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'Basic Income' for the old and the young in New Zealand

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To contribute to the intergenerational equity debate, this PIE Briefing compares and contrasts the basic income support of NZ Super for older persons with basic income provided by Working for Families for children. There is room for improvement to reap the full advantages of a basic income approach for both the young and the old.[2]

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[2] This paper discusses access to cash income from the state. It does not address the means test for old age care, treatment of overseas pensions, access to affordable housing, the design of the accommodation supplement, income in kind through health rated subsidies, nor hardship provisions through MSD.

Introduction

The fundamental principle of how we protect the old and the young in New Zealand is the same: we make sure there is a basic floor of income for both. Basic incomes work by providing a flat rate of benefit to all, while recouping some, or all, of the cost from high income recipients through higher taxes.

New Zealand Superannuation (NZS) has more visibility and understanding as an effective basic income for every older person. It has been very successful in providing unconditional support and preventing poverty. That picture is now starting to change, especially among the increasing number of older people who rent or have mortgages.

As a basic unconditional income, no previous contributions are required for NZS and there are no rules around how it must be spent. Higher income recipients pay a higher tax rate on their NZS under our modestly progressive tax scheme. They could and should pay more for long term sustainability as discussed in St John & Dale (2019).

Working for Families (WFF), the comparable programme for the young deserves the same understanding and support. Currently all families who are in some paid work, earning under $42,700 a year and not accessing any benefit, receive the full WFF weekly payment.[3] This payment acts as an unconditional income cushion **for their children**. Like NZS, nobody says how it should be spent and no contributory records are needed. However, there is a much stronger clawback mechanism described below that largely confines the payment to low and middle-income families.

Many families found WFF was a critical income cushion as other income dried up in the pandemic. But the structural features of WFF design discussed in this paper prevent its full benefits as a basic income for the support of children from being realised.[4]

Supporting the young and the old

NZS covers around 900,000 people over age 65, and its 2022/23 annual net cost is $19.5 billion. Table 1 shows the growth of annual expenditure on gross NZS since 2017. The large

[3] The tax credits of WFF are refundable tax credits i.e. are not treated as an offset to tax paid.
[4] The briefing draws on the newsroom article St John, S (2022) Children shouldn't pay for a broken system Newsroom 24th March 2022.

increase reflects the demographic change i.e. the rapid growth in numbers over 65 as the large baby boom cohort born 1945-1965 becomes progressively eligible between 2010-2030, and real increases to the value of the pension because of the wage link described below.

Table 1: Nine year expenses: NZS and Working for Families
Source: The Treasury [Budget Economic and Fiscal Update 2022 - Expense Tables]

Welfare benefit expenses						
		2017	2020	2023	2026	
($millions)		Actual	Actual	Forecast	Forecast	9 year % change
New Zealand Superannuation		13,043	15,521	19,529	24,524	88%
Working for Families						
Family Tax Credit		1,723	2,189	2,375	2,685	56%
Other WFF tax credits		596	641	562	534	-10%
Best start		..	184	375	415	n/a
	total	2,319	3,014	3,312	3,634	57%

There are around 1.1 million children in the population, but only low and middle-income families benefit significantly from WFF. In contrast to NZS, expenditure on WFF increases much more slowly over the 9 years by 57%, or 38% if Best Start[5] is excluded. In part this reflects that the number of children changes slowly, but also the tight targeting of WFF and poor indexation provisions. Expenditure on “other WFF tax credits” is almost entirely on the component called the In Work Tax Credit (IWTC) which has been unadjusted since 2016 and falls 10% in real terms over the projected 9-year period.

New Zealand Superannuation

On 1 April 2022, the rates of NZS were increased to the levels shown in Table 2. The net rate after tax ‘M’ reflects the 10.5% tax on incomes under $14,000. For those with modest amounts of other income over this threshold, the entire NZS gross payment is taxed at 17.5% as the ‘S’ rate shows.

Superannuitants on higher marginal tax rates can choose to be taxed on their NZS at the higher rate. For example, a superannuitant whose other income exceeds $180,000 pays 39% on their gross NZS.

[5] Best start is separate to WFF and is a universal $66 per week payment for newborns with a payment for 1 and 2 year olds targeted in a separate regime. As with Paid Parental Leave and Childcare subsidies, for purposes here, Best Start is not further discussed.

The net single living alone rate at the 39% tax bracket is $328.32 or 71% of the net amount received by the lowest income superannuitant. Thus, the progressive income system provides a gentle income test, but higher income superannuitants are always better-off with NZS.

Table 2: Rates for NZS as at 1st April 2022 (MSD website)

Pension type	Net weekly rate (after tax at 'M')	Net weekly rate (after tax at 'S')	Gross weekly rate
NZ Super or Veteran's Pension – standard rates			
Single			
Single, living alone	$462.94	$444.09	$538.24
Single, sharing	$427.33	$408.48	$495.10
Couples			
Both you and your partner qualify (combined)	$712.22	$674.52	$817.32
Both you and your partner qualify (each)	$356.11	$337.26	$408.66

In an ideal world, a universal taxable NZS would seem simple, fair, efficient, and inclusive, but Table 1 shows the inexorable rise in NZS payments as the population ages. Despite the NZ Superannuation Fund, there is no free lunch here.[6] NZS payments to the top end have an opportunity cost in the form of less support for those superannuitants with little else to live on. These payments may also preclude sufficient investment into the support of children on whom the ageing population will depend, including that support provided by WFF.

Indexation of NZS

Indexation of NZS is automatic and annual: first there is an adjustment for the CPI increases and a further adjustment if needed so that the net couple rate does not fall below 66% of the net average wage. Essentially, in times of real wage growth the pension is linked to wage growth. Should inflation exceed wage growth, as in 2022, the pension linked to the CPI will rise relative to the average wage but cannot exceed 72.5% of the net average wage.
The year-on-year increase to the net rates for 2022 detailed in Table 2 ranged from an extra $20 a week for a partnered person, to $26 per week for a superannuitant living alone.

[6] The New Zealand Super Fund does not reduce the cost of NZS nor guarantee any of its parameters. See St John, S (2021) New Zealand Superannuation Fund PensionCommentary 2021-2 RPRC, 30th August 2021.

Individual basis of NZS

Each superannuitant is taxed in their own right, and superannuation is an individual payment irrespective of a partner's income. However, the rates differ according to marital status and living arrangements and thus reflect assumptions about living costs and economies of scale. Two people sharing accommodation receive a total of $854 a week but only $712 a week if judged to be partnered. The underlying model of assumed dependency in relationships is less appropriate for the 21st century. RPRC has suggested the two rates be aligned by freezing the single sharing rate or linking to the CPI only, while the married rate linked to wages is allowed to catch up (St John & Dale 2019).

Can NZS be treated as a basic income?

The principle of basic income is that taxes on earned income (and /or wealth) should be higher to pay for the untaxed grant. As St John & Dale (2019) showed[7], NZS could be made into a true basic income by paying everyone a non-taxable grant equal to the current net rate of NZS, and then other income taxed on a separate progressive scale. The updated modelling (St John 2021)[8] indicated it would be possible to clawback $1-2 billion without significantly affecting the vast majority of superannuitants. This would bring it more in line with WFF described below and help ensure its future sustainably as a payment to all at age 65 years.

Is NZS successful in preventing poverty?

While NZS since the 1970s has been very successful in keeping older people out of hardship this is now changing as housing becomes increasingly unaffordable. Around 3% of the total older population are in hardship, but this rises to 19% of those who rent (Perry, 2022 p).

Working for Families

Working for Families provides low and middle-income families a weekly per child payment that is paid to the caregiver. There are just over 1 million dependent children 18 years and under in New Zealand.[9] The annual cost of this programme is approximately $3 billion.[10] The maximum weekly amounts per child in 2022 are set out in Table 3 and are paid in full to all families who are not accessing a benefit, unless joint household income exceeds $42,700 when a clawback applies.

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[7] Perry, B. (2022). Child Poverty in New Zealand. Retrieved from https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/child-poverty-in-nz/2022-child-poverty-report-overview-and-selected-findings.pdf

[8] St John, S (2021) New Zealand Superannuation as a basic income PensionBriefing 2021-2 RPRC, 27th August 2021

[9] There were 1.142 0-17 years olds in 2021 (Perry, 2022).

[10] Including Best Start for those under 3 this rises to $3.3 billion.

Thus, the caregiver in a family of 4 children who is entitled to the maximum, receives $527.50 WFF per week. However, if s/he is a sole parent on a benefit, the children are not entitled to the IWTC so the total is only $440. A one child family on a benefit is entitled to only $127.73 a week, or 64% of the WFF of a low-income family not on a benefit.

Table 3: Working for Families Maximum Weekly payments 1 April 2022, IR 2022

Category	Family tax credit	In Work Tax Credit	Total child WFF tax credits per week
First child 0-18	**127.73**	**72.50**	**200.23**
Second child	**104.08**	**0**	**304.31**
Third child	**104.08**	**0**	**408.39**
Fourth child Subsequent children	**104.08** **104.08**	**15** **15**	**527.47**

Indexation

WFF is not automatically unadjusted annually, but only once cumulative inflation exceeds 5%. In times of very low inflation this can mean long periods with no indexation. WFF rates were reset after a gap of **six** years on 1st July 2018 when the first child Family Tax Credit became $113 per week and the second and subsequent children $91.25 per week. In 2022, the rates of WFF's Family Tax Credit were increased for the cumulative inflation since 2018, with an additional real $5 per child. However, the In Work Tax Credit (IWTC) remained unadjusted so the overall effect was simply an inflation adjustment to total tax credits.

The rule for indexation makes the eventual inflation adjustment look more generous than is the case. In contrast to NZS, WFF is not wage-linked in anyway.

In 2022, the catch-up payment for WFF, not only was just an inflation adjustment, but the threshold of joint family income from which the full entitlement applies was left fixed at its 2018 rate of $42,700 and the rate of clawback for income above this level increased to 27%. The basic income provided by WFF is essentially clawed back by an extra tax of 27 percentage points on parental income above $42,700.

Is WFF fully unconditional?

In contrast to NZS as a basic income, WFF is not fully unconditional for all low-income children. For example, a sole parent who is so poor that she must access a benefit, even if in part-time paid employment, is deliberately cut out of **at least $72.50 per week** (the IWTC) for her children. Her children are the 'undeserving poor' showing that it is not the needs of children but the work/beneficiary status of parents that is at the heart of WFF.

Can WFF be treated as a basic income?

Once the discrimination of the IWTC is resolved[11] the WFF could be regarded as a true basic income for children. WFF payments are received in full when parental income is below $42,700. To make it clearer that WFF is a basic income, all New Zealand families could be given the full WFF with a corresponding increase in the up-front tax rate on families' incomes to parallel the income test that applies now. A primary earner for example on income between $42,700-$48,000 would pay a tax rate of 44.5 percent, between $48,000-$70,000, a tax rate of 57 percent and above $70,000, a tax rate of 60 percent until all the WFF is recouped.[12] In contrast, superannuitants on incomes as high as $180,000 pay a tax rate of only 39 percent.

There are other differences between what we do for children and what we do for older citizens. NZS is annually adjusted for wage growth as well as prices to keep NZS no lower than 66 percent of the average net wage for a couple (with adjustments for single and living alone). NZS is automatically adjusted each April and usually attracts no special government fanfare.

Moreover, only part of WFF is inflation-adjusted. For those 'deserving' families not on benefits the IWTC has been fixed at $72.50 since 1 April 2016. The full inflation-adjusted WFF, including the IWTC for a one- child family should be $210 as at 1st April 2022.

Is WFF successful in reducing child poverty?

The children in beneficiary families who do not qualify for the full package have very high rates of both hardship and severe deprivation. (Perry 2022, p 25).

Discussion

Working for Families (WFF) was never designed for extraordinary lockdowns or recessions. It works very badly for the worst-off children because it is based on the premise that paid work is the only way out of poverty. A payment meant for support of children (the In Work Tax Credit) is dangled like a carrot to reward parents for not being on a benefit even in a

[11] The Child Poverty Action Group has long argued that the IWTC needs to be added to the FTC, Fix Working For Families (2022) — Child Poverty Action Group (cpag.org.nz)

[12] The current joint income test complicates it. The secondary earner should also pay an additional 27% on her individual income tax rate for her earnings. An annual reconciliation could sort out any over-paid tax.

pandemic. This is cruel and dishonest when full-time paid work is inappropriate or impossible for many families. Sole parents, disabled and sick parents are particularly affected.

What children need is both for their parents to have an adequate income for themselves and for children to be acknowledged as also having separate income needs. The children's needs don't suddenly reduce because their parents become so poor that they qualify for an adult benefit. Under current policy when parents need a welfare benefit, the worst-off children are pushed into deeper poverty, stunting young lives in ways evident in far less developed countries.

Paying the full WFF to all low-income families will improve the worst child poverty in a highly cost-effective way as it is targeted only those with greatest need. It would commit the government to spending around an extra $650 million per annum approximatley[13] and be an excellent stimulus as it would be spent immediately and save parents precious time and anguish in queuing for food parcels and hardship relief. It requires letting go of a failed neoliberal ideology that withholds a poverty-reducing payment for the poorest children in the name of a work incentive.

For low income wage earner families, WFF is sharply clawed back from a fixed threshold at a very high rate of 27 percent. When wages increase with inflation, these families are particularly badly caught. Many young parents will also be repaying student loans at 12 percent. Once the fixed tax threshold of $48,000 is triggered, the tax rate itself rises sharply to 30 percent. The interaction of these aspects drives many more 'working families' to food banks. There is a strong case for reducing the clawback to 20% and adjusting then indexing the threshold.

In contrast, NZS has no paid work requirement and reduces only very gradually for high income older people. This clawback always leaves recipients with a significant positive payment. It is therefore expensive and growingly so. There is a case for increasing the clawback in light of the demands for revenue to pay for the needs of the growing ageing aged population as has been modelled by the RPRC (St John 2021).

[13] After full indexation.

Conclusion

The old and the young are both deserving of the benefits of an adequate basic income. Both of the current incomes programmes NZS and WFF need adjustments that would bring them in principle closer together: the clawback should be increased somewhat for NZS and reduced for WFF; all work-related conditionality removed for WFF, and WFF indexation of all aspects should be annually to wages following the NZS policy. Both groups are vulnerable to poverty under current settings, especially reflecting the housing situation.

Comments welcome:

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