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Economic Policy Centre

Pensions and Intergenerational Equity

PIE Commentary 2023-16[1]

The coalition agreement for Working for Families will fail to achieve National's objectives but tweaks could improve it.

Susan St John

PIE highlights intergenerational equity issues around the rapid ageing of the population including the ageing of the old. What are we doing to invest in the young who will be the skilled and compassionate workforce needed for the care of the rapidly ageing population? As argued in PIE commentary 2023-11 and PIE commentary 2023-14, we really need to improve what we do for children.

The coalition agreement emphasises the needs of the older population by guaranteeing the age of access to New Zealand Superannuation will not rise, that the winter energy payment remains and that the effect of tax relief will mean a substantive rise in net pensions.

But the coalition agreement around Working for Families will do nothing for deep child poverty while entrenching the In Work Tax Credit in a way that does not relieve the poverty trap. The saving of future spending of $550m is part of how tax cuts will be funded.

The incoming Coalition government has compromised on National's election manifesto for Working for Families in order to secure promised tax cuts. But a few tweaks of what is left of their Working for Families policy could still set it on a better path to help reduce child poverty and better reward the paid work by the squeezed middle.

With thanks to the Daily Blog,[2] we republish this commentary by Susan St John[3] as a further contribution to the needed political debate around how we take care of our children.

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[1] PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.
[2] First published in The Daily Blog, St John, S (2023) The coalition agreement for Working for Families is very weak but tweaks could improve it. Daily Blog 27th November, 2023
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There were two promises in National's original plan for Working for Families: an extra $25 a week from the In Work Tax Credit (IWTC) from 1 April at an annual cost of $190m; and a lift in the abatement threshold from $42,700 to $50,000 though not until 2026 with an eventual annual cost of $250m.

But their promise of a lift in the threshold was far too little, far too late. It is absolutely critical that the massive disincentives to work more and earn more faced by low-income families are addressed immediately.

Instead, the visionless incoming Coalition government will save money to help pay for promised tax cuts by abandoning abatement threshold increase, saving $550m in total over 4 years to 2027/28. The $25 increase in IWTC remains from 1 July 2024.

Leaving aside the wisdom of the tax cuts, the other sacrifices they will entail, the inherent lack of vision around Working for Families, was there another way to spend the money on the IWTC that has been agreed?

The increase of $25 IWTC helps around 160,000 low-income "working families" but excludes the 180,000 families in which parents need a benefit or part benefit to survive.

Increasing the IWTC this way is highly undesirable because it drives a further wedge between those who qualify for this crucial support for their children and the poorer families who don't. But for the argument here, it is also undesirable because it does not reduce the disincentives to earn over the fixed low threshold for very families Luxon has wanted to reward for 'working hard'.

Instead of increasing the IWTC, an increase in the threshold could be designed to give much the same result. For example, a lift to $47,626 immediately would cost about $164m million pa and deliver up to $25 extra weekly income to low-income families who earn up to that threshold and beyond.

This leaves hanging the real questions about Prime Minister Christopher Luxon's promise to halve child poverty by 2028. As argued previously the most cost-effective way to address the worst child poverty is to progressively *reduce the IWTC while simultaneously increasing the Family Tax Credit (FTC).*

This would mean the poorest families are much better off. The working poor would see no difference, as their IWTC goes down while their FTC goes up. But they would still be helped by increasing the income abatement threshold.

The end point is to have one payment only- the Family Tax Credit, so all low-income children are treated the same. The threshold should be indexed annually and the rate of abatement reduced from its extraordinary high level of 27% to 20%.

The previous government had the opportunity to reform WFF to both enhance work incentives and reduce the worse child poverty. Labour's WFF review now is in tatters and their legacy, regrettably, is to lock in the use of the iniquitous IWTC, and to ensure worsening poverty traps.

Continuing child poverty is a political decision.

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