively while the Winter Energy Payment (WEP) for the coming financial year rises from $480m in 2019 to $960m in 2020. Each beneficiary and superannuitant is entitled to a tax-free $900 if single, and $700 if married or has dependents, paid over 22 weeks from 1 May.

Rethink enhanced Winter Energy Payment

For those on benefits, the WEP is a much-needed boost and will help reduce the pressure on foodbanks and the demand for supplementary assistance at Work and Income. But this payment also goes automatically to all superannuitants no matter how wealthy.

Experience in 2019 showed that only a tiny fraction, just 2000 out of nearly 800,000 superannuitants, chose to *opt out*. Opting out requires deliberate action and is easy for busy people to overlook. Some may have donated their WEP to charity (and received the tax rebate), we just don't know.

Anecdotal evidence suggests that most affluent superannuitants didn't notice the increase, just as they hardly notice New Zealand Superannuation (NZS) itself as it is such a small part of their income.

The WEP is not even taxable, so high income superannuitants can retain the full amount.

Better policy design

In today's circumstances it is clear to many older people that they too should be sharing the cost of the Covid-19 recession. Thus, if superannuitants were required to *opt-in* to order to receive the WEP, many better-off pensioners would choose not to ask for it.

Ministry of Social Development figures show that another possibility is to give the WEP automatically to those superannuitants who are also getting the disability payment, the means-tested accommodation supplement, any food grants, or supplementary hardship support. Others could still opt-in if they wish, no stigma, and no questions asked.

Fiscal waste is abhorrent given the huge challenge to the government's budget in the post-lockdown world. We might expect that under an opt-in arrangement only around 25% of superannuitants would receive the WEP, saving roughly $450 million. These savings could be used for example, to help the many low-income people who are not on benefits and who will really need some help in the coming winter. They currently don't qualify for the WEP but may be just as in need of it as others on benefits.

The WEP needs to be even further scrutinised to make sure it reflects agreed principles of good policy design. Currently it reinforces outmoded relationship stereotypes. Why should two singles who share a home get $400 more WEP than a couple? Can that really be justified on grounds that being in a relationship reduces heating costs in winter? Who defines whether you are in relationship or not? It is not too late to adjust this policy.

For comments on this PensionCommentary and for further information please contact:

Dr Susan St John
Director
Retirement Policy and Research Centre
Associate Professor of Economics
University of Auckland
Private Bag 92 019
Auckland 1142
New Zealand
s.stjohn@auckland.ac.nz

http://www.rprc.auckland.ac.nz