

The Treasury

Budget 2017 Information Release

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

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Date: 12 May 2017

To: Minister of Finance (Hon Steven Joyce)

Deadline: None
(if any)

Aide Memoire: Family Incomes Package - impact on poverty

Purpose

This note provides the information you requested about the impact of the Family Incomes Package on measures of low income/poverty and hardship. All data in this note have been estimated through Taxwell using data from the Household Economic Survey.¹

Measuring the impact

A formal assessment of the likely impact of the package on “poverty” needs consideration of a full range of measures for low incomes and material hardship: disposable household income before and after deducting housing costs, and non-income measures such as MSD’s material deprivation index (DEP-17).

The impact on incomes before deducting housing costs can be modelled using Taxwell, but the impact on incomes after housing costs and on material hardship is not possible because there are too many determining factors other than income.

The impact of the package on low incomes

50% and 60% of median household income are two common low-income thresholds used internationally, with the incomes equivalised to adjust for household size and composition. Many beneficiary households and some working households with children have incomes a little below the 50% line, so even modest income gains can move these households over the line.

Overall, the package is expected to reduce the number of households below these low-income lines. Table 1 below presents the estimated reduction for each measure.

¹ Access to the Household economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

Table 1: Reduction in numbers in low-income households

Low-income Measure	Reduction in number of low-income households (and % change)	Reduction in number of children in low-income households (and % change)
50% of median household income	22,000 (13%)	49,000 (31%)
60% of median household income	16,000 (4%)	36,000 (13%)

We advise the use of “around 40,000” etc when using the above numbers to avoid imparting greater precision than our analysis can support.

The change in the numbers below such thresholds is estimated by Taxwell on an ‘all else unchanged’ basis. The actual reduction in these low-income numbers and rates will depend also on realised movements in median income, which will be affected by factors outside the Taxwell modelling. If, for example, the median rises strongly then the thresholds will be higher and the reductions lower than estimated.

The 50% and 60% measures are sometimes referred to as poverty lines. However, this can be confusing as many people take the measures to be referring to how actual living conditions are impacted, rather than just how many are below chosen thresholds. This is why we use the “low-income” descriptor.

This is consistent with the approach taken in MSD’s annual incomes and material wellbeing reports which advise the use of a full range of measures of “poverty” rather than selecting one or two.

The impact on hardship of the Families Income Package

Modest changes in income for low-income households through and after the recession were found to make significant differences to hardship as measured by DEP-17 and similar measures. Similarly, the impact of the Budget 2017 package is expected to have a positive impact on hardship rates (reduce them). However, we are unable to give specific estimates of the impact of the package on material hardship rates.

Where does the new money go?

Figures 1 and 2 (on the next page) show the distribution of families with and without children, and presents the average gain per annum for each income level. The figures show the degree to which there are gains for low-income households, particularly for those with children.

Figure 1: Distribution of families with children and average gains

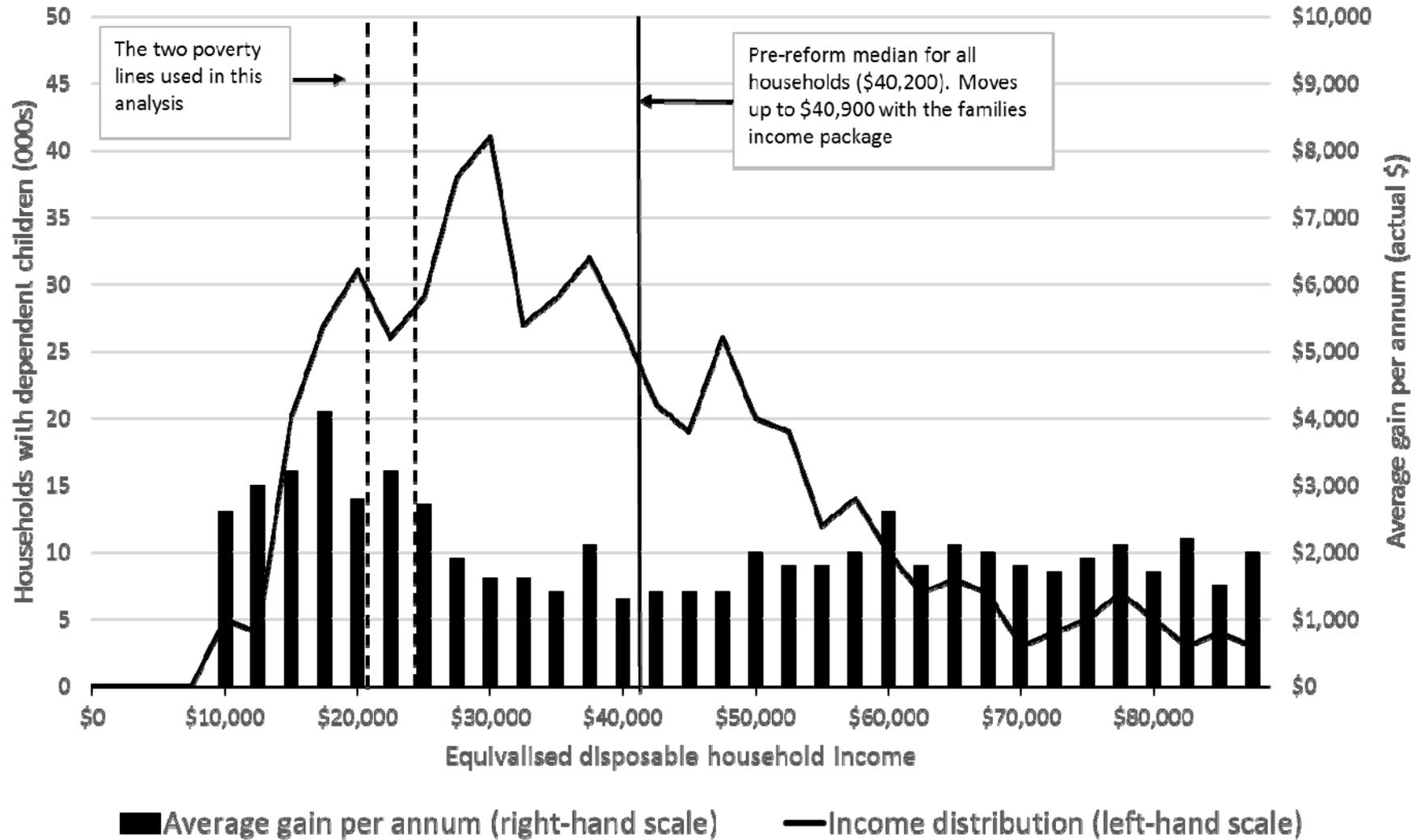
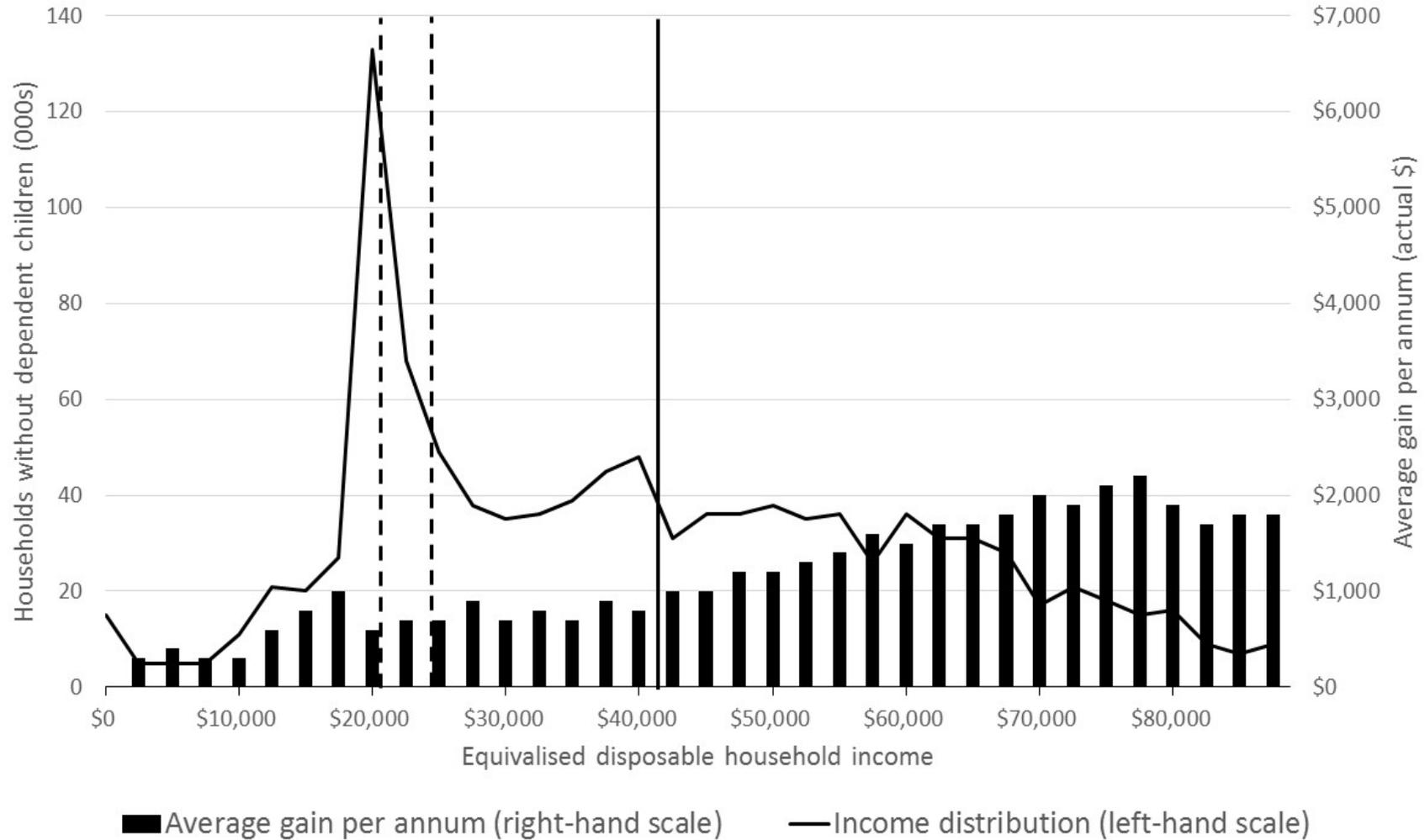


Figure 2: Distribution of families without children and average gains



Future monitoring

MSD's annual incomes and material wellbeing reports, based on Statistics New Zealand's Household Economic Survey (HES), will continue to monitor poverty, inequality and hardship trends. The impact of the 1 April 2018 package implementation will show partially in the 2018-19 HES and fully in the 2019-20 HES (MSD's 2021 reports).

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