

CHILD POVERTY: MEASUREMENT AND POLICY SOLUTIONS

“Children living in poverty are those who experience deprivation of the material resources and income that is required for them to develop and thrive, leaving such children unable to enjoy their rights, achieve their full potential and participate as equal members of New Zealand society” OCC EAG on Solutions to Child Poverty 2012 [3].

This definition encompasses the two approaches to child poverty measurement that have been most commonly used in New Zealand to date, with material deprivation or hardship referring to a family’s living standards and the degree to which a family must forgo key consumables (e.g. fruit and vegetables, shoes and clothing, heating) in order to make ends meet [4].

In contrast, income measures are based on a family’s disposable income (i.e. market income, less income tax, plus social assistance, including Working for Families tax credits) adjusted for family size and composition. Income poverty thresholds are traditionally set as a proportion of the national median household income, for example at 60% of the median household equivalent disposable income, after adjusting for housing costs. Median income refers to the mid-point of the distribution of all incomes in New Zealand, where half the number of households have income below that point, and half have incomes above [3,4].

This report includes two types of income poverty threshold. The first, the standard relative income poverty measure, compares incomes to 60% of the median in the current year. This measure is usually referred to as a relative, moving-line or relative-to-contemporary median measure. The second income measure included compares current incomes (expressed in the dollar value of a particular year, known as the reference year) to 60% of the median income in the reference year (e.g. 2007). This is often referred to as a fixed line measure [3,4].

Each group of measures captures a slightly different facet of economic wellbeing, as a family’s overall economic position is determined by its ability to access the resources it requires, in relation to its needs. In this context, current income, even if measured accurately and adjusted for household size and composition, is only one part of the equation, and other resources (e.g. savings, accumulated assets, access to cash in kind and extended family and community networks) also need to be taken into account. Similarly, families may have differing demands placed on their incomes including the servicing of pre-existing debts, health and disability costs, transport costs and the expectations of extended family members and community networks [5].

In recognition of this fact, in its report on Solutions to Child Poverty, the EAG [3] recommended that the Government monitor at least five different poverty measures:

1. Fixed-Line Income Poverty Measure
2. Moving-Line Income Poverty Measure
3. Material Deprivation Measure
4. Severe Poverty Measure
5. Measure of Poverty Persistence.

These five measures were selected because the EAG [3] believed it was important not only to assess families’ incomes, but also their day to day living standards. Measures of poverty severity and persistence were seen to be important, as the impact of poverty on child outcomes was believed to be greater when child poverty was severe, or lasted for long periods of time. The following sections review the data currently available in the New Zealand for each of these measures of child poverty.



CHILD POVERTY: INCOME-BASED MEASURES

Introduction

High rates of child poverty are a cause for concern, as low family income has been associated with a range of negative health, education, justice, labour market and social outcomes [6]. Negative health outcomes include low birth weight, infant mortality, poorer mental health and cognitive development, and hospital admissions from a variety of causes [7]. Research suggests that exposure to low family income during childhood and early adolescence may also increase the risk of leaving school without qualifications, economic inactivity, early parenthood and contact with the justice system. While adjusting for potentially confounding factors (e.g. parental education, maternal age, and sole parent status) reduces the magnitude of these associations somewhat, they do not disappear completely. This suggests that the pathways linking low family income to long term outcomes are complex, and in part may be influenced by other socioeconomic factors [8].

In New Zealand, the Ministry of Social Development uses a range of income based measures to monitor child poverty. All are based on a family's disposable income (i.e. market income, less tax, plus social assistance). This income has been equivalised: that is, adjusted for family size and composition. An income poverty threshold commonly used is a household equivalent disposable income of less than 60% of the median, after adjusting for housing costs. Two measures are used: the relative or standard measure that is calculated using the contemporary median income, and a fixed-line measure, which compares income to the median at a fixed point in time (1998 or 2007 in this report) [5].

The following section uses information from the NZ Household Economic Survey (NZHES) to review the proportion of children aged 0–17 years living in households with incomes below the 60% income poverty threshold (after tax, and adjusting for family size and composition) [5]. Because housing costs can consume a significant amount of a family's income, an after housing cost (AHC) measure provides a good picture of the resources available for other necessary spending.

Data Source and Methods

Indicator

1. *Proportion of dependent children aged 0–17 years living below the 60% income poverty threshold before housing costs (BHC)*
2. *Proportion of dependent children aged 0–17 years living below the 60% income poverty threshold after housing costs (AHC)*

Data Source

New Zealand Household Economic Survey (NZHES n=2,800–3,500 households per survey) via Perry 2014 [5]. Note: Child Poverty measures are reported on by the Ministry of Social Development using NZHES data [5] which it reports 2-yearly from 1982–1998, and 3-yearly thereafter. Since 2007, income data have been reported annually through the new HES Incomes Survey. The full NZHES (including expenditure data) remains 3-yearly. For more detail on methodology see Perry 2014 [5].

Notes on Interpretation

Note 1: Child poverty measures traditionally compare a household's income to the national median rather than the mean. The median is calculated by assigning individuals the income of their household, ranking them from those with the lowest to the highest income, and then finding the middle point of the income distribution. The mean income is usually higher than the median because a few households with a very high income will shift the mean upwards, but not the median. The number of very high income households varies from year to year so the mean is a less stable measure than the median. For more detail see Perry 2014 [5].

Note 2: Relative (or standard) poverty measures are defined in relation to the incomes of others in the same year. This gives a poverty benchmark that rises and falls with changes in national median incomes. Fixed-line poverty measures select a poverty benchmark at a set point in time (in this report these are 1998 or 2007) and adjust forward and back in time for changes in consumer prices to maintain a constant buying power over time.

In his 2014 update, Perry [5] notes that in real terms, the median income in 1998 was similar to 1982 so there is a good case for using 1998 as the reference year for fixed-line poverty calculations back to 1982, as well as forward from 1998. By 2007, however, the median was 16% higher than in 1998 and by 2009 26% higher, hence the reference year was changed to 2007.



Note 3: While reporting fixed-line poverty figures back to 1982 using 2007 as the reference tells us what proportion was 'poor' back then relative to 2007, this approach is not useful for assessing the extent of hardship 'back then' relative to the standards of the day. In the analyses which follow, 2007 fixed-line figures are provided from 2007 onwards, with earlier years using 1998 as the reference year.

Note 4: Most income poverty measures use equivalised disposable household income (i.e. after tax household income adjusted for family size and composition). Both measures can be calculated before or after taking housing costs into account.

The Number of Children Living in Poverty in New Zealand

In 2013 in New Zealand, 260,000 (24%) dependent children aged 0–17 years were living in relative poverty using the measure of below 60% of the contemporary median income, after housing costs (**Table 1**). If a fixed-line measure is applied (in this case, below 60% of the 2007 median income), 230,000 (22%) of dependent children aged 0–17 years were living in poverty in 2013 (**Table 1**).

Table 1. Number and proportion of dependent children aged 0–17 years living below various poverty thresholds, New Zealand 2001–2013 HES selected years

HES Year	Before housing costs		After housing costs					
	<60% contemporary median		<50% contemporary median		<60% contemporary median		<60% 2007 median	
	Number	% of children	Number	% of children	Number	% of children	Number	% of children
2001	250,000	24	215,000	21	310,000	30	380,000	37
2004	270,000	26	200,000	19	290,000	28	320,000	31
2007	210,000	20	170,000	16	240,000	22	240,000	22
2009	210,000	19	195,000	18	270,000	25	230,000	22
2010	245,000	23	200,000	19	300,000	28	260,000	24
2011	230,000	22	210,000	20	285,000	27	255,000	24
2012	220,000	21	205,000	20	285,000	27	240,000	23
2013	215,000	20	205,000	19	260,000	24	230,000	22

Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1982–2013

Child Poverty Trends Using Different Measures

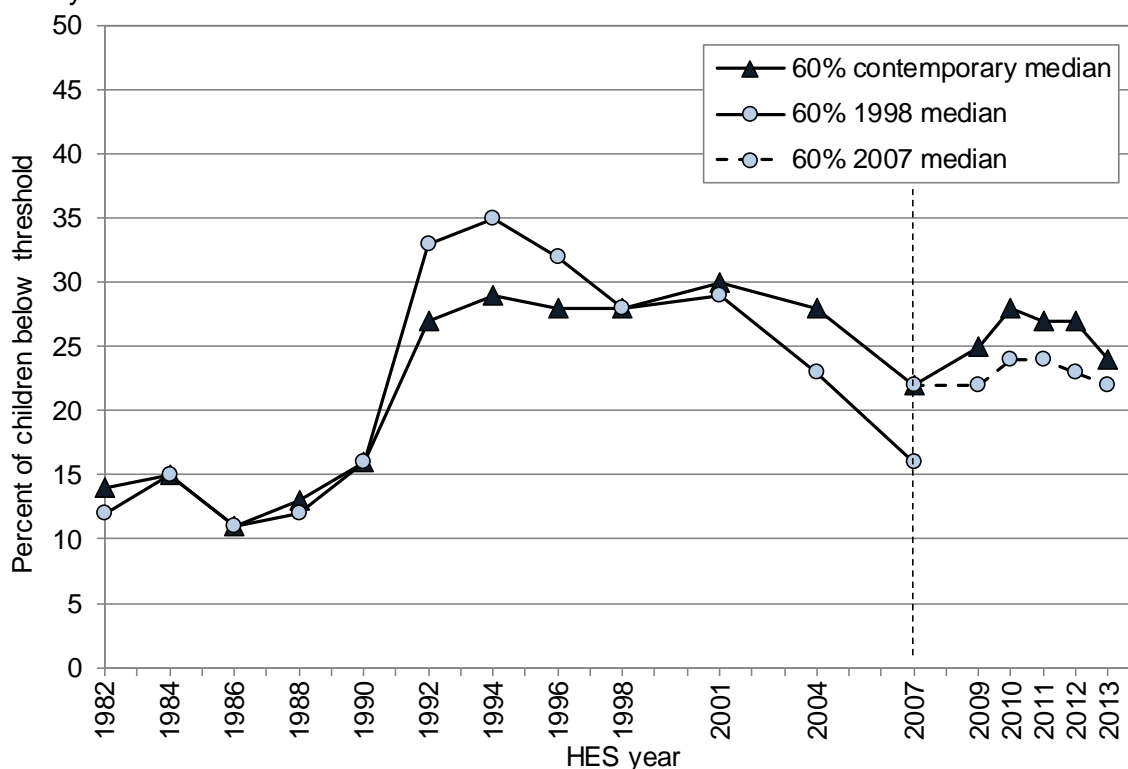
Relative or fixed-line poverty

Information about people in lower income households is gained from examining relative poverty measures (using the contemporary median) or fixed-line or constant value poverty measures (using 1998 or 2007 as the set points in time) with each method providing a different perspective [5] (see Methods box above).

Both relative and fixed-line measures show the rapid rise in child poverty in New Zealand during 1990–1992 that has been attributed to rising unemployment and cuts made to benefits in 1991 [5]. These benefit cuts reduced incomes for beneficiaries disproportionately. During 1992–1998, child poverty declined as a result of falling unemployment and the incomes of those around the poverty line rose more quickly than the median. After 1998, as economic conditions improved, the median income rose again. Incomes for many low-income households with children did not, however, and child poverty continued to rise until 2004. The decline in poverty rates from 2004 to 2007 resulted from the Working for Families package [5]. Between 2007 and 2010 child poverty rates increased, then declined, so that in 2013 the rates were nearly equal to those in 2007 (**Figure 1**).



Figure 1. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold (relative and fixed-line) after housing costs, New Zealand 1982–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1982–2013

Before Housing Costs (BHC) or After Housing Costs (AHC)

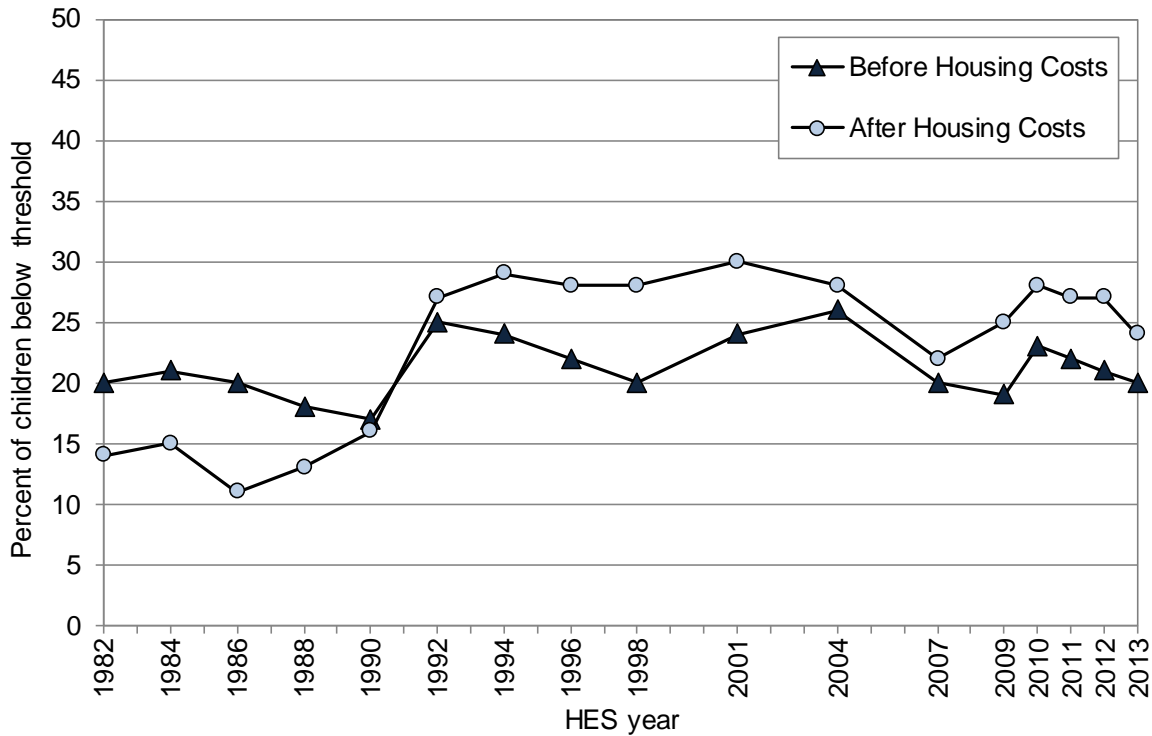
Housing costs can be a substantial component of a household's expenditure. Figure 2 shows the proportion of children living in households below the relative poverty threshold (<60% of contemporary median) before housing costs (BHC) and after housing costs (AHC) have been accounted for. The proportion shown BHC fluctuated in 1982–2013, but in the years 1982 and 2013 20% of children were below the poverty threshold. In comparison, the proportion of children below the threshold after housing costs (AHC) was lower than for the BHC proportion in 1982, then shared the same rapid rise in 1990 as the BHC, but rose further from 1992 onwards and remained higher even after a decline between 2001–2007 and again between 2010–2013 (Figure 2).

Housing costs in 2012 accounted for a higher proportion of household expenditure for low-income households than such costs in the 1980s. In 1988, 17% of households in the lowest income quintile spent more than 30% of their income on housing in 1994 this was the highest at 52% of households, and in 2007, 39% of households [5]. Perry noted that the income-related rental policies introduced in 2000, along with later changes to accommodation supplements (AS), helped reduce housing expenditure for some low income households. These changes contributed to reductions in AHC child poverty during 2001–2007. There were no further policy changes during 2007–2012 and maximum rates of assistance remaining fixed although housing costs continued to increase [5]. This resulted in increases in the AHC child poverty rates during 2007–2010 (Figure 2).

Similar changes are seen using a fixed line poverty measure. The AHC trend for the fixed line poverty threshold (<60% 1998 median) during 1984–2008, was broadly similar to that of the BHC trend with the AHC poverty rate in 2007 being just a little higher than the AHC rate in the 1980s (Figure 3).

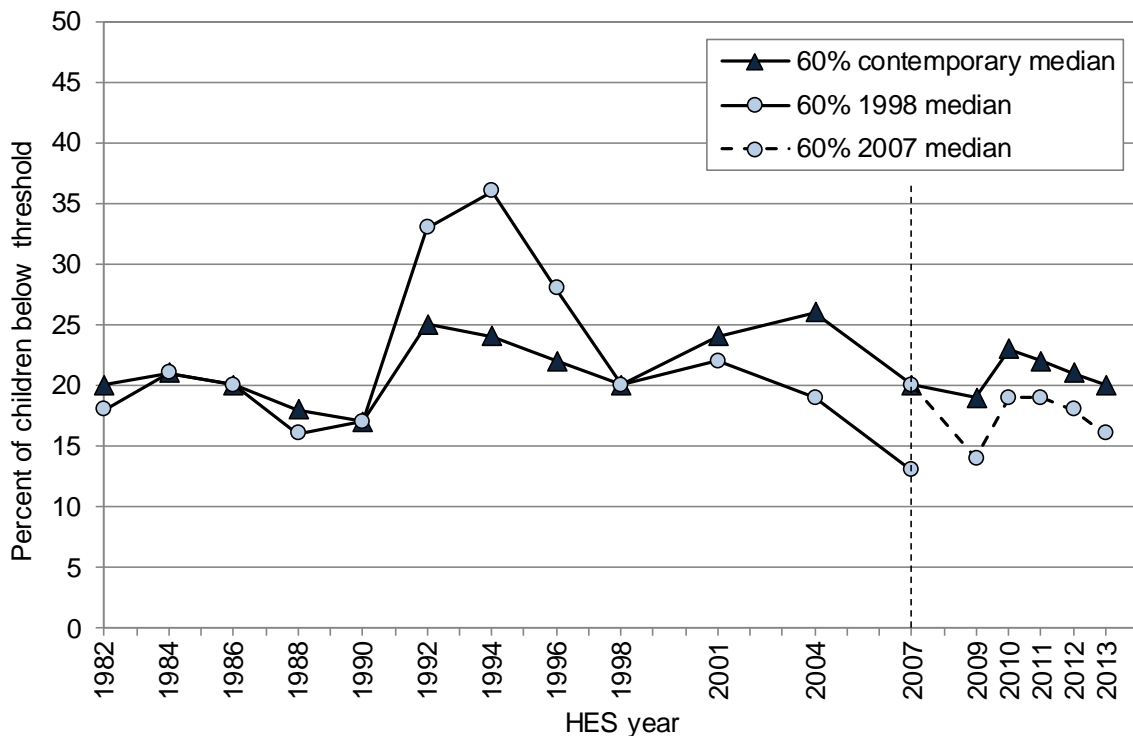


Figure 2. Percentage of dependent 0–17 year olds living below the 60% income poverty threshold (relative) before and after housing costs, New Zealand 1982–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1982–2013

Figure 3. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold before housing costs, New Zealand 1982–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1982–2013

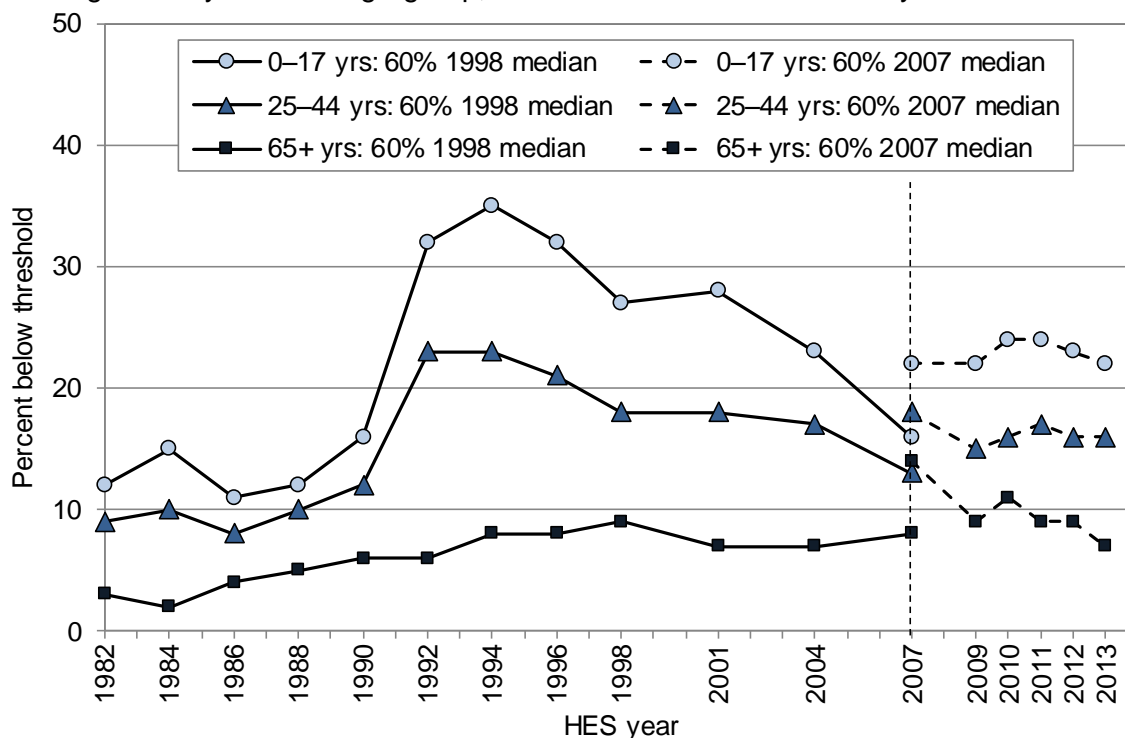


Child Poverty and Demographic Factors

Poverty by Age

In 2013, children aged 0–17 years were three times more likely to be in poverty than those aged 65+ years. During 1982–2013, poverty rates in New Zealand were consistently higher for children aged 0–17 years than for adults aged 25–44 years with the lowest poverty rates being seen amongst those aged 65+ years (**Figure 4**).

Figure 4. Percentage of population living below the 60% income poverty threshold after housing costs by selected age-group, New Zealand 1982–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1982–2013

Child Poverty by Ethnicity

Over the period 2011–2013, on average, around 34% of Māori children and 28% of Pacific children lived in poor households, compared to an average of 16% of European children (using the AHC 60% fixed-line measure) [5]. The higher poverty rates seen in Māori children potentially reflect the relatively high proportion of Māori children living in sole parent beneficiary households (during 2007 to 2011 around 43% of domestic purpose benefit (DPB) recipients were Māori). On average, during 2011 to 2013, just under half (48%) of children living in poverty were Māori or Pacific, using the AHC 60% fixed line measure [5].

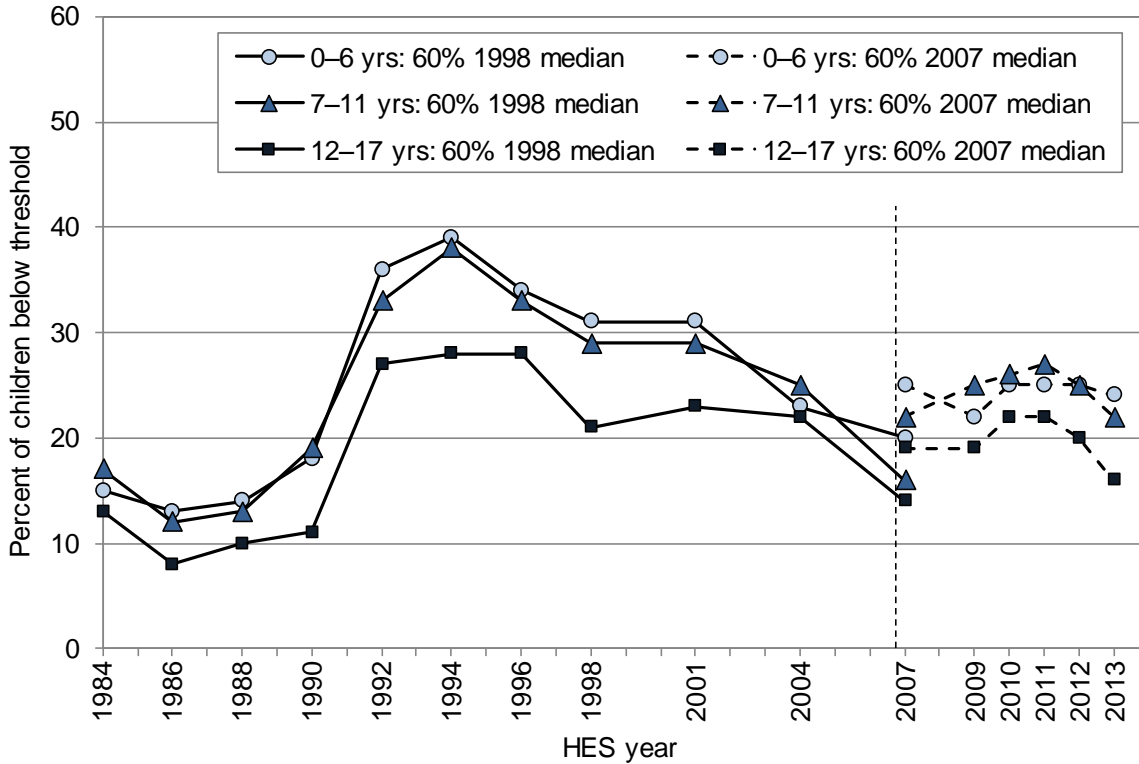
No time series data are available for ethnicity, however, Perry reports that poverty rates for Pacific and Māori children are consistently higher than for European children [5]. Limited analyses by ethnic group are reported in the NZHES [5] because of the relatively small sample sizes for Māori, Pacific and Other ethnic groups.

Child Poverty by Children's Age

In New Zealand throughout 1984–2013, poverty rates for younger children (0–6 years and 7–11 years) were generally higher than for older children (12–17 years) (**Figure 5**).

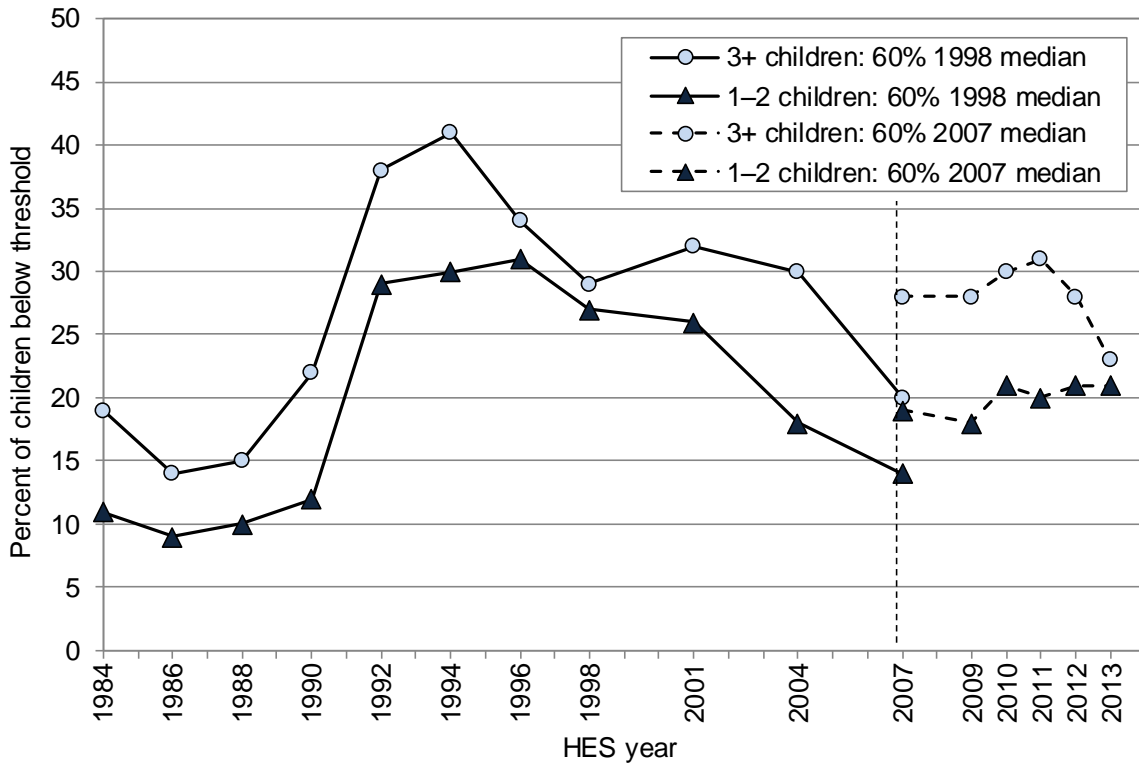


Figure 5. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold after housing costs by age, New Zealand 1984–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1984–2013

Figure 6. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold, after housing costs, by number of children in household, New Zealand 1984–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1984–2013



Child Poverty by Number of Children in Household

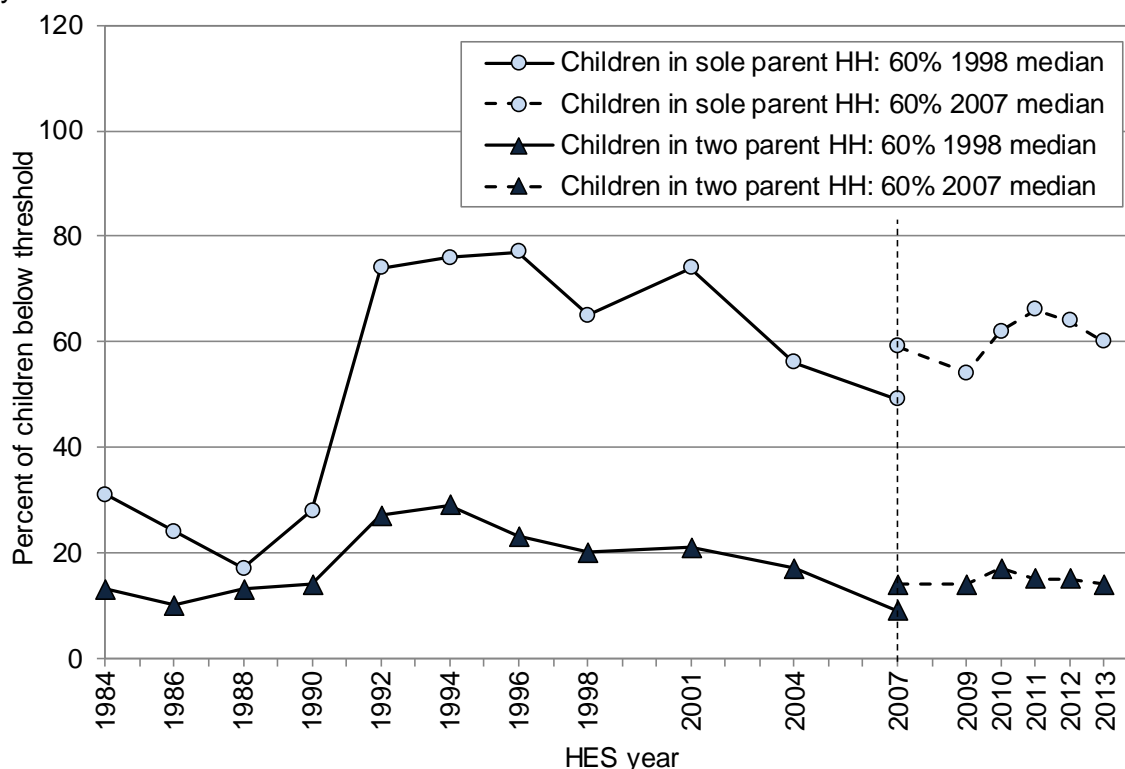
In New Zealand during 1984–2013, child poverty rates for households with three or more children were consistently higher than for those with one or two children (**Figure 6**).

Child Poverty by Family Type

In 2011–2013, on average, 64% of children living in sole parent families were living in poverty compared to 15% of children of two parent families (**Figure 7**). The majority of New Zealand children lived in two parent families (76%) compared to 16% in sole parent families on their own. Perry identified that 53% of children in poverty were in sole parent families and 47% in two parent households [5]. Perry also noted that children living in multi-adult family households have lower poverty rates than those living in sole parent households [5].

Historically, poverty rates for children in both sole parent and two-parent families declined between 2001 and 2007 in New Zealand. In 2007, however, rates for children in sole-parent families remained higher than their 1980s levels while rates for children in two-parent families were similar [5].

Figure 7. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold after housing costs by household type, New Zealand 1984–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1984–2013

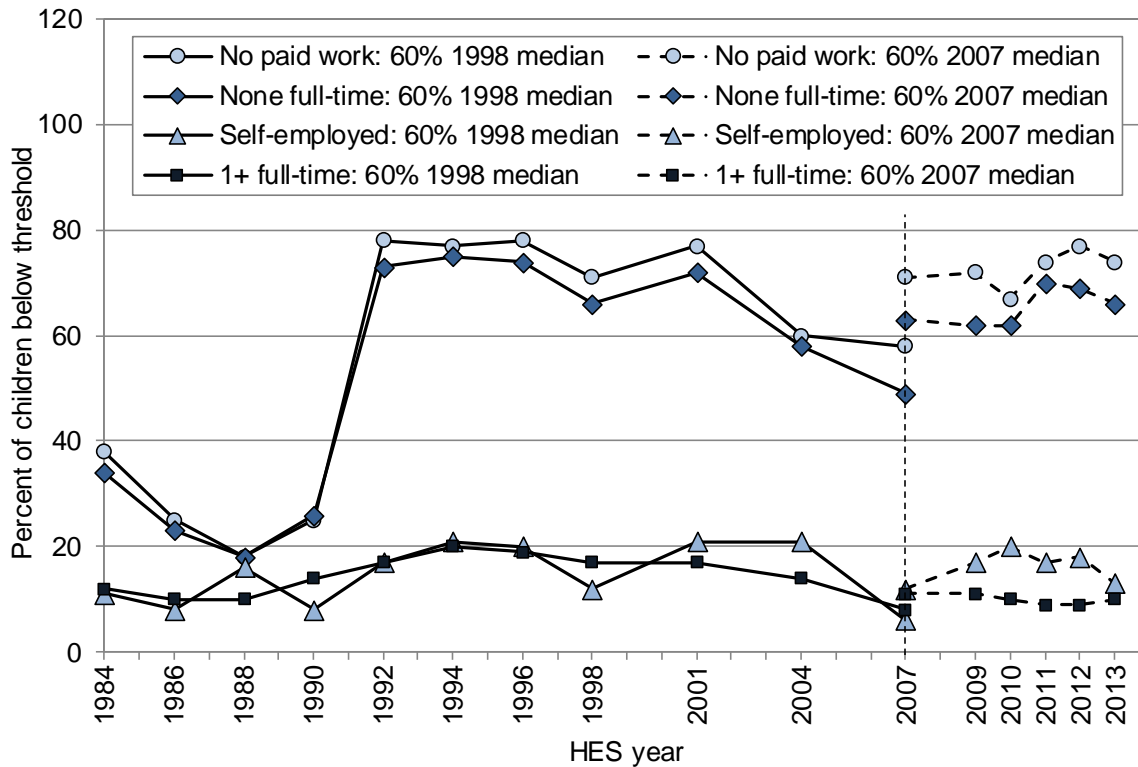
Child Poverty by Work Status of Adults in Household

From 2011 to 2013, on average, around 37% children who were living in households below the fixed line <60% median poverty threshold AHC came from working families (down from one in two (52%) in 2004 before Working for Families) while 63% were in families reliant on a benefit income [5].

Perry notes that from 1992 to 2004, children in households with no adults in paid work generally had poverty rates around four times higher than for those in households where at least one adult worked full-time. From 2007 to 2013, the difference was even greater—around six to seven times higher for children in households where no adults were in paid work [5].

Historically in New Zealand, child poverty rates for children in households with no adults in paid work, or where no adults worked full-time, increased rapidly during 1988–1992. Poverty rates for children in these households remained elevated during the 1990s (range 66%–78%), before declining during 2001–2007. Even at their lowest point in 2007, poverty rates for children in these households remained much higher than 1980s levels. In contrast, increases in child poverty for households where an adult worked full-time, or was self-employed, were much less marked, with rates in 2007–2009 being similar to those in the 1980s (**Figure 8**).

Figure 8. Percentage of dependent children aged 0–17 years living below the 60% income poverty threshold after housing costs by work status of adults in the household, New Zealand 1984–2013 HES years



Source: Perry 2014 [5], derived from Statistics New Zealand Household Economic Survey (HES) 1984–2013

Child Poverty by Ethnicity

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