

Executive summary

The Working for Families (WFF) package was a series of changes to social assistance for low-to-middle income families

The WFF changes were implemented by the Ministry of Social Development (MSD) and Inland Revenue (IR) between October 2004 and April 2007.¹ The objectives of WFF were to:

- make work pay by supporting families with dependent children so that they are rewarded for their work effort
- ensure income adequacy with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty
- achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment.

The WFF changes affected 382,500 families with dependent children and cost an additional \$1.5 billion in the year to March 2008 compared with the year to March 2004

The WFF changes were designed to work together to meet the objectives. The changes made in October 2004 and April 2005 increased the number of families eligible for Accommodation Supplement and Childcare Assistance and increased the levels of payments. Also in April 2005, WFF Tax Credits² were changed: family tax credit rates were increased, the minimum family tax credit was increased and the child component of main benefits was removed.

The focus of the changes in April 2006 was on making work pay. Accommodation Supplement and Childcare Assistance changes had already addressed some of the financial barriers to families moving into work. The introduction of the in-work tax credit provided a specific financial incentive for families to be in paid work. At the same time, the WFF Tax Credits abatement thresholds were increased and the abatement rates were reduced.

The WFF changes aimed to strike a balance between the “income adequacy” and “make work pay” objectives

While specific changes focused on one or other of these objectives, the key parts of the package were designed so that:

- the introduction of the in-work tax credit would improve the financial incentive for families to be in paid work as well as improve incomes and reduce poverty among working families

¹ The WFF changes were implemented during a strong economy with low unemployment and a shortage of skilled and unskilled labour. Reforms which gave parents a greater choice in combining parenting and paid work accompanied the WFF package.

² In 2004, before the WFF changes, WFF Tax Credits were called Family Assistance. Family Assistance was renamed to WFF Tax Credits in 2007. For simplicity we have used the name WFF Tax Credits during the periods when the group of payments was still called Family Assistance.

- the changes to the WFF Tax Credits abatement rates and thresholds would increase the net return from additional hours worked for low income earners by reducing their effective marginal tax rates (EMTRs)
- the abatement changes would also extend the payments to families with higher incomes and increase the family income of middle income families
- the increases in family tax credit would improve income adequacy and reduce the incidence of child poverty in low income families.

An anticipated consequence was an increase in the EMTRs of middle income families, which could lead to the reduced employment of couple parent families and reduced incentives for some low-to-middle income families to increase their earnings.

This report summarises the findings from the WFF evaluation. Results include an analysis of the impact of the WFF changes on sole parents' employment, couple parents' employment and poverty. The impact analysis included controls for the economic conditions over the WFF implementation period.

Did WFF make work pay?

Before the WFF changes many low income families with children were little or no better off in low paid work than if they were not working at all. As well as addressing issues of income adequacy the WFF changes were intended to improve the financial incentives for parents to be in paid employment. The changes that were designed to have an impact on the financial incentives for families to be in paid work included:

- introducing the in-work tax credit
- increasing the number of non-beneficiary families eligible for WFF Tax Credits and increasing the payments through both the in-work tax credit and changes to abatement thresholds and rates
- reducing the Accommodation Supplement abatements to enable families moving off a benefit to continue to receive support for their housing costs and increasing the number of eligible non-beneficiary families
- changing Childcare Assistance to increase the number of eligible non-beneficiary families and to increase the amounts received to reduce the financial barriers to working.

Sole parents' employment increased due to the WFF changes

In the quarter ended June 2007, there were an estimated additional 8,100 sole parents engaged in some paid work as a result of the WFF changes, and increased numbers of sole parents were working 20 hours a week or more. Sole parents' periods of benefit receipt were shorter and sole parents previously on benefit were staying off benefit longer. In 2007, two out of five sole parents who were not employed considered themselves available to work.

A more recent analysis suggests the economic downturn in 2009 has eroded most of this impact. The growth in Domestic Purposes Benefit numbers during the economic downturn was due both to an increase in grants and to a decrease in cancellations. The growth in the number of grants is equally distributed between those who have not received a benefit in the previous four years and those who have.

Sole parent families used minimum family tax credit to transition from benefit to paid work

In the tax year ended March 2008, 81% of recipients of the minimum family tax credit were sole parents. Families predominantly receive the minimum family tax credit for short periods. Of the 7,200 families who received the minimum family tax credit at some point between April 2003 and March 2008, 80% received a payment in only one year.

The WFF changes did not have any impact on the total hours spent in paid work by second earners in couple parent families

Although not an objective of the reforms³, the WFF changes gave couple parents greater choice about working and caring for their children by making it easier to manage on less income from the labour market. Families could reduce their hours of work or take lower paying jobs and have their income topped up by WFF Tax Credits payments. The WFF changes also reduced the net return from additional hours worked for those families whose payments were abating.

Although there was no impact on the total hours second earners⁴ in couple families were in paid work, 9,300 fewer second earners in couple parent families were in paid employment in the quarter ended June 2007 due to the WFF changes.

Effective marginal tax rates of low-to-middle income parents changed as a result of the WFF changes

Effective marginal tax rates (EMTRs) are an indicator of the financial incentive for individuals to earn additional income. They are the percentage of the next \$1 an individual earns that is lost due to tax, government deductions and social assistance abatements. The WFF changes were expected to change the EMTRs of some parents with dependent children by:

- removing the Accommodation Supplement abatement for beneficiary families, which would lower the EMTRs for beneficiary families
- removing the 18% abatement rate and reducing the 30% abatement rate to 20%, which would lower the EMTRs of low income families
- extending the package to higher income families, which would increase their disposable income but also increase their EMTRs.

The WFF changes decreased the EMTRs of families who previously received an abated amount of WFF Tax Credits and/or Accommodation Supplement. Non-beneficiary families with low incomes have lower EMTRs due to WFF.

The WFF changes increased the disposable income and EMTRs of the newly eligible. Non-beneficiary families receiving a main component of WFF with very low incomes or higher incomes can have high EMTRs. Newly eligible higher income families had both higher incomes and increased EMTRs although the impact on

³ Balancing working and caring was a policy priority for the government at the time. The Choices for Working, Caring and Living 10-year plan of action was released in August 2006.

⁴ Second earners in couple parent families are defined as the parent with the least attachment to the labour market.

employment is muted. Also, beneficiaries can have high EMTRs due to benefit abatement rules. Proposed changes to abatement thresholds made as part of the Future Focus reforms will have an impact on beneficiary families' EMTRs.

Did WFF improve income adequacy and reduce child poverty?

The WFF changes increased the amount of money low-to-middle income families received from financial supports

The WFF changes targeted low-to-middle income families: almost 60% of WFF Tax Credits recipients have an annual taxable family income of less than \$40,000.

The income from WFF Tax Credits has increased the disposable⁵ incomes of low-to-middle income families, while maintaining a gap between family income from benefit and family income from paid employment.

WFF payments increased the income of low and middle income families, which reduced the income gap between high income and low income households. The WFF package reversed the upward trend in this gap with a significant fall in inequality from 2004 to 2007. Households with incomes in the lowest 40% saw their income increase by 13–17%, while household incomes above the median typically grew by around 8–9%. The 2004 to 2008 period is the only one in the last 25 years when the incomes of low-to-middle income households have grown more quickly than those of households above the median.

The percentage of children living in poverty, using a 60% measure relative to 2004, dropped by 8 percentage points due to WFF. Without the WFF package, New Zealand's child poverty rate would have continued to climb from 2004, most likely reaching around 30% in 2008.

Using a non-income material measure, hardship rates for children in low-to-middle income households fell by 11 percentage points between 2004 and 2008.

The WFF changes to the Accommodation Supplement initially improved housing affordability for families with some income from paid work. More recently, the cost of housing has increased, eroding the gains in housing affordability for Accommodation Supplement recipients. For some families their increased housing costs will be due to paying more for better quality housing.

How was WFF delivered?

To achieve the goal of delivery that supported people into work, the MSD and IR worked together to streamline the social assistance system to make it easier for people to understand and get access to, and to introduce initiatives to improve take-up and enhance the effectiveness of delivery.

The number of families with children receiving one of the main components affected by the WFF changes increased by 41% from 270,900 in the tax year ended March 2004 to 382,500 in the tax year ended March 2008. Couple parent and non-beneficiary families now make up a larger proportion of the WFF Tax Credits recipients than they did in 2004.

⁵ Total income including net taxable income and payments from WFF Tax Credits, the Accommodation Supplement, Childcare Assistance and other transfers including Child Support.

95-97% of families eligible for WFF Tax Credits in the tax years ended March 2006 and March 2007 were receiving WFF Tax Credits. For the small group who were eligible for but not receiving WFF Tax Credits, a lack of awareness was one barrier to receipt. However, awareness rates were high – 88% of eligible families had heard of WFF in June 2006.

The percentage of families who were overpaid WFF Tax Credits decreased, but the number of overpayments and the mean overpayment amount have increased with the increase in the number of recipients and the value of payments.

Overall, the Working for Families changes met their objectives without significant disincentive effects

The evidence from the evaluation is consistent with the WFF changes being effective in meeting their objectives.

- The WFF changes met the “income adequacy” objective as low and middle income families received the bulk of the increased expenditure, and child poverty rates were reduced for lower income families with at least one adult in paid work. However there was no significant change in hardship rates for beneficiaries with children.
- The WFF changes met the “making work pay” objective as they were effective in supporting 8,100 sole parents into paid work and enabling them to remain in paid work, though some barriers to work still remain for sole parents.
- The WFF changes met the “delivery that supports people into work” objective as the funding for WFF is reaching the intended recipients in low and middle income families and feedback on the delivery of the WFF changes was predominantly positive.

For higher income families the WFF changes did result in increased disposable incomes and higher EMTRs. The impact of these on employment appears to be muted.