The Treasury

Budget 2026 Information Release

September 2026

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[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

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[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Meeting with Minister Upston on potential objectives and options for welfare reform

Date:	21 July 2025	Report No:	T2025/1782
		File Number:	SH-3-6-M120579

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Discuss** this report with Minister Upston at your meeting on 23 July **Forward** a copy of this report to Minister Upston ahead of the meeting	23 July 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Jeanne Barnard	Senior Analyst, Welfare and Oranga Tamariki	[39]	[35]	✓
Allie Jarratt	Acting Manager, Welfare and Oranga Tamariki			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes (attached)

Treasury Report: Meeting with Minister Upston on potential objectives and options for welfare reform

Executive summary

You are meeting with the Minister for Social Development and Employment, Hon Louise Upston, at 8:30am on Wednesday 23 July to discuss potential objectives and options for welfare reform in Budget 2026 and beyond.

The meeting was set up as a result of your feedback on the Treasury report "Addressing medium-term expenditure pressures" [T2025/1119 refers]. [33]

[33]

You requested information on current policy settings and fiscal costs of the welfare system, to inform choices about potential welfare reform for Budget 2026 and beyond.

To support your discussion with Minister Upston, this report provides you with an overview of the welfare system and the trade-offs within it, potential options for welfare reform through Budget 2026 and over the medium term, and questions to use as prompts at the meeting.

There is opportunity to make changes to the welfare system across a range of different areas, including eligibility criteria, improving financial incentives to work, and changes to employment support and case management. Which options you choose, and the magnitude of the change, will depend on your objectives for welfare reform.

Welfare reform inevitably involves trade-offs between three key objectives of (1) ensuring adequate incomes/alleviating poverty, (2) providing financial incentives to work, and (3) limiting fiscal costs. It is generally possible to make a change in welfare settings that achieves one or two of these objectives, but not all three of them.

Officials will be guided by Ministers' objectives. If you would like to progress welfare reform through Budget 2026, some potential areas to focus on are changes to eligibility criteria to further target support, and changes to rates that could have an impact on financial incentives to work. These changes could also help to generate fiscal savings. Options for changing rates of payment, abatement rates or thresholds, or changes to indexation, could be developed relatively quickly, and therefore considered through Budget 2026. Pursuing such options would require trade-offs around ensuring adequate incomes/alleviating poverty, including meeting the Government child poverty reduction targets.

[33]

Following your meeting with Minister Upston, we can work with MSD to develop welfare reform options for consideration through Budget 2026 and beyond based on Ministers' objectives, and taking into account agency capacity to deliver particular options given existing work programmes.

You are also meeting with Budget Ministers in the week of 28 July to discuss a medium-to-long term fiscal strategy and setting early expectations for Budget 2026. We will work with your office to provide any update from your discussion with Minister Upston on welfare reform that you may want to discuss with Budget Ministers.

Treasury Report: Meeting with Minister Upston on potential objectives and options for welfare reform

Purpose of Report

1. You are meeting with the Minister for Social Development and Employment, Hon Louise Upston, at 8:30am on Wednesday 23 July to discuss potential objectives and options for welfare reform in Budget 2026. To inform this initial discussion, this report provides you with:

    - an overview of the welfare system and trade-offs within the system
    - potential objectives and high-level options for welfare reform, and
    - some questions to use as prompts for the meeting.

Background

2. At our Weekly Agency Meeting with you on 18 June, we discussed the Treasury report "Addressing medium-term expenditure pressures" [T2025/1119 refers]. [33]

3. You requested information on current policy settings and fiscal costs of the welfare system, to inform choices about potential welfare reform for Budget 2026 and beyond.

4. Separately, MSD has been engaging with Minister Upston on the Government target to reduce the number of people on the Jobseeker Support benefit. [33]

5. There are different ways of defining the boundaries of the welfare system, for example, whether it should include student support or childcare support. For the purposes of this report, we have used the 'welfare benefit expenses' functional classification that is used in the Treasury's economic and fiscal updates as outlined in the figure at paragraph 8, rather than only focusing on Vote Social Development.

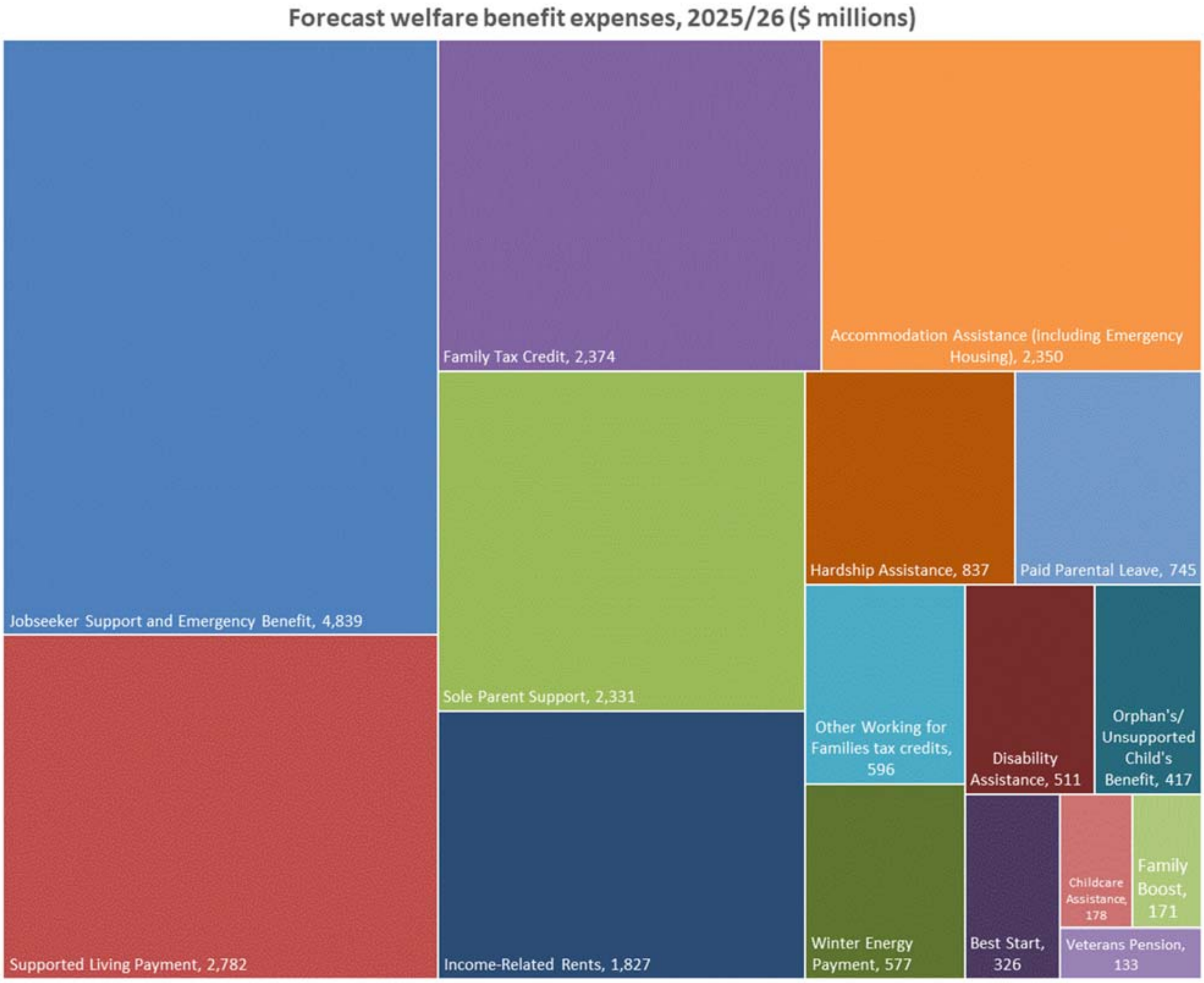
6. This report does not include information on New Zealand Superannuation, a major component of welfare benefit expenses (forecast to cost $24.7 billion in 2025/26), [33]

Overview of welfare system

The cost of the welfare system is significant

7. Spending on welfare supports is a significant part of government expenditure. Excluding New Zealand Superannuation, welfare benefit expenses are forecast to total around $21 billion per year across the forecast period.

8. A snapshot of this expenditure for 2025/26 is set out in the following chart.



9. Spending growth in welfare benefit expenses is driven by a combination of price growth, volume growth and discrete policy decisions.

- **Price growth:** The majority of this spending is indexed to CPI in legislation (e.g. main benefits and Family Tax Credit). Other items are either indexed to CPI by convention (e.g. Childcare Assistance and Disability Allowance), or are adjusted in an ad hoc manner through time (e.g. Accommodation Supplement).

- **Volume growth:** Many of the spending items grow in line with general population growth. Main benefit numbers also generally track the economic cycle, so for instance when there is an economic downturn, Jobseeker Support recipient numbers increase. Historically, this number tracked relatively closely to official unemployment figures. The figures started to diverge in 2018, with the divergence growing significantly during COVID-19. While there was a rapid decline in Jobseeker numbers from the peak in late 2020, numbers have levelled off and remain above pre-COVID-19 levels, and even further above 2018 levels. It is unclear why the gap has persisted, despite changes to economic conditions since then.

- **Discrete policy decisions** to add new supports or change existing ones (e.g. the introduction of the Best Start Tax Credit and the Winter Energy Payment).

10. Since 2017, spending on main benefits has increased substantially, especially on Jobseeker Support and Emergency Benefit (from $1.7 billion in 2017/18 to $4.6 billion in 2024/25). Costs are forecast to increase further in 2025/26, before decreasing from 2026/27 as economic conditions improve.

11. Working for Families payments have become more targeted through time as wage growth has outstripped changes to abatement thresholds. To illustrate, between the 2011 and 2023 tax years, while total Working for Families payments increased by 8 percent (from $2.7 billion to $2.9 billion), the number of families receiving those payments fell by 20 percent (from 421,000 to 336,000).

12. Further information on trends in welfare spending and recipients is included in Appendix One.

There are three main tiers of welfare assistance

13. New Zealand's welfare system can be grouped into three main tiers of assistance: (1) main benefits, (2) supplementary assistance, and (3) hardship assistance. From the first tier through to the third tier, eligibility and entitlement to support becomes more targeted. More information about different elements of welfare support is included in Appendix Two.

<table>
<tr><td>First tier – main benefits
Includes Jobseeker Support, Supported Living Payment, Sole Parent Support, Youth Payment and Young Parent Payment.
Not intended to replace work income, and rates set in acknowledgement that supplementary and hardship payments will be available.
Payments have different abatement regimes, which reflect different expectations for returning to work. e.g. Jobseeker Support abates at 70 percent, to encourage full time work; Sole Parent Support abates at 30 percent for weekly income between $160 and $250 (and then 70 percent for income above $250), to encourage part-time work.</td></tr>
<tr><td>Second tier – supplementary assistance
Designed to help with specific costs and includes housing (Accommodation Supplement and Income Related Rent), children (MSD Childcare Subsidy and Out of School and Recreation subsidy), Winter Energy Payment, disability (Disability Allowance and Child Disability Allowance).
Stricter eligibility criteria than main benefits, to ensure appropriate targeting.
Includes Working for Families (the In-Work Tax Credit, Family Tax Credit, Minimum Family Tax Credit, and Best Start Tax Credit).</td></tr>
</table>

- Some of these payments can be paid to people in work, to support financial incentives to work.

Third tier – hardship assistance

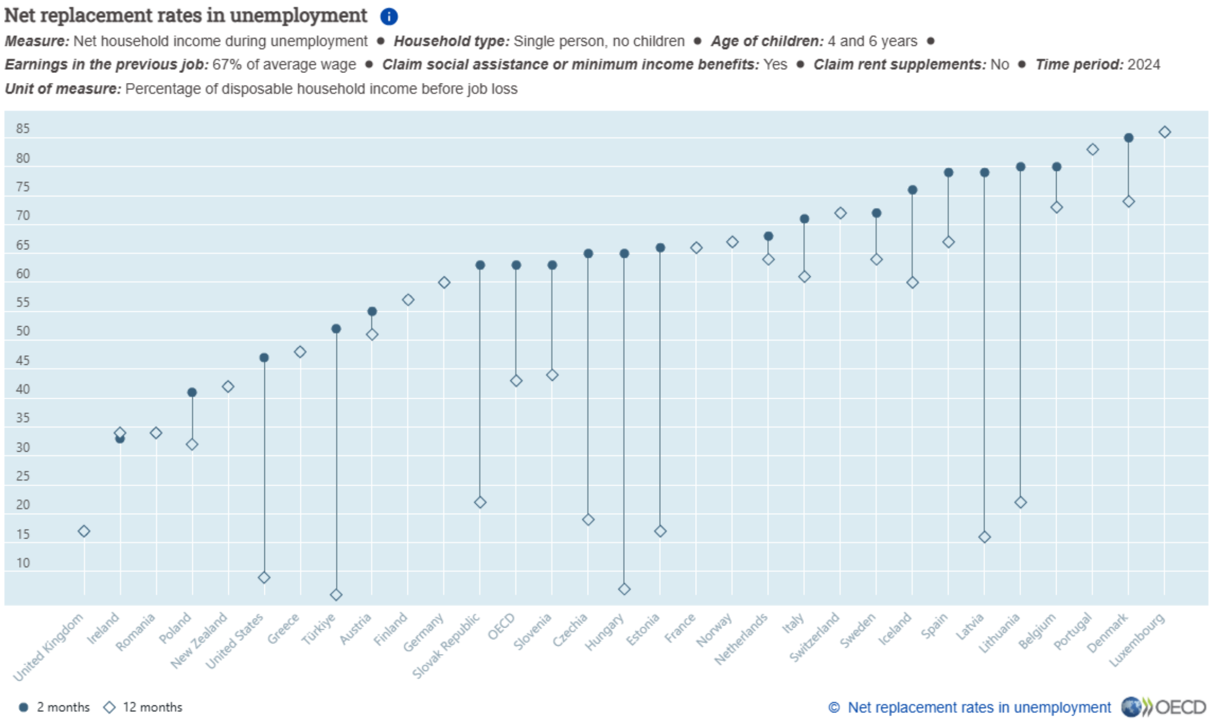
- Payments are for essential needs that cannot be met from any other income and includes: Special Needs Grants, Temporary Additional Support, Benefit Advance Payments, and Recoverable Assistance Payments to non-beneficiaries.
- This is the most targeted tier, and payments are generally one-off.

Information on the gap between welfare and work

14. MSD is developing briefing material for Minister Upston for the meeting on 23 July. This material includes information on example households to demonstrate the difference in financial circumstances for those on benefits and those in work. We understand that Minister Upston's office will forward this material to your office ahead of the meeting.

International comparisons

15. The level of income support provided to jobseekers varies widely across OECD countries. For most OECD countries, the net replacement rate (the share of disposable in-work income maintained by benefit payments) declines over the period of unemployment, which is driven by the transition to unemployment assistance or social assistance when entitlement to unemployment insurance runs out. By contrast, New Zealand, which does not have an unemployment insurance scheme, pays flat rate benefits throughout. As such, New Zealand's net replacement rate is well below the OECD average at the two-month mark (42 percent vs 63 percent), but in line with the OECD average after 12 months (42 percent vs 43 percent)[1].



16. Compared with other OECD countries, New Zealand has a relatively high labour force participation rate (the ratio between the total labour force divided by the total working-age population). For 2023, the OECD average was 79.4 percent, compared to 86.9 percent for New Zealand[2].

1 Income support, redistribution and work incentives | OECD
2 Labour force participation rate | OECD

Levers for welfare reform

17. MSD uses a levers framework to categorise the ways in which welfare policy can be used to achieve specific outcomes. The framework includes three hard levers that affect different elements of the welfare system – gateways, obligations and sanctions, and financial incentives to work. An overview of these is set out in the following table, and is used to frame potential options for welfare reform later in the report. There are then two softer levers – case management style and allocation, and services – which can be used to give effect to particular policies.

Lever	Purpose and features	Effects
Gateways	Influences flows onto benefit through changes to: • eligibility criteria and assessments, e.g. age, income and assets, residency, family composition, needs; and • eligibility conditions e.g. work capacity assessments.	This lever can be used to almost immediately impact the number of people receiving a benefit. Impacting one gateway, however, can impact flows onto others, [33]
Obligations and sanctions	Influences the work-related behaviours of benefit recipients through: • requirements to seek, prepare for, and accept suitable employment; and • the threat and/or imposing reductions in payments because of non-compliance.	This lever can influence how benefit recipients interact with the labour market. It does not necessarily impact the benefit entry or exit rate, and has limited impact when the labour market is weak.
Financial incentives to work	Influences the decisions to enter work or increase hours of work through: • the rate of benefit relative to work incomes and other financial assistance; • abatement regimes that financially encourage participation in paid work; and • direct or market-facing incentive payments.	This lever can be useful when wanting to increase participation in the labour market and exits into work. Changes using this lever could have significant savings or cost implications for Crown expenditure, depending on which part of the system is changed to affect financial incentives to work.

Other areas of government policy can have an impact on the welfare system

18. There are wider government policy settings that can have an impact on welfare system outcomes. Key areas include immigration settings, skills and training policies (e.g. apprenticeships, secondary and tertiary qualification settings), and the minimum wage. These are discussed briefly below. Further policy areas that have an impact on welfare system outcomes include housing, early childhood education and health. Reviews of the social housing system and early childhood education funding are currently underway.

19. The review of the social housing system is being progressed by MSD and the Ministry for Housing and Urban Development, with advice due over 2025 and 2026. Minister Bishop and Minister Upston have chosen system redesign as the scope, and the core focus of the review is on:

- the provision of, and access to, government-funded social and affordable rentals, and
- assistance with housing costs (Income-Related Rent Subsidy, Accommodation Supplement and Temporary Additional Support).

Immigration settings

20. Immigration settings that make it easier for low-skilled workers to enter New Zealand can have a displacement effect on Jobseekers. Tightening immigration settings for low-skilled workers could have an impact on Jobseeker numbers, and MSD has noted there is some evidence for this occurring. For example, the Cabinet Economic Policy Committee considered changes to the Seasonal Visa Pathways on 16 July, which acknowledged the risk of increased low-skilled workers entering New Zealand impacting Jobseeker numbers. The proposal included features such as skills experience thresholds to mitigate this risk. [ECO-25-MIN-0108 refers, the paper is being considered by Cabinet on 21 July].

Education and training policies

21. Education and training policies can have an impact on the welfare system, particularly on Jobseeker numbers. Vocational training and other training programmes can support people in the welfare system to improve employment outcomes and lifetime earnings. This in turn could support lower fiscal costs over time and generate additional tax revenue.

22. [33]

Minimum wage settings

23. The level at which the minimum wage is set also impacts the gap between benefits and work. The rate at which the minimum wage is increased is discretionary, and it was increased by 1.5 percent in 2025. There is a statutory requirement to adjust main benefit rates by CPI on an annual basis. Main benefits increased by 2.22 percent on 1 April 2025.

24. If increases to minimum wage are lower than CPI over time, the gap between benefits and work will decrease further. This could be considered alongside other factors when considering future minimum wage increases. You will also receive advice later this year from the Ministry of Business, Innovation and Employment and the Treasury on the impacts of minimum wage settings on wage compression, productivity, and incentives for people to upskill or seek promotion.

Objectives and potential options for welfare reform

There are inherent trade-offs in any options for changes in the welfare system

25. Welfare reform inevitably involves trade-offs between three key objectives of (1) ensuring adequate incomes/alleviating poverty, (2) providing financial incentives to work, and (3) limiting fiscal costs. This is sometimes referred to as the ‘iron triangle’ of welfare policy: it is generally possible to make a change in welfare settings that achieves one or two of these objectives, but not all three of them.

26. For example, decreasing benefit rates would meet the objectives of providing stronger financial incentives to work and reducing fiscal costs, but it would negatively impact income adequacy. Similarly, decreasing benefit abatement rates would provide stronger financial incentives to work and improve income adequacy, but it would increase fiscal costs.

27. As noted in the Treasury report “Addressing medium-term expenditure pressures” [T2025/1119 refers], higher economic growth can support fiscal consolidation and ease some of the trade-offs. Higher economic growth driven by labour productivity improvements raises incomes, increases the size of the economy, and generates additional tax revenues. However, economic growth generated by higher labour productivity will also flow through into areas of government spending (e.g., New Zealand Superannuation, health, and public sector wages more generally). This is less the case when higher economic growth is generated by higher labour supply, particularly through increased labour force participation.

28. As a result, changes to welfare settings that increase incentives to participate in the labour market could have wider medium-term economic benefits. In the short-term, average productivity per worker could fall as longer-term Jobseekers with lower-than-average skill levels rejoin the labour market.

29. The effective marginal tax rates created by the interaction between the welfare and tax systems will also have an impact on financial incentives to work. More broadly, other elements of the welfare system can play a role, for example, addressing barriers to housing should increase housing supply, lower costs, and have flow on impacts to reduced Accommodation Supplement costs.

Depending on your preferred objectives, there are options that can be progressed through Budget 2026, and some that could be considered over the medium term

30. From the conversation at the Weekly Agency Meeting on 18 June, we understand that you may be interested in considering welfare reform options that would improve financial incentives to work, and that reduce fiscal costs. We also understand that Minister Upston is interested in ‘making work pay.’ It would be helpful to hear Ministers’ views about their objectives for welfare reform, and the balance they might place on achieving particular objectives, given the inherent trade-offs involved.

31. Officials will be guided by Ministers’ objectives for welfare reform. If you would like to progress welfare reform through Budget 2026, some potential areas to focus on are changes to eligibility criteria to further target support, and changes to rates that could have an impact on financial incentives to work. These changes could also help to generate fiscal savings. Options for changing rates of payment, abatement rates or thresholds, or changes to indexation, can be developed relatively quickly, and therefore considered through Budget 2026. Progressing such options will require trade-offs around ensuring adequate incomes/alleviating poverty, including meeting the Government child poverty reduction targets, and considering agency capacity to develop and implement the proposed options alongside existing work programmes.

32. [33]

33. It will be important to consider any welfare reform options alongside work already underway. Examples include:

- MSD is focusing considerable effort on delivering the multi-year “Services for the Future” programme, which will modernise MSD’s technology and business processes, enabling better targeted and integrated service delivery to clients, and

- Funding provided through Budget 2025 for the “Invest-to-Save” initiative will see MSD case-managing all under-25 Jobseekers with work obligations.

34. An ongoing focus on improving economic conditions will also contribute to lowering the cost of the welfare system, for example, through the ‘Going for Growth’ work programme. Temporary variations to Jobseeker numbers and associated transfer spending across an economic cycle are one of the main forms of so-called automatic fiscal stabilisers on the spending side. Improving economic performance on a sustained basis over the medium term would be expected to increase the demand for labour and see a decline in Jobseeker numbers.

35. The following table uses the levers framework to provide more information on some illustrative options for welfare reform. It places them in the context of changes that are already underway, gives a high-level assessment of the impact on the three ‘iron triangle’ objectives, and whether options could be considered through Budget 2026 or over the medium to long-term.

Lever	Changes already underway	Potential reform options	Impact on key objectives			Budget 2026 or medium term
			Income adequacy	Work incentives	Fiscal cost	
Gateway (eligibility)	Budget 2025 parental assistance test savings initiative for 18-19 year old Jobseeker Support recipients from 1 July 2027. Budget 2025 Automated Decision-Making savings initiative will improve integrity of administration of welfare support by initiating reviews of benefits, requesting information, confirming clients' ongoing eligibility, etc. Review of Social Housing (including Accommodation Supplement and Income-Related Rent Subsidy), led by Ministers Bishop and Upston; decisions for Budget 2026.	Further target eligibility for different groups, e.g.: • [33] • • • •	[33]			
Obligations and sanctions	Traffic Light System: new sanctions (Money Management, Community Work Experience, Upskilling, Report Job Search). Jobseeker Support reapplication every 26 weeks instead of 52 weeks.	No further changes recommended at this time.	-	-	-	-

Lever	Changes already underway	Potential reform options	Impact on key objectives			Budget 2026 or medium term
			Income adequacy	Work incentives	Fiscal cost	
Financial incentives to work	Budget 2025 increase in Working for Families abatement threshold/rate from 1 April 2026. Budget 2025 "income charging" savings initiative will see better MSD-IRD income data matching to reduce benefit overpayments.	[33]				

Questions for discussion with Minister Upston

36. In your meeting with Minister Upston on 23 July, we suggest covering the following questions:

    - What are Ministers' objectives for welfare reform for Budget 2026 and beyond?

    - Given the inherent trade-offs involved in welfare policy, are there particular objectives that you would give stronger weight to?

    - The next step is to commission advice from officials on reform options that you would like to see developed for consideration. At this stage, are there any options or areas that you would like to rule out?

Next steps

37. We recommend discussing your objectives for welfare reform at your meeting with Minister Upston on 23 July. Following that meeting, we can work with MSD to develop welfare reform options for consideration through Budget 2026 and beyond.

38. You are meeting with Budget Ministers the week of 28 July to discuss a medium-to-long term fiscal strategy and setting early expectations for Budget 2026. We will work with your office to provide any update from your discussion with Minister Upston on welfare reform you may want to discuss with Budget Ministers.

Recommended actions

We recommend that you:

a **discuss** the contents of this report with Hon Louise Upston (Minister for Social Development and Employment) at your meeting on 23 July, and

b **forward** a copy of this report to Minister Upston ahead of the meeting.

Agree/disagree.
Minister of Finance

Allie Jarratt
Acting Manager, Welfare and Oranga Tamariki

Hon Nicola Willis
Minister of Finance

Appendix One: Trends in welfare spending

Chart 1: Spending on selected welfare expenses

($ millions, actuals and BEFU-25 forecasts)

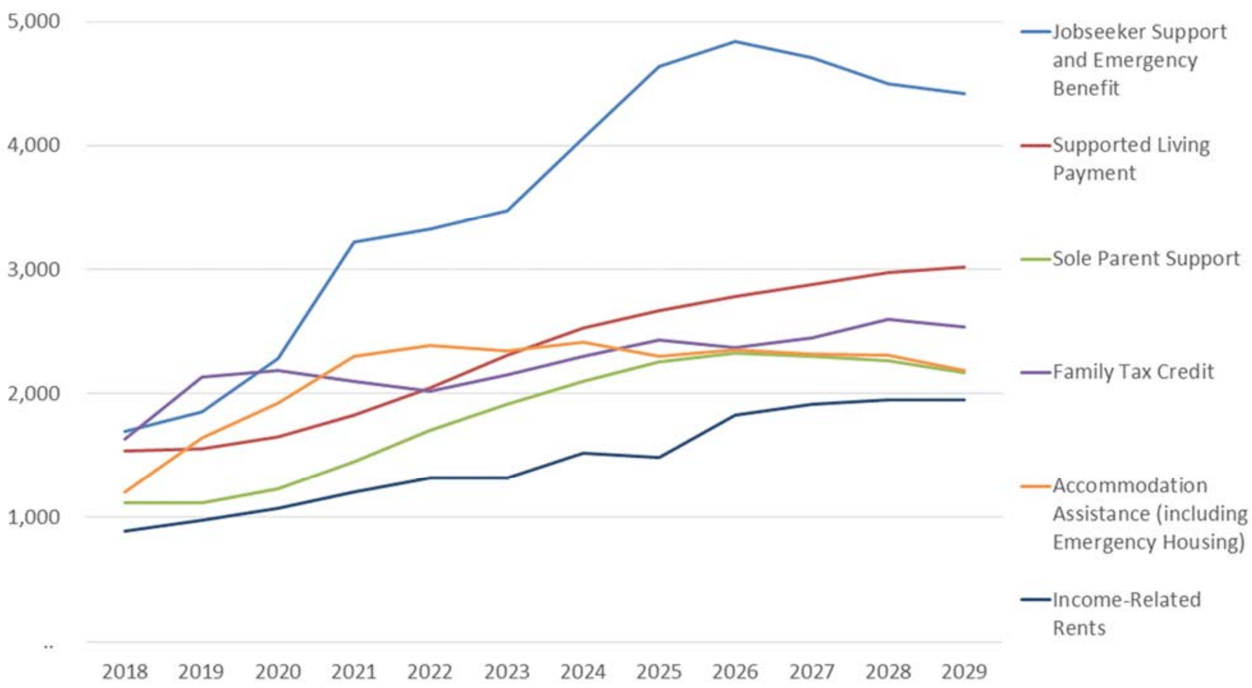
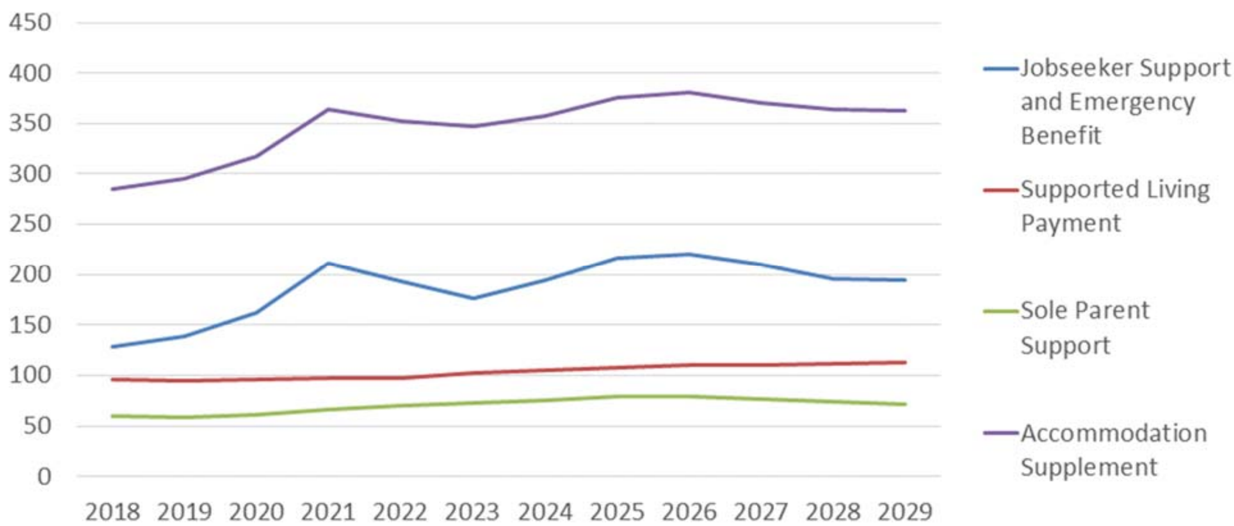


Chart 2: Recipient numbers for selected welfare expenses

(Thousands, actuals and BEFU-25 forecasts)



Appendix 2: Overview of eligibility and rates for selected welfare supports

(Figures are weekly and after tax unless otherwise stated, and rounded to the nearest dollar)

<table>
<tr><th colspan="2">Main benefits</th></tr>
<tr><td>Jobseeker Support
Client must be unemployed and actively seeking employment.
Singles 25+ with no children receive $361, and equivalent couples receive $615.</td><td>Sole Parent Support
Client must 20+, have a child 0-13 years old and be single. Otherwise, sole parent beneficiaries generally receive Jobseeker Support.
Clients receive $506.</td></tr>
<tr><td>Supported Living Payment
Clients must either have a health condition that prevents working, or be a carer of a child with a disability.
Singles 18+ with no children receive $412, couples receive $700.</td><td>Others
Youth Payment and Young Parent Payment.
Emergency Benefit and Emergency Maintenance Allowance.
Jobseeker Support Student Hardship.</td></tr>
<tr><th colspan="2">Supplementary Assistance</th></tr>
<tr><td>Accommodation Supplement
Available to beneficiaries and non-beneficiaries who meet income and asset tests.
Paid at different rates in different regions, up to $305 (single or couple, 2+ children).</td><td>Disability Allowance
Clients must have a disability that is likely to last at least 6 months and have ongoing costs related to their disability.
The maximum standard rate is $80.</td></tr>
<tr><td>Winter Energy Payment
Paid to clients on a main benefit or NZ Superannuation for 22 weeks between 1 May and 1 October. ~70% of recipients are on NZ Superannuation, and 30% on main benefit.
$20 for singles with no dependent children, $32 for couples and for people with dependent children.</td><td>Working for Families
Family Tax Credit
Available to beneficiaries and working families. $144 for eldest child, $118 for subsequent child. Abates at 27.5% for annual gross income over $44,900.
In-Work Tax Credit
A payment for low-to-middle income working parents. $97 for the first 3 children, $15 for each subsequent child. Abates at 27.5% for annual gross income over $44,900.
Minimum Family Tax Credit
A ‘top-up’ for low-income working families to an annual gross income of $41,483 so they are better off in work than on a benefit. Abates at 100% for income above the threshold.
Best Start
A payment of $73 for parents during the first three years of a child’s life. Abates at 21% for annual gross income over $79,000.</td></tr>
<tr><th colspan="2">Hardship Assistance</th></tr>
<tr><td>Special Needs Grants
There are ~330,000 food grants a month. By value, this is only matched by accommodation costs (~$30 million a month).</td><td>Others
These include Temporary Additional Support, Benefit Advance Payments, and Recoverable Assistance Payments.</td></tr>
</table>