

background

note

information briefing service for members of Parliament



Parliamentary
Library

2000/13 3 August 2000

Welfare benefits trends in New Zealand

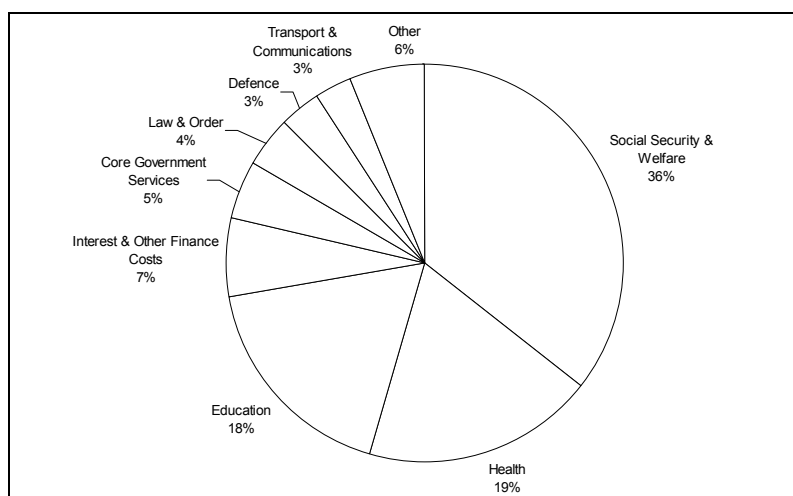
Executive Summary:

- Spending on social security and welfare made up 36% of all Government expenditure in 1999/2000 and was equivalent to 12.3% of GDP. Spending on the main benefits rose from 4.3% of GDP in 1940 to 10.0% in 1999.
- About half of current spending on benefits goes to New Zealand Superannuation. The other main benefit types are the Domestic Purposes, Unemployment, Invalid's and Sickness benefits. All have risen significantly since their inception.
- Various factors explain the expenditure trend of each benefit type. These include changes to the population size and structure, unemployment, and benefit rules and rates.
- Benefit rates improved relative to the average wage over the 1970s, but deteriorated for some benefit types over the late 1980s and early 1990s and more recently. Work requirements and eligibility tests have tightened over time.

Total expenditure and numbers

Spending on “social security and welfare” makes up a significant part of total Government expenditure. This is clearly seen in Figure 1 below. “Social security and welfare” cost \$12.9 billion over the 1999/2000 fiscal year, which is equivalent to 36% of total Government expenditure and 12.3% of GDP.¹

Figure 1: Government expenditure 1999/2000 – by functional classification

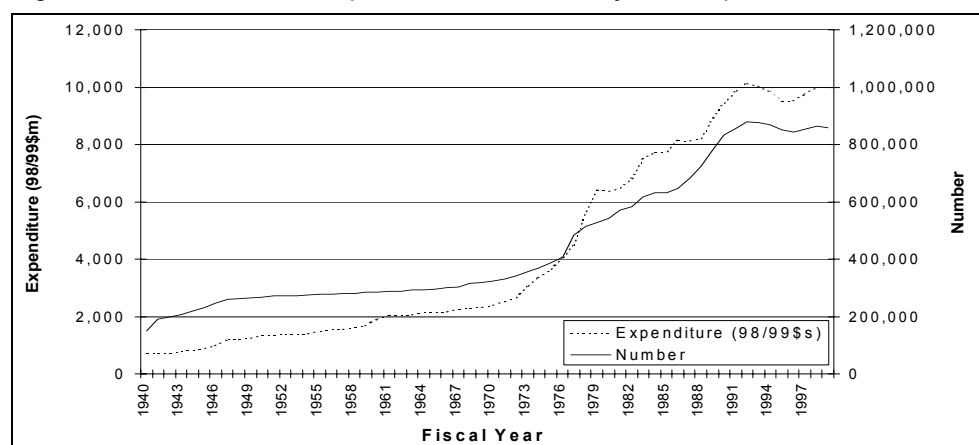


Source: The Treasury, *Budget Economic & Fiscal Update 2000*.

¹ Source: the Treasury's *Budget Economic and Fiscal Update 2000*. Benefit figures used elsewhere in the paper are from the Department of Social Welfare's annual reports.

Since 1940, the number of beneficiaries and spending on benefits have risen substantially. This is shown clearly in Figure 2. The number of people receiving the main benefits² rose every year up to the early 1990s. It has increased 472% from 1940 to 1999, rising from 9.2% of the population to 22.8%.³ Inflation-adjusted expenditure on the main benefit types rose 1,281% over the same period, more than doubling its proportion of GDP from 4.3% to 10.0%.⁴

Figure 2: Main benefits and pensions – inflation-adjusted expenditure and number

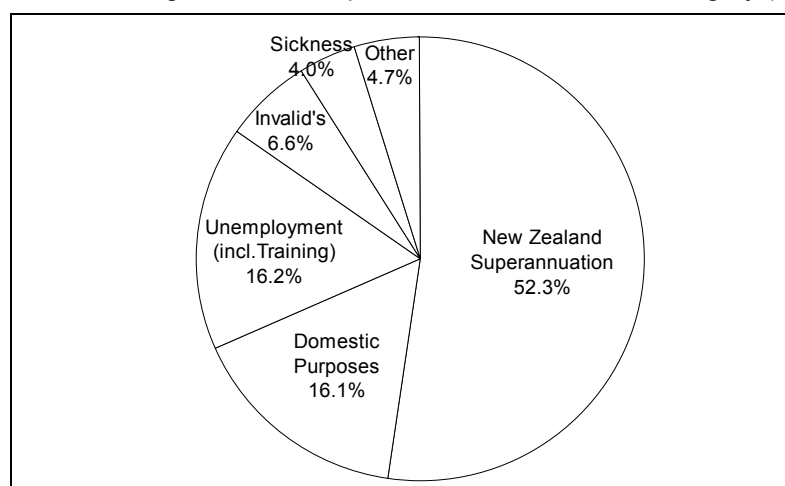


Source: Department of Social Welfare

Benefit types

The benefit receiving the largest proportion of spending is New Zealand Superannuation. \$5,222 million was spent on this in the 1998/99 fiscal year. It represents 52% of all benefit expenditure and 15% of all Government expenditure. Expenditure on the main benefit types is shown in Figure 3.⁵

Figure 3: Percentage of benefit expenditure on each benefit category (1998/99)



Source: Department of Social Welfare

² Benefit types included here are: New Zealand superannuation and its predecessors; transitional retirement benefit; unemployment benefit; sickness benefit; invalid's benefit; domestic purposes benefit; emergency benefit; training benefit; widow's benefit; orphan's benefit; miner's benefit; veteran's pension; and war pension. Note that including war pensions is likely to involve some double-counting in terms of numbers, especially in recent years.

³ The number of benefits does not include the children and spouses of people receiving the benefits.

⁴ Footnote 8 gives further background explanation and qualifications about data on benefit expenditure.

⁵ Note that these figures, which are based on those in the Department of Social Welfare's annual reports, measure all benefit expenditure net of tax, except for the case of New Zealand Superannuation, which includes tax. The figures therefore somewhat over-estimate the share of New Zealand Superannuation.

With the exception of the Domestic Purposes Benefit, the five main benefit types specified above have been in existence for the whole 1940-1999 period considered in this paper. A means tested old-age pension was first introduced in 1898; an Invalid's pension was established in 1936⁶; the Unemployment Benefit was created by the 1938 Social Security Act and replaced the previous system of sustenance payments. The 1938 Act also created the Sickness Benefit. The Domestic Purposes Benefit was created in 1973, replacing the more limited Emergency Benefit and other benefits available before that time.⁷

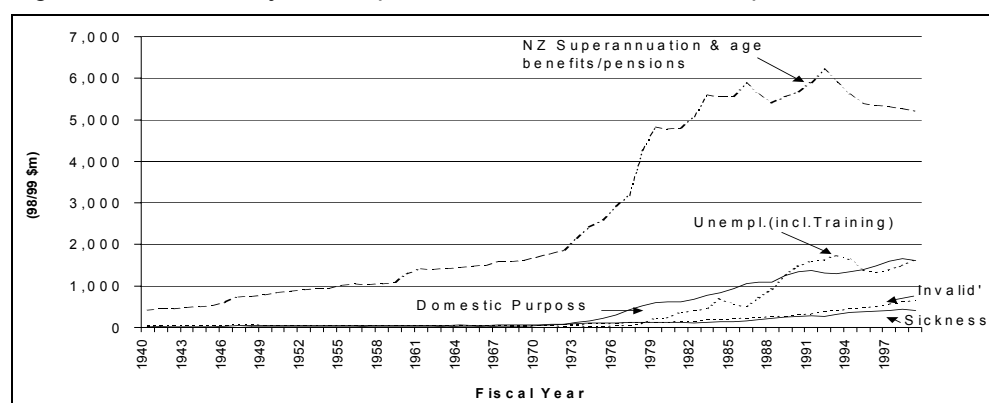
Figure 4 shows inflation-adjusted expenditure on the five main types of benefits and pensions from 1940 to 1999.⁸

- *Superannuation and benefits for the elderly* have always made up the majority of benefit expenditure. Expenditure on these rose consistently up to the mid 1970s, then expanded rapidly up to 1979, and has been trending downwards from 1992.

Expenditure on the other benefits, with the exception of Invalid's Benefit, has shown a similar story of growth followed by a flattening out or decline.

- *Unemployment Benefit* expenditure especially began growing in the late 1970s, eventually peaking in 1993.
- *Domestic Purposes Benefit* expenditure rose constantly from the early 1970s to its first peak in 1989, then fell slightly to a low in 1993, before rising to a slight second peak in 1998.
- *Sickness Benefit* expenditure increased in the early 1970s and has risen for most of the period from the mid 1980s. It dipped slightly in 1999.
- By contrast, *Invalid's Benefit* expenditure has risen consistently since the early 1970s.

Figure 4: Inflation-adjusted expenditure on main benefits and pensions



Source: Department of Social Welfare

⁶ Blind Pensions had already been created earlier, in 1924.

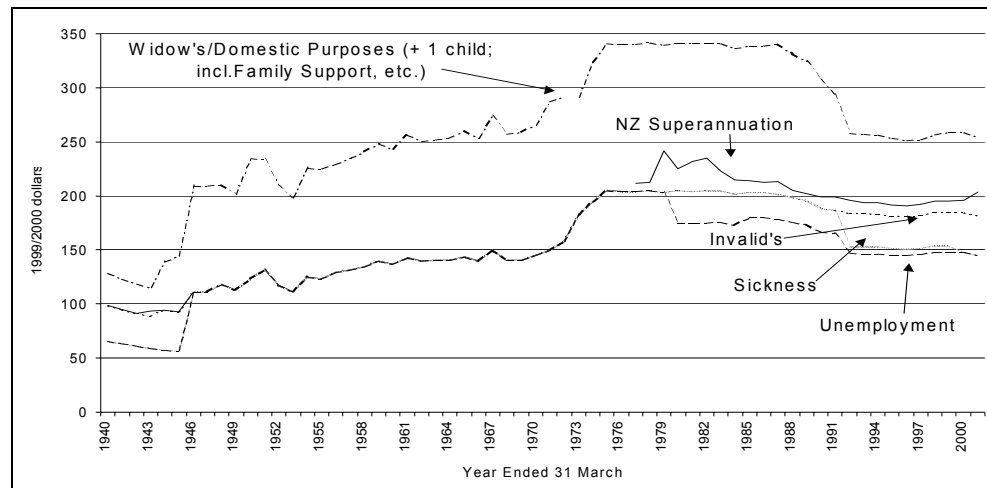
⁷ "Deserted wives" had been eligible for Widows Benefit since 1936, and a discretionary domestic purposes benefit had been established from 4 December 1968 as part of the Emergency Benefit.

⁸ Data comes from the annual reports of the Department of Social Welfare. There are some minor inconsistencies over time, but these do not have a significant effect on the trend; for example: data from 1976 onwards includes supplementary payments; data from 1995 onwards is accrual rather than cash-based; and New Zealand Superannuation data from 1995 onwards includes rest home subsidies and other supplementary payments. A further inconsistency is that all benefits are net of tax, except for Universal Superannuation and New Zealand Superannuation (and its predecessors).

Factors driving the trends

Changes to benefit rates partially explain the trends shown in Figure 4. This can be seen in Figure 5, which shows weekly inflation-adjusted benefit rates for single beneficiaries from 1940 to 2001. Rates first jumped in 1946, then rose steadily up to the early 1970s when they rose sharply again, with superannuation rates showing another big increase in 1979. Since then benefit rates have shown a flat or declining trend. Unemployment Benefit rates were lowered relative to other benefits in 1980, and the Sickness Benefit was lowered in 1992. (The years referred to above are the years ended March)

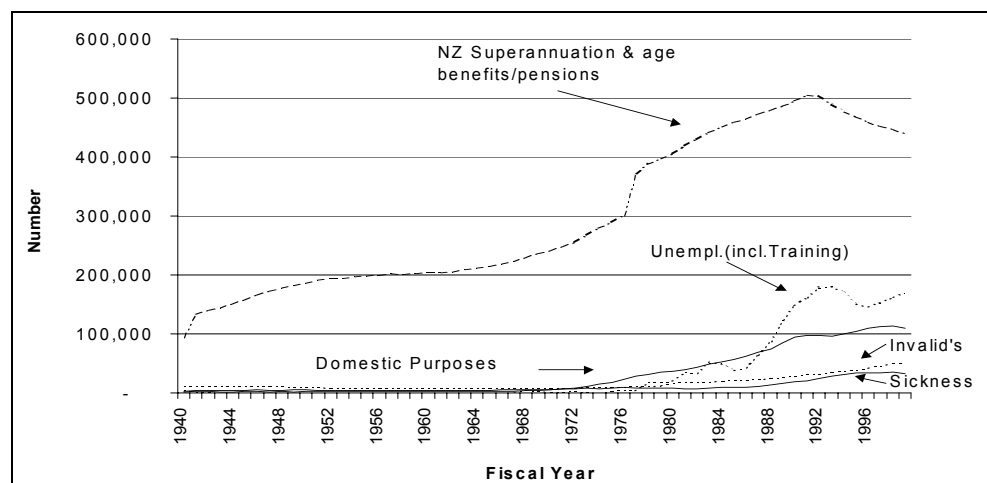
Figure 5: Weekly benefit rates for single people (inflation-adjusted; after-tax)



Source: Department of Social Welfare; NZ Official Yearbook

Even more important as an explanatory factor are changes to the number of benefits. Indeed, the main expenditure trends identified on the previous page also closely match the main trends in benefit numbers. This can be seen graphically in Figure 6.

Figure 6: Number of people receiving main benefits and pensions



Source: Department of Social Welfare

The major changes to benefit rates and eligibility which explain these trends are listed in Appendix A (note that this is not a comprehensive list of the changes).

So what is behind the number trends in Figure 6?

- The trend in the number of people receiving *Superannuation and benefits for the elderly* is explained by both a rising elderly population and changes to eligibility for these benefits. The population aged 65 years or older increased 282% from 1940 to 1999. This compares with a 372% rise in the number of people receiving old age benefits and pensions. The main policy changes affecting numbers were: (1) the introduction of a universal pension in the 1941 fiscal year for people aged 65 years and older; (2) the reduction of the age of eligibility to 60 years with the introduction of New Zealand Superannuation in the 1977 fiscal year; and (3) the progressive increase in the age of eligibility back to 65 years from the 1993 fiscal year. (See *Appendix A for details*)
- The trend in *Unemployment Benefit* numbers is mainly explained by general unemployment trends. However, data also shows that the numbers have risen substantially more than underlying unemployment, especially compared with before the late 1970s. This is partly explained by the more widespread nature of unemployment compared with earlier. On 31 March 1952, only two people were receiving the Unemployment Benefit, the lowest end-of-year number in the post-war period. The first substantial rise was in 1967/68, when numbers jumped from 230 to 4,424 before dropping in subsequent years. The number jumped again ten years later, rising from 3,651 to 17,497 in 1978. It has risen continuously since (apart from a pause in the mid 1980s) to a peak of 181,236 on 30 June 1993.
- The trend in *Domestic Purposes Benefit* numbers closely matches the rise in single parent families.
- *Sickness Benefit* numbers were relatively static from 1944/45 to 1985/86, rising at an annual rate averaging only 2.0%. However, from 1985/86 to 1994/95 the number surged, growing at an average annual rate of 15.2%. Numbers have been relatively static since. Increasing unemployment is a likely strong explanation of this trend. The percentage rise in Sickness Benefit numbers from 1985/86 to 1998/99 was almost exactly the same as that of Unemployment Benefits.
- *Invalid's Benefit* numbers were also static early on, changing little during the 1950s and 1960s. However, they have been rising fairly strongly since the late 1970s, with a significant jump occurring in 1980. Numbers have been rising fairly constantly at an average annual growth of 7.3% since 1975.

Benefit rates and average wages

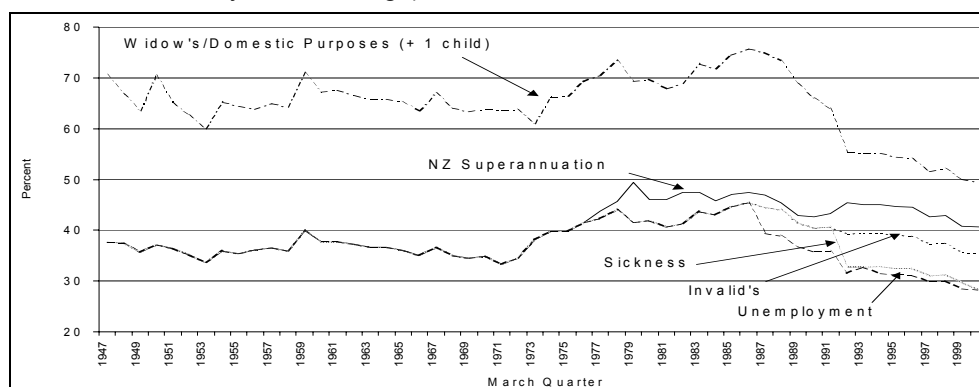
How have benefit rates compared with average wages over the years?

Figure 7 tracks single, after-tax benefit rates as a percentage of the average after-tax wage since 1947.

As with Figure 5 (which shows benefit rates adjusted for CPI inflation) the picture is one of rising benefit rates in the 1970s, and falling rates in the 1990s. However, there are some significant differences. For example, benefits as a percentage of the average wage fell faster over the late 1990s than was the case with CPI-adjusted benefits. They were also fairly constant from the late 1940s to the late 1960s, whereas CPI-adjusted

benefits rose. These differences were the result of net wages rising faster than the CPI.

Figure 7: Weekly benefit rates for single people (as % of average, after-tax, ordinary-time earnings)



Sources: Benefit rates from Department of Social Welfare; average wage rates from Statistics New Zealand and Department of Labour employment surveys; average tax rates from tax schedule (for 1988-99), Statistics New Zealand's Real Disposable Income data series (for 1981-1987), Department of Statistics' *Income and Income Tax* (for 1963-1980), and Brian Easton's 1981 *Pragmatism and Progress* (for 1947-1962).

Note though that there are some limitations in comparing benefit levels with the average wage. Changing relativities between the two may not necessarily reflect differences in the well-being of those on and those off the benefit. For example, the size of an average household may change over time, as may the number of other people contributing income. The proportion of non-wage income may also change. The average wage may not be the best basis of comparison for all benefit groups (such as youth) and may follow a different trend from that of income groups which are more realistic for comparison purposes. This latter factor is highlighted by the figure in Appendix B, which compares different benefit rates with the income earned by different categories of people working in paid employment.

Other changes to benefits

The structure of benefits has also changed in ways other than those mentioned in the previous sections.

- The medical requirements for eligibility for the Sickness Benefit and Invalid's Benefit were tightened during the 1990s.
- The work test has been extended. From 1 April 1997, spouses of people receiving the Unemployment Benefit have been required to seek full-time work or training towards such work if their youngest child was 14 years or older, and Domestic Purposes Beneficiaries with older children have been required to seek part-time work. The work test was later extended to the spouses of people receiving the Sickness Benefit (from 1 October 1998) and the Invalid's Benefit (from 1 February 1999), and from 1 February 1999 Domestic Purposes Beneficiaries were required to seek full-time work if their youngest child was 14 years or older, or part-time work if the youngest child was aged 6 to 13 years.
- A range of policies has been introduced over the years to give assistance to beneficiaries, especially in regaining work. These include assistance with child-care, training expenses, and personal work-test interviews.

- Longer stand-down periods have been introduced for people applying for the Unemployment Benefit.
- The amount of extra income that beneficiaries can effectively earn has also changed over time. Over the late 1980s and 1990s, beneficiaries have been able to earn greater amounts of extra income before their benefit is reduced, as can be seen in the following table.

Extra earnings (\$ per week)	Abatement rate ⁹ (%)
From 1978:	
\$25 - \$40	40%
\$40+	80%
From 1 October 1986:	
\$60 - \$80 ¹⁰	30%
\$80+	70%
From 1 July 1996:	
DPB & IB: \$80 - \$180 ¹¹	30%
DPB & IB: \$180+	70%
UB & SB: \$80+	70%

Conclusion

Expenditure on benefits makes up a significant proportion of Government expenditure and is sizeable in relation to New Zealand's total GDP. Because of its size, New Zealand Superannuation has a significant impact on benefit and total Government expenditure.

Expenditure on the main types of benefits has generally been rising at a rapid rate from the mid 1970s to the early 1990s. However, it has stabilised from the early 1990's. Measures have been taken from the late 1970s onwards with the apparent aim (among other things) of reducing the pressure from benefits on government expenditure: benefit rates have been reduced, especially for those benefits where there is a higher expectation of job search activity; eligibility has been tightened; and the work test has been extended.

Selected References

Ministry of Social Policy 1999, *Post Election Briefing Papers*, Ministry of Social Policy, Wellington.

New Zealand Planning Council 1990, *Who Gets What? The Distribution of Income and Wealth in New Zealand*, New Zealand Planning Council, Wellington.

Royal Commission on Social Policy 1988, *Report of the Royal Commission on Social Policy*, vol. 3 part 2, p.455-532, Royal Commission on Social Policy, Wellington.

Royal Commission on Social Security in New Zealand 1972, *Social Security in New Zealand: Report of the Royal Commission of Inquiry, Appendices to the Journals of the House of Representatives*, H53, Wellington.

*Andrew Morrison, Economist
Parliamentary Library*

For further information, contact Andrew (ext.9202)

⁹ For example, in the case of the abatement regime from 1978, for every dollar of extra pre-tax income earned above \$25 (and up to \$40), the post-tax benefit is reduced by 40 cents.

¹⁰ For beneficiaries without children, this figure is \$50 - \$80.

¹¹ With the introduction of the work test, the lower amount of \$80 applies to DPBs required to find full-time work.

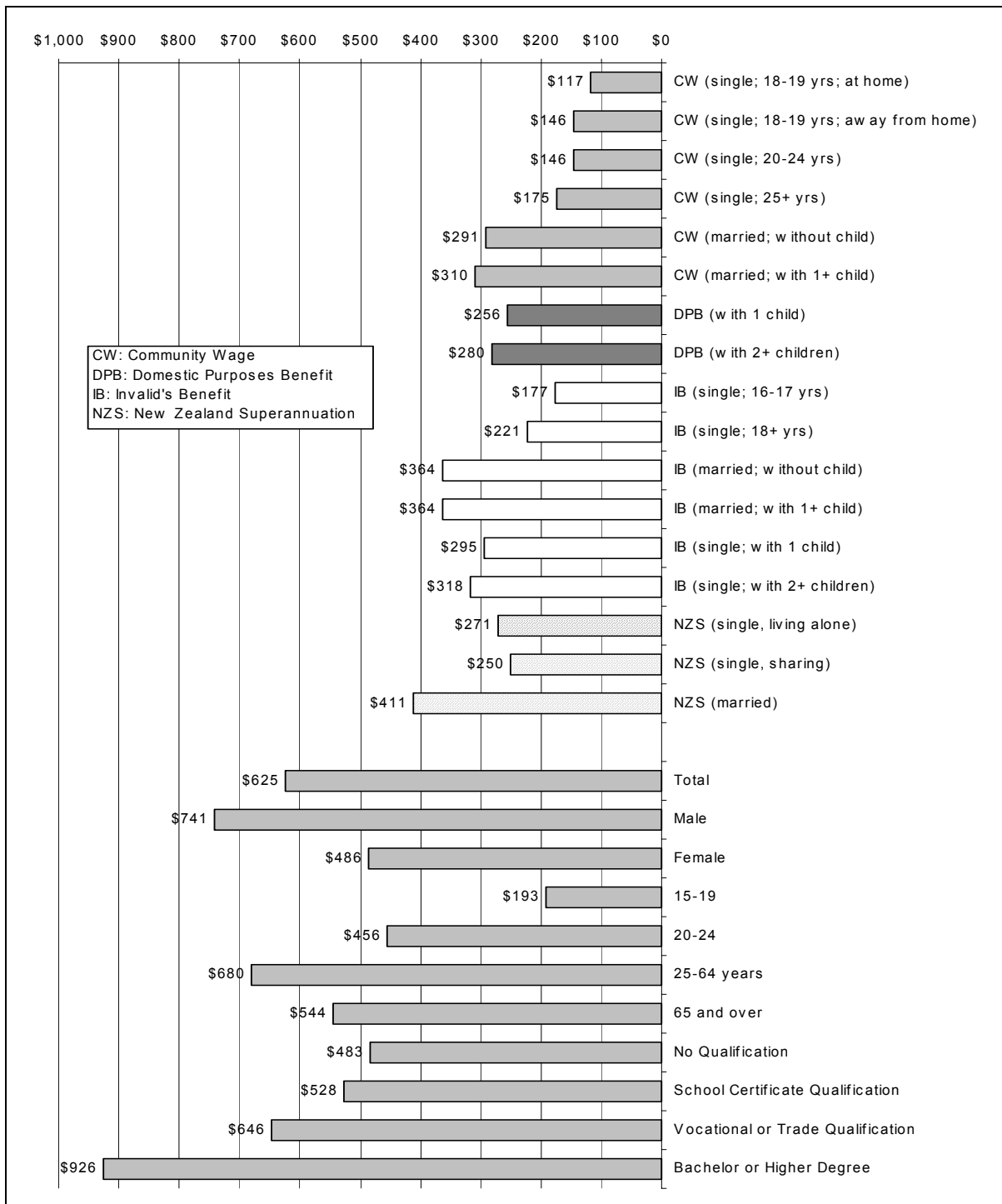
Appendix A: Major changes to benefit rates and eligibility (1940-2000)

1.4.39	<p>The Social Security Act 1938 came into force:</p> <p><u>Age Benefit</u> began, replacing the previous old-age pension. This was an income and asset tested benefit for people aged 60 years and over.</p> <p><u>Unemployment Benefit</u> began, replacing the previous system of sustenance payments.</p> <p><u>Invalid's Benefit</u> began, replacing the previous invalidity pension.</p> <p><u>Sickness Benefit</u> began.</p> <p>Sole parents were assisted by either the newly created <u>Widow's Benefit</u> (replacing the previous widow's pension), the <u>Emergency Benefit</u>, or the previously created <u>deserted wives' pension</u>.</p>
1.4.40	<p><u>Universal Superannuation</u> began. This was a universal benefit for people aged 65 years and over. Unlike the other benefits, Universal Superannuation was subject to income tax. Its initial value was considerably below that of the Age Benefit, but was to rise each year until parity was reached. Universal Superannuation and Age Benefit could not be received by the same individual.</p>
1.10.45	<p>Benefit rates were increased significantly, including a supplementary amount for widows with children.</p>
30.3.60	<p>The benefit rate for <u>Universal Superannuation</u> was increased to the same rate as Age Benefit.</p>
Early 1970s	<p>Benefit rates were increased significantly.</p>
14.11.73	<p><u>Domestic Purposes Benefit</u> began.</p>
9.2.77	<p><u>New Zealand Superannuation</u> replaced Universal Superannuation and Age Benefit. No income test was applied to this benefit, but it was (and still is) taxable. The age of entitlement was reduced to 60 years. The rate was set at a higher level than was the case for Universal Superannuation. Both the lower age eligibility and the higher benefit rate resulted in a substantial rise in expenditure on old age benefits.</p> <p>The rate for a married person was set at 70% of the average ordinary-time weekly wage before tax, rising to 80% from 30 August 1978. The single rate was 60% of the married rate.</p>
28.8.89	<p>The basis for determining <u>New Zealand Superannuation</u> rates was revised to reflect a post-tax rather than pre-tax relationship with the average wage.</p>
1.10.79	<p>The <u>Unemployment Benefit</u> was to be taxed when no child supplement was being paid for dependent children, thereby reducing the amount paid compared with other benefits such as Sickness and Invalid's.</p>
1.4.85	<p>A tax <u>surcharge</u> was imposed on superannuitants' other income over a specified level.</p>
1.1.89	<p>The benefit rate for <u>Unemployment Benefit</u> was reduced for 16 and 17 year olds.</p>

1.4.89	The benefit rate for <u>New Zealand Superannuation</u> was no longer to be increased in line with the average weekly wage, but at the lesser rate of wage growth or CPI inflation until parity with other benefits was reached.
1.12.90	<u>Unemployment Benefit</u> was no longer available for 16 and 17 year olds. <u>Independent Youth Benefit</u> was introduced to provide emergency assistance to 16 and 17 year olds who could not be supported by parents or live at home. A <u>Job Search Allowance</u> was introduced for 16 and 17 year olds who had lost their employment or completed a period of training.
1.4.91	Benefit rates were reduced for <u>Unemployment Benefit</u> , <u>Sickness Benefit</u> , and <u>Domestic Purposes Benefit</u> . <u>Unemployment Benefit</u> for 20-24 year olds was paid at a lower rate than for those 25 years and over.
1.8.91	<u>Domestic Purposes Benefit</u> was only paid to those aged 18 years and over. Sole parents aged 16 or 17 years only qualified if they have been married, and others could be considered for an Emergency Benefit.
1.4.92	Entitlement for <u>New Zealand Superannuation</u> was raised to 61 years and set to raise a further year each year until 65 years was reached. <u>55+ Benefit</u> was introduced, with the same conditions and rates as Unemployment Benefit but a relaxed work test.
1.4.94	<u>Transitional Retirement Benefit</u> was introduced to provide income support to people who are retired and who do not yet qualify for New Zealand Superannuation.
1.4.98	The tax <u>surcharge</u> on New Zealand Superannuation was abolished.
1.7.98	Benefit rates were reduced for <u>Sickness Benefit</u> to the same level as the Unemployment Benefit. Both benefits were renamed the <u>Community Wage</u> on 1 October 1998. Benefit rates for 18-19 year-olds living at home and receiving the <u>Community Wage</u> were reduced.
1.4.00	Benefit rates for <u>New Zealand superannuation</u> were increased to restore the married rate to a minimum of 65% of the average, after-tax wage.

Sources: Annual reports of Department of Social Welfare; *NZ Official Yearbook*; 1972 report of the Royal Commission on Social Security; Budget Speeches (1979, 1991, 1997, and 1998); December 1990 *Economic and Social Initiative*; and Department of Social Welfare's *An Inventory of the Department and its Programmes*; Department of Social Welfare officials.

APPENDIX B: Benefit rates (April 2000) and income of selected groups in paid employment (June 1999) (weekly, before-tax)



Note: Figures do not include Family Support.

Source: Department of Work and Income; Statistics New Zealand (NZ Income Survey).

Copyright © NZ Parliamentary Library.

Except for educational purposes permitted under the Copyright Act 1994, no part of this document may be reproduced or transmitted in any form or by any means, including information storage and retrieval systems, other than by Members of Parliament in the course of their official duties, without the consent of the Parliamentary Librarian, Parliament Buildings, Wellington, New Zealand.