The Treasury

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

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Inland Revenue
Te Tari Taake

THE TREASURY
Kaitohutohu Kaupapa Rawa

Joint Report: Additional financial support for families with a newborn

Date:	14 November 2013	Report No:	T2013/2722

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Note** the content of this paper. **Indicate** whether you are interested in officials preparing further advice. **Refer** the paper to the Prime Minister. **Refer** the paper to the Minister of Labour.	None
Minister for Social Development (Hon Paula Bennett)	**Note** the content of this paper. **Indicate** whether you are interested in officials preparing further advice.	None
Minister of Revenue (Hon Todd McClay)	**Note** the content of this paper. **Indicate** whether you are interested in officials preparing further advice.	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Brigid Monagle	Senior Analyst, Labour Market and Welfare	04 917 6147 (wk)	[3]	✓
Fiona Carter-Giddings	Manager, Labour Market and Welfare	04 917 7021 (wk)		

Actions for the Minister's Office Staff (if required)

Minister of Finance's office: refer paper to the Prime Minister and the Minister of Labour following signature by Ministers.

Return the signed report to Treasury.

Enclosure: No

Joint Report: Additional financial support for families with a newborn

Executive Summary

The Minister of Finance, Minister for Social Development and Minister of Revenue have expressed interest in receiving advice on options for Budget 2014 that would provide more support to a greater number of families on the birth of a baby, in particular those on low- to middle-incomes.

There is strong evidence that the existence of close early bonds between parent and child, breastfeeding in the first six months, and reduction of parental stress, especially in the early years, is good for children. This is both in the short- and longer-term. The evidence also highlights there are generally extra demands on the family budget in the first year of a child's life.

Currently there are two forms of payments received on the birth of a child: Paid Parental Leave (PPL) and the Parental Tax Credit (PTC) (part of Working for Families [WFF]). PPL provides up to $6,834 over 14 weeks (before tax), and PTC up to $1,200 over 8 weeks (tax exempt). Families cannot get both these payments.

This advice discusses ways in which the Government could provide additional support to low-to middle-income families (including beneficiaries), especially for those who are currently ineligible for either the PPL or the PTC, while maintaining incentives to work where appropriate.

The paper discusses three illustrative scenarios. All based on raising the payment rate and extending eligibility of the PTC, but with different abatement regimes.

Ministers, however, may also want to consider alternative or additional options outside the PTC framework that would potentially achieve similar outcomes.

The paper seeks an indication of Ministers' interest in any of the three scenarios, including whether any of the fixed variables should be altered, such as shortening the assessment and period payment of 52 weeks. Officials will then prepare further advice.

The scenarios and estimated costings are summarised in the table below.

Scenarios	A - WFF abatement	B - Payment cut-off at $100,000	C – No income test
Variable adjusted for each scenario			
Abatement	Applies current WFF abatement regime	Applies a strict cut-off at $100,000 – families earning less than this would receive full payment families earning more than this would not receive a payment	Has no income test, so is a universal payment.
Variables that were fixed for each scenario (implications of changing fixed variables discussed below)			
Amount	$3,120		
Payment period	52 weeks		
Income Assessment Period	Joint income in payment period (52 weeks)		
Can recipients get PPL	No		
Administered by	Inland Revenue		
Projected Implications			
Estimated additional cost	$50 million pa	$60 million pa	$90 million pa
Estimated eligibility number (births)	30,000	30,000	41,000
Estimated administration costs	Mid	Highest	High
Would any people not receive additional assistance on the birth of a baby?	Yes	Yes	No

Source: Taxwell and IR

Officials' assessment of the scenarios is summarised below.

Scenario A applies the current WFF test, which depends on a family's income and the number of children they have. This makes it relatively straightforward for Inland Revenue (IR) to administer and it has the lowest administration costs of the three scenarios. It also has the lowest total cost, of $50 million per year. However, the WFF abatement regime makes this scenario difficult to explain and difficult for people to understand.

Scenario B escapes much of this complexity by instituting a cut-off at $100,000. Families earning at or below this amount get the full payment and families earning above it get nothing. This makes it much simpler to communicate and understand, although the cut-off at $100,000 creates its own form of complexity. It is slightly more expensive than Scenario A, with a cost of $60 million per year.

Scenario C as a universal payment, except for those who get PPL, avoids all difficulties with abatement. All new parents in the country would therefore be eligible for either PPL or the enhanced PTC. The universality of this scenario means it is the most expensive, at $90 million per year.

The body of this paper also provides advice on other potential impacts of these scenarios, including labour market impacts, alignment with the subsequent child policy and potential impact on decisions to have children.

IR has assessed at a high level the impacts of delivering changes to the PTC. While each of the scenarios can be implemented by 1 April 2015, the only option IR can confidently implement by 1 October 2014 is Scenario A, but the increase in the rate of PTC would need to be paid as a lump sum at the end of the tax year in March 2015. Further work is required to determine whether a higher rate of PTC could be implemented on 1 October as regular weekly or fortnightly payments rather than as an end of year lump sum.

Recommended Action

We recommend that you:

a **Note** the content of this paper.

b **Indicate** whether you are interested in officials preparing further advice on one or more of the scenarios presented (circle)

- **Scenario A** – Working for Families abatement
- **Scenario B** – Payment cut-off at $100,000
- **Scenario C** – No income test
- Alternative scenario (indicate key features in space below):

Hon Bill English **Minister of Finance**	Hon Paula Bennett **Minister for Social Development**	Hon Todd McClay **Minister of Revenue**

c **Refer** the paper to the Prime Minister.

agree/disagree

d **Refer** the paper to the Minister of Labour.

agree/disagree

Hon Bill English
Minister of Finance

Fiona Carter-Giddings **Manager** **The Treasury**	Renee Graham **Acting General Manager** **Ministry of Social Development**	Chris Gillion **Policy Manager** **Inland Revenue Department**

Purpose of Report

1. This report provides the Minister of Finance, the Minister for Social Development and the Minister of Revenue with advice on scenarios that could provide additional financial assistance to families with a newborn child.

Background

2. Ministers have expressed interest in receiving advice on options for Budget 2014 that would provide more support to a greater number of families on the birth of a baby, in particular those on low-to middle-incomes.

3. This advice has been prepared by the Treasury, Inland Revenue and the Ministry of Social Development (MSD) in liaison with the Department of Prime Minister and Cabinet. The Ministry of Business, Innovation and Employment (MBIE) has been informed.

4. Ministers also requested information on the experience of Australia in providing support to families through the Baby Bonus scheme. This, as well as the payments made by Canada and Singapore, are summarised in Annex A. Applicable lessons are also included in the body of this paper

Objectives

5. The rationale for this proposal draws on evidence that[1]:

   - the existence of close early bonds between parent and child, breastfeeding in the first six months, and reducing parental stress, especially in the early years, is good for children in the short- and longer-term
   - inadequate family income and associated hardship increase the chances of stress in families and this has a negative impact especially on very young children
   - living in a family with persistent low income reduces life chances and increases risks of poorer outcomes for children
   - there are generally extra demands on the family budget and reduced family income in the first year or so of a newborn's life, and
   - the relatively inelastic labour supply of new parents (ie, new parents do not readily respond to incentives to increase working hours).

[1] Ziol-Guest et al "Early childhood poverty, immune-mediated disease processes, and adult productivity". *Proc Natl Acad Sci USA* 109 Suppl 2 (2012): 17289–17293.
Duncan and Magnuson "The long reach of early childhood poverty", *Pathways* Winter, 22-27 (2011).
Information from *Food and Nutrition Guidelines for Healthy Infants and Toddlers (Aged 0-2 years): A background paper* (MoH 2008) http://www.health.govt.nz/publication/food-and-nutrition-guidelines-healthy-infants-and-toddlers-aged-0-2-background-paper

6. The Children's Commissioner's Expert Advisory Group (EAG) recommended providing additional financial support to parents of young children as one of its solutions to child poverty. In support of this proposal, the EAG outlined evidence that minimising early childhood poverty is critically important:

   - The OECD outlined that 'before the age of three, and more often immediately following birth, poverty risks for families with young children are at their highest'[2].

   - The OECD also presents 'empirical evidence that differences in experiences in early childhood are much more predictive of outcomes in late childhood than those in middle childhood[3].

7. The OECD's findings are supported by the Christchurch Longitudinal Study (the Christchurch Health and Development Study) which looks at the experiences of 1265 children born in Christchurch in 1977. This study has found that those children whose families were poor in their first 10 years of life earned about $20,000 a year less by the age of 30 than those who grew up in wealthier families even after allowing for all other factors[4].

8. The scenarios in this paper also aim to reduce the margin between Paid Parental Leave (PPL) and the Parental Tax Credit (PTC), the two specific forms of payments received on the birth of a child, while maintaining incentives to work. PPL provides up to $6,834 over 14 weeks (before tax), and PTC up to $1,200 over 8 weeks (tax free). Families cannot get both these payments. The scenarios also aim to provide additional support to low- to middle-income earners who are ineligible for either payment.

Description of current assistance for new parents

9. 60,860 live births were registered in New Zealand in the year ended March 2012.

10. The Government provides ongoing financial support for the care of children through the Family Tax Credit (FTC), In-work Tax Credit (IWTC) and a range of assistance through the benefit system. Higher rates of FTC are available for the first child, and generally increase as the child ages.

11. The Government also currently provides two key forms of specific financial support to families on the birth of a baby. Parents cannot get both payments at the same time. These payments are:

    Paid Parental Leave (PPL):

    - **Purpose:** was introduced in 2002 to:

      - Achieve gender equity within the labour market with increased female labour force retention and the opportunity to return to paid work without disadvantage to position or pay.

      - Improve health outcomes for both mother and child with a mother being able to recover from childbirth, bond with a new baby and return to work without negative consequences to her health and that of her child.

[2] OECD *Doing Better for Children*. (2011).
[3] ibid.
[4] Office of the Children's Commissioner Children New Zealand, *Children and poverty: moving beyond rhetoric*. (Summer 2011).

- Provide income stability for families to provide a period of financial security during the leave period.

- **Entitlement:** the Government provides 14 weeks of payments up to a maximum level of $488.17 a week (before tax) for women who worked for an average of at least 10 hours a week in the six months immediately before the baby's expected due date. The maximum entitlement is $6,834 (before tax), with no abatement. The PPL is indexed every year, according to wage movements**.**

Parental Tax Credit (PTC): part of WFF.

- **Purpose:** The PTC was introduced in 1999 to assist with the initial extra cost faced by a family. It does not offer job protection.

- **Entitlement:** the Government provides 8 weeks support at a maximum of $150 a week per child if the household does not receive a government welfare payment. The payment is per child. The maximum entitlement is $1,200 (tax exempt), and is abated as part of WFF. The PTC is not indexed, but the rate is reviewed every three years. The rate has not increased since its introduction in 1999.

Cost and numbers of recipients of PPL and PTC

12. Table one below summarises the current level of recipients and expenditure associated with these payments.

Table 1: PPL and PTC recipients and expenditure

Payment	Recipients no. (end Mar 2012)	Spending in the 2011/12 (Actual)	Total funding in 2013/14 (main estimates)
Paid Parental Leave	25,900	$157.6 m	$176.0 m
Parental Tax Credit	15,500	$18.9 m	$15.0 m

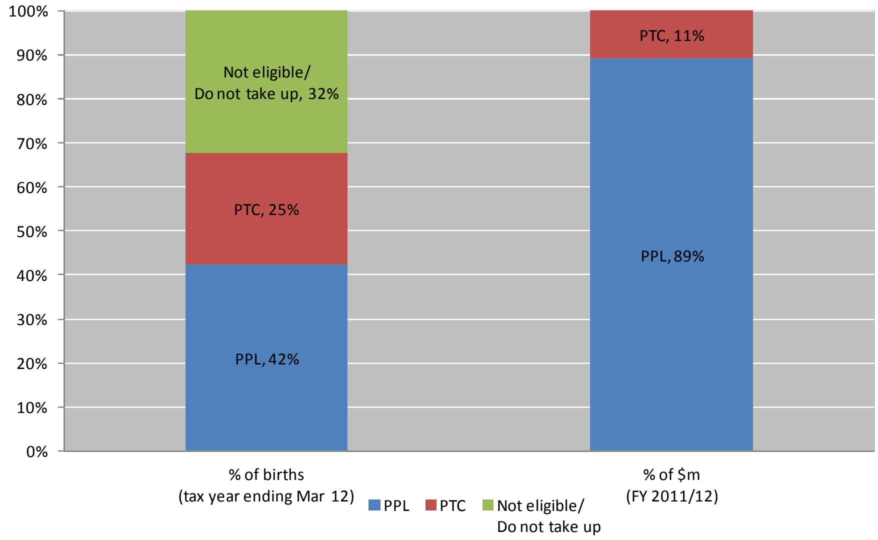
Note: a small number of people can claim the paid parental leave on the adoption of a child aged under six years old.
Source: IR and Budget Documents

13. Whilst numbers of PPL recipients have levelled off over the last few years, numbers of PTC recipients have been steadily increasing.

14. The recipient numbers identified in Table 1 are those that take up the payments. There are a number of people who are eligible that do not apply. For PTC it is estimated that 70% of those eligible take up the payment. The then Department of Labour's evaluation of PPL in 2007 found that 83% of eligible mothers actually took up PPL.

15. Figure one below shows an estimated 32% of families receive no specific financial income support from the Government on the birth of a baby. This figure includes those that are ineligible for PTC and PPL and those that choose not to take up existing support.

Figure 1: Comparison of PPL and PTC recipients and expenditure



Source: IR and Budget Documents

16. This figure illustrates the different treatment of families with a newborn, under the current policy settings. Many families with greater resources are getting more financial assistance from the government through PPL. However, families which don't qualify for PPL are getting less assistance, or missing out altogether, even though they may have greater need.

Characteristics of PPL and PTC recipients

17. Reflecting the eligibility criteria for PPL, data indicates that better educated and higher earning women in the core labour market (middle- to high-income brackets), are the group most likely to be eligible for PPL.[5] These women also tend to work in the main urban areas.

18. By contrast, over 75% of families receiving the PTC have a household income of less than $60,000. A range of labour market research shows that Maori and Pacific mothers are over-represented in the types of jobs and employment arrangements that tend to exclude mothers from being eligible for PPL.[6]

19. Parents who are not eligible, or do not receive, payment are generally

- beneficiaries, and
- middle- to higher-income families where a mother did not work prior to birth and where the PTC would be abated away due to income.

Scenarios

20. This section provides advice on three scenarios. The scenarios are similar – each of them extends the PTC to beneficiaries (who are currently not eligible for it) and each of them increases the amount paid under the PTC to $60 a week over 52 weeks (for a total of $3,120). As is the case now, people who are eligible, and choose to take up PPL would not receive the upgraded PTC. The scenarios differ, however, in terms of income testing, coverage, cost and ease of administration.

[5] Morton et al (2010) Growing up in New Zealand; A longitudinal study of New Zealand children and their families; Department of Labour (2007) evaluation of Parental Leave in New Zealand.
[6] Department of Labour (2007) evaluation of Parental Leave in New Zealand.

- **Scenario A** applies the current WFF abatement regime. To give an indication of what this means, if the tests were applied this year:
  - for a family having their first child, the payment would start to abate at an income $73,724 and would stop at an income of $88,406
  - for a family having their second child, the payment would start to abate at an income $89,494 and would stop at an income of $104,176, and
  - for a family having their third child, the payment would start to abate at an income $105,263 and would stop at an income of $119,945.
- **Scenario B** removes the PTC out of WFF, and applies a strict cut-off at $100,000. Families earning more than this would not be eligible for the payment, regardless of the number of children in the family.
- **Scenario C** has no income test (ie. a universal payment).

21. These are indicative scenarios and many of the parameters, e.g. the payment rate, or the income cut-off in Scenario B, could be changed. We have used a number of constant variables in order to assess the scenarios, as identified in Table 2 below. These can be adjusted as available funding and preferences become clear. Paragraphs 25 to 39 explore the impact of changing a number of these variables.

22. Ministers could also look at delivering additional financial assistance through the WFF's FTC instead of the PTC. The FTC provides a framework that pays different rates for subsequent children and as children age. This may align better with the subsequent child policy (as explored in paragraphs 66 to 70) but would need to work within the FTC's abatement settings. Alternatively, there are also options outside of changes to WFF, and some examples are identified in paragraph 72.

23. The scenarios and projected implications are summarised in Table two below.

Table 2: Summary of scenarios and projected implications

Scenarios	A - WFF abatement	B - Payment cut-off at $100,000	C – No income test
Variable adjusted for each scenario			
Abatement	Applies current WFF abatement regime	Applies a strict cut-off at $100,000. Families earning less than this would receive full amount Families earning more than this would not be eligible for the payment.	Has no income test, universal payment.

Scenarios	A - WFF abatement	B - Payment cut-off at $100,000	C – No income test
Variables that were fixed for each scenario (implications of changing fixed variables discussed below)			
Amount	$3,120		
Payment period	52 weeks		
Income Assessment Period	Joint income in payment period (52 weeks)		
Can recipients get PPL	No		
Administered by	Inland Revenue		
Projected Implications			
Estimated additional cost[7]	$50 million pa	$60 million pa	$90 million pa[8]
Estimated eligibility number (births)[9]	30,000	30,000	41,000
Estimated administration costs	Mid	Highest	High
Would any people not receive additional assistance on the birth of a baby?	Yes	Yes	No

source: Taxwell

24. The cost estimates outlined in Table 2 above have been produced by the Treasury using Taxwell[10]. The nature of the scenarios have stretched Taxwell, in particular due to the overlapping assessment time-periods and the ineligibility of PPL recipients. Therefore the Treasury urges some caution about confidence in the costings. Should Ministers commission further work on a particular scenario, further in-depth analysis will be completed.

[7] Costs assume full take-up, and do not include likely partial offsetting of reductions in expenditure on hardship assistance paid through Work and income. Costs exclude those on long-term ACC and those on the student allowance, due to data available in Taxwell, which would likely affect the costs minimally if included.

[8] The % difference between $ in Scenario A and Scenario C is 80%, but the difference in eligible births is 37%. The reason for this disparity is the abated payment amount used in Scenario A compared to the full payment used in Scenario C.

[9] Due to modelling challenges in Taxwell and rounding, the number of births is slightly over-estimated.

[10] Estimates provided by Taxwell for the 2015/16 tax year and are calculated using the 2011/12 Household Economic Survey and parameters based on the Budget Economic and Fiscal Update 2013. 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.

Implications of adjusting the fixed variables

Raising the income cut-off point for Scenario B

25. Raising the cut-off point to $120,000 would cost an estimated extra $20 million per annum, and would make approximately 7,000 additional families eligible. Under this cut-off point, there would be almost no families who receive a reduction in their potential income from losing an entitlement to PTC as will occur under Scenario B.

Changing the amount paid

26. Modelling shows that any marginal change to the amount provided per family has a linear impact on cost, ie, a 10% increase in the amount given per family will increase the total cost of the programme by 10%. This holds for all the scenarios presented above.

Changing the form of payment

27. All scenarios could be paid as a lump sum or as a weekly or fortnightly payment. Currently PTC recipients have a choice whether it is paid weekly, fortnightly or as a lump sum at the end of the tax year. PPL is paid fortnightly for 14 weeks.

28. Paying any new payment as a lump sum on the birth of a baby, or a series of large instalments in the first three months, would better reflect parents' need to pay for larger consumer durable items (for example a cot, stroller, etc.). Earlier payments would also better reflect the timing of when the labour supply of new parents is most inelastic, noting that for the majority of PTC recipients the mother would not have been in work prior to birth.

29. Although paying in a lump sum is generally easier and cheaper, Australia changed to paying its Baby Bonus in instalments in 2009. This appears largely to be due to perception that some needy families were using it to buy 'plasma TVs', although there is no evidence for this.[11] There were also reports in Australia of partners using the payment for their personal spending, or parents using the payment for drugs and alcohol. But, again, there is minimal evidence to support these reports.

30. [8]

Changing the assessment and payment period

31. The costings included in this paper have been completed on the basis of a 52 week payment and assessment period. This is the WFF tax credit assessment period and would be consistent with the FTC

32. Should Ministers be interested in a shorter assessment and payment period, 14 weeks would be strong option as it would be consistent with PPL, and may be easier to communicate.

Shortening the assessment period

33. Reducing the time period over which income is assessed does not appear to have a significant impact on the fiscal cost.

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11 http://parliamentflagpost.blogspot.com.au/2012/10/the-plasma-myth-how-parents-of-newborns.html

34. A shorter period, e.g 14 weeks, is more likely to fall into a single tax year. A period of 52 weeks means that the payments will cover two tax years so Scenarios A and B would involve two income assessments (e.g. if a child is born on 10 November 2013, IR would need to assess part of the tax years that end March 2014 and March 2015). This will be more confusing for clients, and the total amount received could differ depending on when in the tax year a child was born. Even so, abatement calculations are administratively easier for annual payments.

35. Under Scenarios A and B, having a shorter assessment period is potentially better aligned with labour market objectives. Parents, who otherwise may have to enter the workforce, or increase their hours, within the 52 week period may not to avoid a reduction in PTC.

36. The assessment period is not important for Scenario C as there would be no income targeting

Shortening the payment period

37. For any given total payment a shorter payment period means a higher weekly rate. For example: $3,210 is $60 a week over 52 weeks and over a 14 week period $222 a week. The current PTC payment is $150 over 8 weeks.

38. As discussed, using a shorter payment period at a higher rate (or a lump sum) would help target support in the critical early months by helping parents to bond with their baby and cope with additional budgetary needs when they are greatest, for example purchasing cots and strollers.

39. However, a shorter payment period and/or a lump sum may increase the likelihood, or perception, of irregular use of the payment, e.g. purchasing of 'plasma tvs' as described above.

Distributional impacts

40. An analysis of distributional impacts shows that:

For Scenario A:

- there appears to be no cohorts who would experience a reduction in their disposable income
- most existing PTC recipients will receive an increase in disposable income, and
- there will be a group of families whose payment would be abated away (largely higher income families).

For Scenario B:

- there will be a small number of families (largely families with at least 3 children and parents earning over $100,000) who will lose their entitlement to PTC under this scenario
- families that earn over $100,000 where the mother did not receive PPL will not receive an additional payment on the birth of their baby, and
- there will be a subset of people with income above the WFF abatement threshold but below $100k, who would receive an abated payment under scenario A but will receive full payment under this scenario.

For Scenario C:

- there appears to be no groups that will experience a reduction in their disposable income, and
- all new parents not receiving PPL will be eligible for payments under this scenario.

Interface with other financial assistance

41. Under current policy settings, the PTC does not affect entitlements to most other types of financial assistance (such as Accommodation Supplement, Childcare Assistance etc). It is, however, included as income in the calculation of some types of hardship assistance (for example, Temporary Additional Support), the Community Services Card and the Rates Rebate scheme. Increasing the PTC and extending it to currently ineligible groups will therefore result in reductions in some payments, and may result in some people losing eligibility for the Community Services Card, partially offsetting the value of the additional support.

42. If Ministers wish to pursue any of these scenarios further, officials will provide further advice on these impacts, as well as how the payment would fit with the approach for people receiving the Young Parent Payment.

Upcoming review of PPL

43. The Minister of Labour and MBIE are currently considering a review that would include some aspects of the parental leave scheme. The Minister of Labour will discuss this at the Skilled and Safe Workplaces meeting (SSW) on 20 November 2013. The proposed review reflects issues that have been raised by employers and employees for some time, given that the Act struggles to respond to modern family and employment arrangements.

44. The focus of the review would be to make low (or no) cost changes to the scheme, such as considering:

    - allowing recipients to maintain better connection to their work (for instance allowing recipients to undertake a small amount of work while taking their paid or unpaid leave if they choose)
    - making eligibility criteria fairer (many employees, despite having a long-term attachment to work, currently miss out on PPL eligibility because they may have had a short gap in employment, changed employers in the timeframe, have on-going seasonal work or more than one employer. Those missing out on PPL are referred to IR to assess their eligibility for PTC, however they are generally lower income families and would benefit from the more generous provisions that PPL offers)
    - allowing greater flexibility to adjust entitlement levels for PPL by providing for changes to the level and length of payments to be made through regulations rather than primary legislation.

45. Officials will ensure any further advice commissioned by Ministers resulting from this paper is aligned with MBIE's review.

Assessment of the scenarios

46. The scenarios all deliver additional support of up to $3,120, to low- to middle-income families who do not get PPL, and to beneficiaries, on the birth of child. They all therefore contribute to the objectives of the policy proposal.

47. Where each scenario differs is in whether, and how, payment is abated as incomes rise, which has implications for cost, complexity, and level of targeting.

Scenario A

48. Scenario A applies the current WFF test which depends on a family's income and the number of children they have. This makes it relatively straightforward for IR to administer and it has the lowest administration costs of the three scenarios. It also has the lowest total cost of $50 million per annum.

49. However, the WFF abatement regime makes Scenario A difficult to explain and difficult for clients to understand. For example, if the new payment applied now, a family earning $90,000 and having their first child would receive no payment at all (as their income would be judged too high) but would receive the full payment of $3,120 if they were having their second child. This runs against the intuition that first children are more expensive than subsequent children.

50. Also, as noted above, abatement calculations will invariably fall across two tax years, thereby complicating arrangements even more.

Scenario B

51. Scenario B escapes much of this complexity by instituting a cut-off at $100,000. Families earning at or below this amount get the full payment of $3,120 and families earning above it get nothing. This makes it much simpler to communicate and understand, and the number of people getting assistance is the same as in Scenario A.

52. However, introducing a new form of abatement requires additional administration and therefore Scenario B has the highest administration costs. It is also slightly more expensive than Scenario A, with a cost of $60 million per year. This is because there is no abatement of income below $100,000.

53. This scenario does, however, create a "stress point" at $100,000, as the difference between earning $100,000 and $101,000 is the difference between getting and not getting $3,120. This introduces a new complexity that doesn't exist with Scenario A.

Scenario C

54. Scenario C avoids all difficulties with abatement.

55. An additional 11,000 people receive the payment. Most of these additional families will be earning between $100,000 and $120,000 a year, but there will be some higher-earning families included as well. These will almost entirely be families where there is only one income earner as families with two earners are likely to be eligible for PPL.

56. All new parents in the country will therefore be eligible for either PPL or the enhanced PTC. The universality of this scenario means it is the most expensive, at $90 million per year.

Other impacts to consider

Labour market effects

57. The outlined scenarios focus new spending early in the lives of children, and target a relatively large portion of new spending toward low income and beneficiary families. By focussing spending when children are young, the increased financial support is less likely to have an impact on parents' employment decisions, due to the relatively inelastic labour supply of new parents.

58. As highlighted above, Scenario A and B's abatement regimes could potentially incentivise parents, who would otherwise have chosen to work, to avoid entering the workforce, or increase their hours, within the 52 week period to avoid a reduction in PTC. This is less likely under the shorter assessment period that starts on the birth of a baby as this is when parents will be least likely to be able or want to work.

59. The maintenance of some margin between (even a changed) PTC to PPL is preferred. This maintains incentives for women to remain attached to the workforce. Under the illustrated scenarios the full rate of PPL will be roughly less than double the new rate of PTC (although Scenario A will still abate the amount). Currently it is almost 6 times higher. However, women who earn less than full rate of PPL ($488.17 per week before tax) receive their equivalent wage. For example, a pregnant woman who works 10 hours a week at minimum wage would receive approximately $137.5 per week in PPL before tax. This equates to $1,924 before tax, which is less than the $3,120 proposed for the PTC in all three scenarios. If women in this position's incentive to work was to receive the PPL, then this incentive will be removed. However, women will be able to choose between the PPL and the PTC based on what is more advantageous for them, so the incentive of additional income prior to childbirth may hold firm.

Incentives to have children

60. The additional financial support on the birth of a child, could potentially have an impact on parenting decisions – by reducing the opportunity cost (of foregone income) of having a child, or by increasing the financial support available to provide for a child.

61. The intent of this payment is not to encourage people to have children (which is an objective of similar payments in some overseas jurisdictions), but this may be an unintended consequence of this policy for some people. There is a risk that additional financial support could encourage a small group of people to have children for mainly financial reasons, which may contribute to poor life outcomes for this group of children.

What does the evidence say about impacts on parenting choices

62. Overall, international studies show mixed results with positive or in some cases no statistical correlation between payments and increased number of children. Although most payments have focused on providing paid leave or financial support to working parents in the period following childbirth.

63. Research conducted in 2013 tested the impact of different family policy instruments on number of children born, using data from 18 OECD countries (1982-2007). The research found that in-cash benefits covering childhood after the year of childbirth (as well as the provision of childcare services for children under age three) have the largest potential influence on decisions to have children (rather than leave entitlements and benefits granted around childbirth).

64. Available studies from Australia focussing on the introduction of the 2004 Baby Bonus show varying results. Those that controlled for other related factors showed no

measurable impact. Studies varied from estimating no statistically significant impact[12] to modest (3.2% increase in fertility rate)[13] to significant[14] and sustained[15].

65. A 2007 literature review covered 98 research reports from industrialised countries. It found mixed conclusions as to the effect of policies on parenting decisions. While a small positive effect of policies on population growth is found in numerous studies, no statistical effect is found in others. Moreover some studies suggest that the effect of policies tends to be on the timing of births rather than increasing the number of children (ie, bring births forward rather than increasing overall numbers).

Interface with subsequent child policy

66. As a result of the recent Welfare Reform package, beneficiaries who have an additional child while receiving a benefit now have one year of exemption from employment obligations before these are applied based on the age of the next youngest child. In the year ended November 2011, 4,050 beneficiaries had a subsequent child while receiving a benefit. This policy means that one year after the birth of a subsequent child, beneficiaries either have part-time work obligations if their next youngest child is aged 5-14 years, or full-time expectations otherwise.

67. Any of the scenarios presented could be assessed as conflicting with the subsequent child policy through a perception that additional income will incentivise beneficiaries to have more children (although the evidence described above does not strongly support this). This perceived conflict risks sending confusing and competing signals about the Government's expectations with regard to beneficiaries with children. However, the work obligations could also reduce any impact as beneficiaries will be subject to full or part time work expectations one year after the birth of a subsequent child.

68. It should also be noted that international schemes generally have not targeted very low income groups or beneficiaries, and it is possible that this group is more likely than the available evidence suggests to decide to have children as a result of the increased financial assistance.

69. [8]

12 Nick Parr/Ross Guess: Demographic Research Volume 25, 2011.
13 Mark Wooden: The Australian August 2008
14 2009 Medical Journal of Australia – Impact of the Baby Bonus Payment in New South Wales: Who is having "one for the country"
15 Sarah Sinclair et al, A Re-Appraisal of Fertility Response to the Australian Baby Bonus

[8]

70. Whatever approach is preferred, officials will closely monitor the impacts of the policy when implemented, and consider changes if unintended consequences emerge.

Further policy questions that will need resolution

71. Should Government decide to proceed with a payment of this type, consideration will need to be given to special and/or sensitive cases, including payments for multiple births, unregistered children, adopted children over the age of one, stillborn children, and babies that die soon after birth. There are also interactions to consider with NZ Defence Force staff and Home for Life carers.

Other options that could be considered

72. There are also a number of other avenues Government could consider to achieve the same objectives:

- use FTC as the basis of the payment rather than the PTC (as discussed in paragraph 22)
- increased investment in early childhood education particularly targeted at low-income earners
- establish a partner payment scheme that provides a payment to help partners take two weeks off following the birth of a baby (as per Australian Federal Government – See Annex A), and
- establish a matched savings scheme that aims to support parents to pay for childcare and education (as per Singaporean example – See Annex A).

Implementation

73. IR has assessed at a high level the impacts of delivering changes to the PTC. While each of the scenarios can be implemented by 1 April 2015, the only option that can confidently implement by 1 October 2014 is Scenario A, but the increase in the rate of PTC would need to be paid as a lump sum at the end of the tax year in March 2015. Further work is required to determine whether a higher rate of PTC could be implemented on 1 October as regular weekly or fortnightly payments rather than as an end of year lump sum.

74. The key constraints to implementing changes to the PTC by 1 October 2014 are:

- **Abatement rate**. The WFF system within IR's core computer system, FIRST, is complex with many interdependent components. Specifically, the current abatement rate for the PTC also applies to FTC and the In-work Tax Credit. All these tax credits are abated in sequence and at the same rate. A different abatement rate for the PTC requires separating out the PTC from the current WFF tax credit system. Any option that involves changes to the abatement regime (including removing abatement altogether for the PTC) or different rates for subsequent children is unachievable by 1 October 2014. The earliest implementation date for such changes is 1 April 2015.

- **Accuracy of payments.** Even if a mid-year implementation of increased regular weekly or fortnightly payments were possible, there is a risk that this may result in inaccurate payments. All WFF tax credits are squared up at the end of the tax year to reflect changes in families' circumstances. IR would need to determine when during the year the PTC was paid to determine the correct rate to prevent over or under payment. This adds a level of complexity to the process that currently does not exist.

Table 3: Possible implementation timeframe for the three scenarios

Scenario	1 October 2014	1 April 2015
A - WFF abatement	Yes, but increased payment rate will need to be implemented as a lump sum 'top up' at end of year	Yes
B - Payment cut-off at $100,000	No	Yes
C – No income test	No	Yes

Next Steps

75. Ministers are asked to indicate if they would like officials to prepare further advice on one or more, or variations, of the scenarios presented. If further advice is sought the Treasury, IR, MSD and MBIE will work together to provide this advice.

76. Following the SSW discussion about PPL on 20 November 2013 (as discussed in paragraphs 43 to 45), officials will also look at how these two streams of work can be aligned to ensure a shared approach to reviewing policy settings in this space. Officials therefore recommend that this paper be referred to the Minister of Labour.

77. Ministers may also wish to forward a copy of this paper to the Prime Minister.

ANNEX A: SIMILAR INITIATIVES IN OTHER JURISDICTIONS

	Australia		Canada	Singapore
	Original policy settings	***New policy settings (from 1 March 2014)***		
Stated Objective	Population growth.	Financial support for parents who are not eligible for Paid Parental Leave (PPL).	Reduce child poverty.	Population growth
Name	Baby Bonus.	Increase to Family Tax Benefit A (FTB-A).	National Child Benefit Supplement.	1. Baby Bonus. 2. Child Development Account.
Description	A payment intended to help all families with the costs of a newborn baby or adopted child (under the age of 16).	A payment intended to help families who do not receive PPL with the costs of a newborn baby or adopted child (under the age of 16).	Part of the Canada Child Tax Benefit to prevent and reduce child poverty	1. Cash gift. 2. Savings account matched dollar-for-dollar by government . savings must be used to pay approved expenses (childcare, education, health etc).
Eligibility	Universal until 2009. From 2009 payable to families whose estimated combined adjusted taxable income is $75,000 or less in the six months after their child is born or adopted.	FTB-A reduces a person's payment when their adjusted taxable income is over $47,815. The impact depends on number of children and age. It is not clear how the new 'additional loading' will be treated under the income test.	It is targeted at low income families (including those on benefit. It is adjusted taxable income generally under $35,000 pa	Universal.
Amount	$5,000 (at peak).	$2,000 for first child $1,000 for subsequent children.	$2221 for first child, up to $1,800 for subsequent children (with abatement).	1. Cash gift of up to $6,000 each for 1st and 2nd child and $8,000 each for 3rd and 4th child. 2. Matched dollar-for-dollar up to $6,000 each for the first and second child, $12,000 each for the third and fourth child and $18,000 each for the fifth and subsequent child.
Payment process	Originally a lump sum. Changed to instalments were made in 2009.	It is paid as an initial instalment of $500, with the rest rolled into fortnightly payments over a three month period.	Paid in monthly instalments.	1. Lump sum. 2. Assessed quarterly.
	Australia also has a two week payment for new dads and partners to enable them to take leave when a baby is born ($606.50 per week before tax).			

Key summary from the international experience

Objective is important, and the objective identified for this paper is different to Australia's (in original form) and Singapore's baby bonus.

78. Singapore and Australia's (in its original form) Baby Bonus had the stated objective of boosting the population[16]. This resulted in universal eligibility and the same payment rate for all children (Australia) or increasing rates for subsequent children (Singapore).

79. New Zealand's objective is better aligned with Canada's and Australia's recently changed payment, which focus on reducing child poverty and supporting low-to middle-income earners. Canada's payment:
    - is available to those who earn under $35,000 pa (substantially lower than the $100,000 modelled in the scenarios)
    - abates with income
    - reduces payment amounts for subsequent children, and
    - is available to those on the benefit.

80. There is some evidence from Canada that this payment is alleviating cost pressures for recipients, however, currently evidence does not appear to have been collated on the impact on children's outcomes.

Targeted assistance versus universal payment

81. The objective of the original Australian Baby Bonus was to boost the population and therefore it was provided universally. Notwithstanding, it was criticised for being poorly targeted. There was a perception that higher socio-economic groups were using the lump sum payment to purchase diamond rings or plasma TVs.

82. However, many viewed it as a vital payment, especially as at that time the Government funded PPL did not exist. Since that time PPL was introduced and a family chooses either PPL or the Baby Bonus, and Paid Parental Leave is more advantageous.

83. Australia's changed scheme is targeted at the socio-economic disadvantaged, which tends to include, single mothers, mothers with larger numbers of children, and migrants from countries with languages other than English.

Lump sum versus instalments

84. Although paying in a lump sum was easier and cheaper, Australia changed the Baby Bonus to be paid in instalments in 2009. This appears largely to be due to aforementioned perception of misuse of the payment, for example that some families were using it to buy plasma TVs. However, there is little evidence for this.[17]

85. In Australia, there were also reports, but minimal evidence, of partners taking the payment from the mothers for their personal spending, in some cases using standover techniques. There were also reports of parents using the payment for drugs and alcohol.

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16 A scan of the research indicates that while the birthrate did increase slightly in Australia after the introduction of the Baby Bonus, this was consistent with non Baby Bonus countries and probably due to demographic factors (children of baby boomers having children). Likewise, Singapore's scheme is not being considered effective in increasing the birthrate.

17 http://parliamentflagpost.blogspot.com.au/2012/10/the-plasma-myth-how-parents-of- newborns.html

86. Australian evidence shows that the changing patterns of spending with a newborn lends itself to instalments with a small lump sum up front. In the first year of a first born baby's life family spending generally stayed constant, but it did increase on:

- clothing (average of $435 in the birth year)
- health care (ranging between $532 and $641 on average – not as relevant to the New Zealand experience unless a mother uses the private system)
- baby related goods – prams, highchairs etc., and
- child care costs also increase.