February 2022

# Patterns across debt and debtors to government

Connections between debt to IR, MSD, and MoJ





### Authors

Freya Li<sup>1</sup>, Simon Anastasiadis<sup>1</sup>

### Acknowledgements

Many contributions made this work possible and better than it would have been without them

KereAna Buchanan<sup>1</sup>, Verity Warn<sup>1</sup>, Joanne Butterfield<sup>2</sup>, Matthew Atherton<sup>2</sup>, James Atkinson<sup>2</sup>, members of the Intelligence & Information Services Analytics Team<sup>2</sup>, Liz Beavon<sup>3</sup>, Marc De Boer<sup>3</sup>, Steve Hutton<sup>3</sup>, Steph Simpson<sup>4</sup>, Emmy Gauper<sup>4</sup>, Kim Turrell<sup>4</sup>, Hazel Ancheta<sup>4</sup>, Daniel Kurvink<sup>4</sup>, Integrated Data Service Delivery Team<sup>5</sup>, Integrated Data Customer Liaison Team<sup>5</sup>, and Integrated Data Development Team<sup>5</sup>

1 - Social Wellbeing Agency, 2 - Inland Revenue, 3 - Ministry of Social Development, 4 - Ministry of Justice, 5 - Stats NZ

## **Creative Commons Licence**





This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Crown and abide by the other licence terms. Use the wording 'Social Wellbeing Agency' in your attribution, not the Social Wellbeing Agency logo.

To view a copy of this licence, visit *creativecommons.org/licenses/by/4.0*.

### Integrated Data Infrastructure disclaimer

These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit https://www.stats.govt.nz/integrated-data/.

The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

### Liability

While all care and diligence has been used in processing, analysing and extracting data and information in this publication, the Social Wellbeing Agency gives no warranty it is error free and will not be liable for any loss or damage suffered by the use directly, or indirectly, of the information in this publication.

### Citation

Social Wellbeing Agency 2022. Patterns across debt and debtors to government: Connections between debt to IR, MSD, and MoJ. Wellington, New Zealand.

ISBN 978-0-473-61209-2 (online)

Published in January 2022 by Social Wellbeing Agency Wellington, New Zealand

## Contents

Understanding debt to government5
We analyse the main types of debt in detail6
Summary of findings6
There are limitations to consider before using this work7
Common debtors and overlaps between debt types9
Debt amounts and dynamics10
Benefit overpayment debtors to MSD11
Recoverable assistance debtors to MSD12
Fines debtors to MoJ
Income tax debtors to IR14
Working for Families (WfF) overpayment debtors to IR15
Liable parent child support debtors to IR16

## **Understanding debt to government**

Debt is an established feature of many countries' financial systems where it plays an important role in smoothing household expenditure. However, debt can also become a significant problem for individuals or families where servicing it becomes either unaffordable or burdensome.

In New Zealand, around three quarters of a million people (762,460) owe debt to the government, with a combined total debt in excess of \$4.68 billion. Although this is only a small proportion of all household debt<sup>1</sup>, debt to government can arise in ways that are very different from private debt. This means that considerations of affordability, hardship, problem debt, or debt management may apply differently to debt to government than to private debt.

Policy decisions about debt and debt management are in many ways decisions about debtors and debtor experience. Making these decisions without sufficient understanding of debt or of people with debt increases the risk that such decisions will be ineffective, counter-productive, or harmful. Therefore, it is important that work focusing on debt to government is informed by the information the government already holds.

Previous work by the Social Wellbeing Agency<sup>2</sup> used debt data from 2018 to examine debt owed by individuals to two government agencies: Ministry of Social Development (MSD) and Inland Revenue (IR). The key insights were:

- Of the people with debt to at least one of MSD or IR, 12 percent (around 88,000) owe debt to both.
- Whether people with debt to IR also have debt to MSD varies with the type of IR debt. People with child support or Working for Families (WfF) tax credit debt to IR are much more likely to also have debt to MSD than people with income tax debt.
- There are large differences in the financial circumstances and demographics of people who owe different types of debt to MSD or IR. For example, people with income tax debt are older and have higher material wellbeing compared to people with child support debt.
- People's debt to the government shows significant persistence. We observed 68 percent of people with debt to MSD and 39 percent of people with debt to IR had at least one debt that had lasted more than three years.

This report builds on our previous analysis and describes results from further analysis using debt records through to September 2020. We examined several areas where additional investigation was identified as worthwhile. Like our previous work, the results from this analysis are not intended to aid debt recovery, but to fill gaps in our understanding about the nature and characteristics of debt and debtors.

<sup>&</sup>lt;sup>1</sup> Statistics published by the Reserve Bank of New Zealand show that in 2019 New Zealand households owed private (nongovernment) debt that included \$196 billion in housing loans, \$7 billion in credit card loans, and \$9 billion in other short-term consumer loans.

<sup>&</sup>lt;sup>2</sup> Understanding debt and debtors to government – Focus on MSD and IR debt, 2022 working paper.

## We analyse the main types of debt in detail

A key difference between this work and our previous analysis is the addition of debt type for debt owed to MSD and the inclusion of debt to the Ministry of Justice (MoJ). While we consider overall debt to each of IR, MSD, and MoJ, we also provide specific analysis for the six debt types that are most common and for which we have the most robust information. These are described in Table 1.

Debt type	Agency	Description
Income tax debt	IR	Occurs when people do not meet their obligations to pay income tax by the due date in the corresponding tax year.
Liable parent child support debt	IR	Occurs when a parent or carer applies to IR to collect child support payments from a child's parent(s) and these payments are not made in full or on time.
Working for Families (WfF) tax credit debt	IR	Occurs when people receive more WfF tax credits during the year than an end-of-year calculation shows they were entitled to.
Benefit overpayment debt	MSD	Occurs when people receiving financial assistance from MSD receive payments they were not entitled to, or more of a payment than they were entitled to, most often as a result of changes in circumstances (such as starting work, changes to hours worked, or changes in living arrangements).
Recoverable assistance debt	MSD	Occurs when people receive one-off recoverable grants to cover immediate, essential, or emergency expenses (such as car repairs or emergency medical treatment). Also includes advance payment of benefits to cover such costs.
Fines debt	MoJ	This covers both infringement and court fines. Infringement fines come from issuing authorities such as local councils and the Police. They become fines if they are not paid on time. Court fines arise when a judge or Justice of the Peace assigns them after a person has been found guilty of an offence.

In addition to the debt types in Table 1, several other debt types are included in our data: overdue student loan<sup>3</sup>, receiving carer child support, GST, employment activities, donation tax credits, other debt to IR, and Family Court Contribution Order (FCCO) debt to MoJ. Together these seven debt types make up less than 10 percent of all debt and include less than 5 percent of all debtors. While we do not report on these debt types in detail, they are included when we consider total debt owed to each agency.

## **Summary of findings**

The key insights from the analysis below may be summarised as follows:

• A total of 762,460 New Zealand residents owe \$4.68 billion of combined debt to MSD, IR, and MoJ.

<sup>&</sup>lt;sup>3</sup> Only the overdue component of Student Loan debt has been included in this work. This is deliberate as Student Loan debt is expected to be long-term debt that creates an asset (via higher qualifications) in a way that debt described in Table 1 is not.

- Of these people, more than a quarter (28%) owe debt to two or more agencies, and 6 percent owe debt to all three.
- More than half of the debt owed to IR, MSD, and MoJ is by people with debt to more than one agency. The 6 percent of people with debt to all three agencies, owe 17 percent of the total debt.
- The distribution of debt is skewed: 47 percent of debtors owe less than \$1,000 and only 13 percent owe more than \$10,000.
- There are overlaps between different types of debt.
  - » Benefit overpayment and recoverable assistance debt to MSD overlaps with child support and WfF overpayment debt to IR, and fines debt to MoJ.
  - » Fines debt to MoJ overlaps with debt to MSD, and child support and WfF overpayment debt to IR.
  - » Income tax debt to IR overlaps with child support debt to IR.
- There are significant differences in the demographic characteristics of people with different types of debt.
  - » Males are over represented among people with income tax debt and liable parent child support debt to IR, and among people with fines debt to MoJ.
  - » Females are over represented among people with benefit overpayment and recoverable assistance debt to MSD, and among people with WfF overpayment debt to IR.
- Several debt types show evidence of persistence, with upwards of 70 percent of debtors being in debt for more than twelve months.

## There are limitations to consider before using this work

The data available for this analysis and decisions made during the course of it, mean that our results are suited for some purposes but not for others. Overall, the methodology and patterns are consistent with previous findings, but exact numbers may differ due to changes in time periods and refinements in the methodology.

The key limitations are:

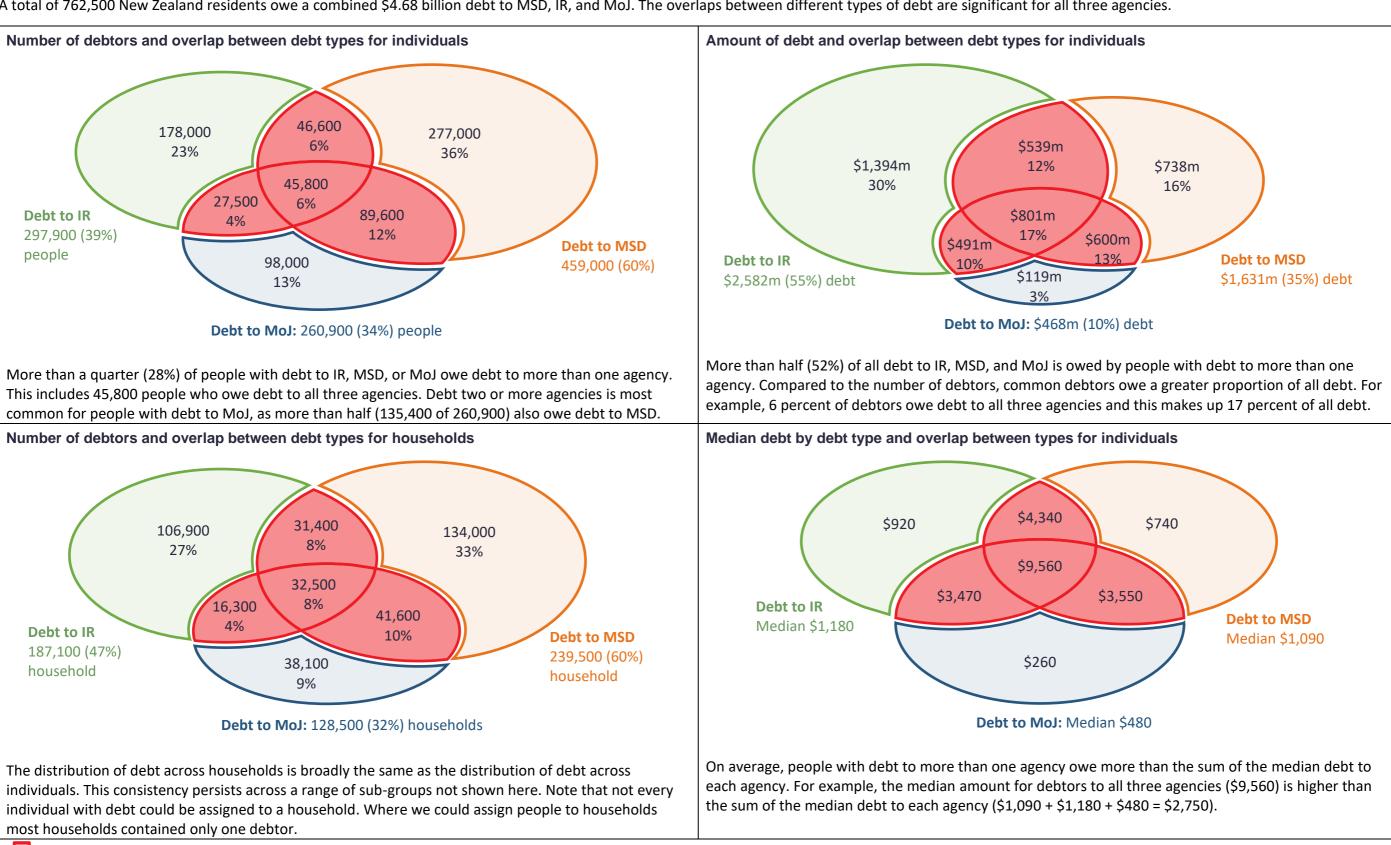
- Our analysis is limited to debt owed by individuals to IR, MSD, and MoJ who were residents in New Zealand during 2020. This means we exclude debt owed by firms and debt owed by people who are overseas. This is most significant for liable parent child support and overdue student loan debt where upwards of half of this debt is owed by people who are overseas.
- In addition to fines and FCCO debt, MoJ also manages Legal Aid debt with \$170 million owed by 50,000 individuals. This is approximately one-quarter of all debt owed to MoJ. However, data on this debt was not available for our analysis and hence is omitted.

- We have used administrative data from the Integrated Data Infrastructure (IDI).<sup>4</sup> This allows for the linking of data together at the individual level, for example, to understand the situations of people who owe debt to all three government agencies: IR, MSD, and MoJ. As linking is an imperfect process, some identities could not be linked and debt relating to these identities have not been included in our analysis. This has negligible effect on MSD and IR debt records, but up to 8 percent of MoJ identities could not be linked to the spine.
- The classification of debt owed to MSD into overpayment debt and recoverable assistance debt was done during our analysis using administrative records of recoverable assistance payments. While MSD were supportive of our approach and our totals are consistent with results from MSD, we have not been able to validate all the assumptions. While this is expected to have minimal effect on most of our work, caution is recommended when making conclusions that depend on how repayments and write-offs are divided between the two types of debt to MSD.
- Although MSD often reports innocent overpayment debt and (overpayment obtained by) fraud separately, we are not able to distinguish these two debt types. However, as only a small proportion of MSD debt cases are fraud, this is unlikely to bias our results.
- IR had a major change in IT system during 2019 and 2020 that include changes to the databases where debt records are stored. These changes, along with refinements to our methodology, mean that differences between the results in this report and our previous work should not be used to infer changes in debt over time.

<sup>&</sup>lt;sup>4</sup> The Integrated Data Infrastructure (IDI) is a large research database. It holds microdata about people and households, much of which comes from administrative government records. Stats NZ maintains and protects the IDI. More details are available on their website: <u>https://www.stats.govt.nz/integrated-data/integrated-data-infrastructure/</u>.

## **Common debtors and overlaps between debt types**

A total of 762,500 New Zealand residents owe a combined \$4.68 billion debt to MSD, IR, and MoJ. The overlaps between different types of debt are significant for all three agencies.

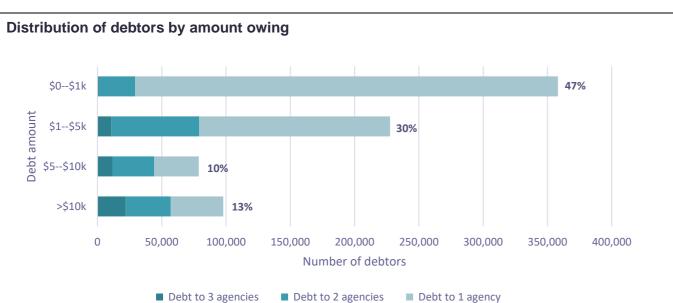


People with debt to more than one agency

#### SOCIAL τοι ήαυ WELLBEING TĀNGATA AGENCY

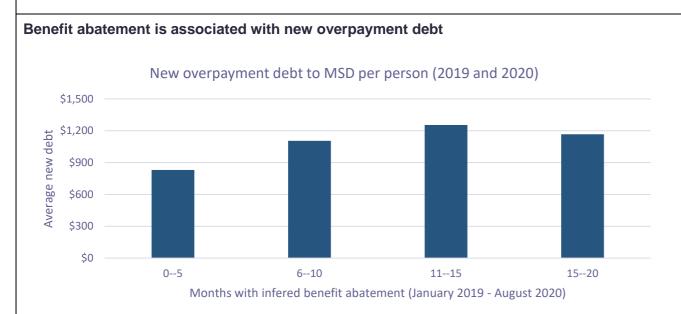


## **Debt amounts and dynamics**

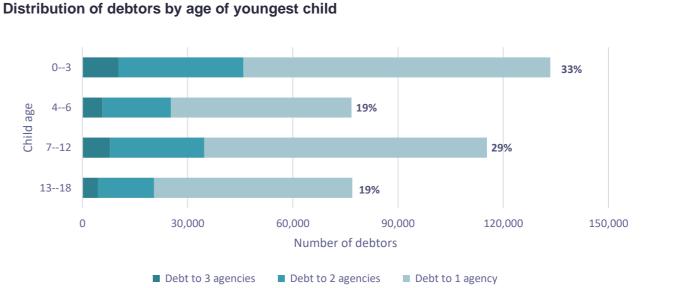


The distribution of debt owed to government is asymmetric and varies with people's circumstances.

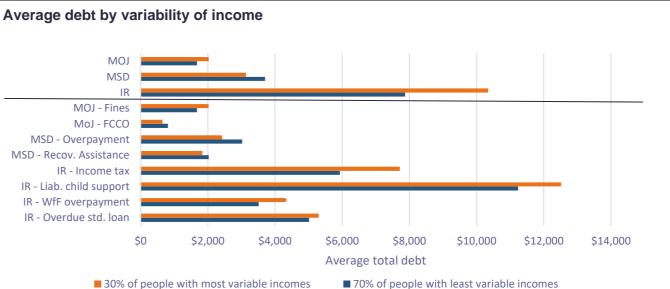
The distribution of debt is very asymmetric: Most debtors owe small amounts to a single agency. However, people with debt to two agencies are more likely to owe more than \$1,000, and people with debt to all three agencies are much more likely to owe more than \$5,000.



We infer the occurrence of benefit abatement (decreases in benefit payment as income from employment increases) by months where a person received income from both employment and benefit payments. People who experienced more abatement gained more new debt on average.



Of the 762,000 debtors, just over half (402,000) are estimated to live in a household with children. In comparison, just over a third of non-debtor adults live in a household with children. The age bands on the left-hand axis reflect approximate schooling stages (pre-school, entry, primary, and secondary). The data shows that debtors are more likely to have younger children.



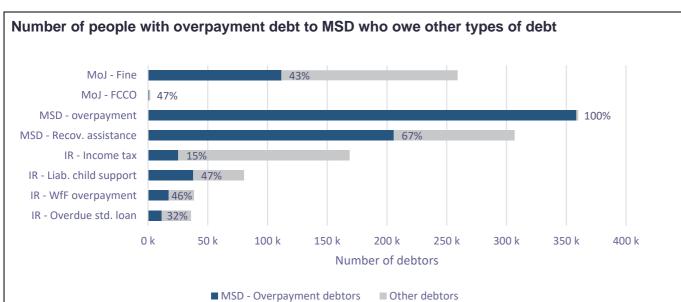
This chart shows average total debt against income variability. We use Mean Log Deviation to measure variability in month-to-month income and compare the people with the most variability against the rest. Debt differences by income variability are most significant for income tax and child support debt to IR.

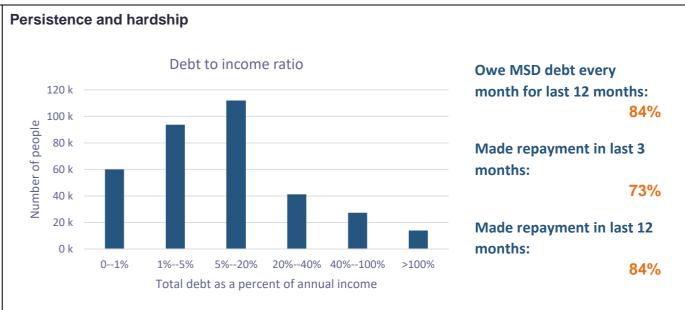
#### SOCIAL τοι ήαυ WELLBEING TĀNGATA AGENCY



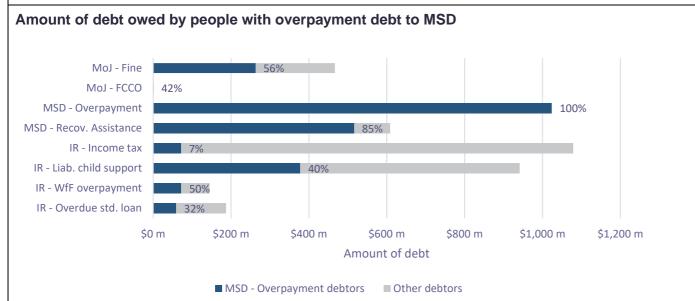
## **Benefit overpayment debtors to MSD**

A total of 358,300 New Zealand residents owe \$1.02 billion of overpayment debt to MSD and \$1.36 billion of other debt to MSD, IR, and MoJ.



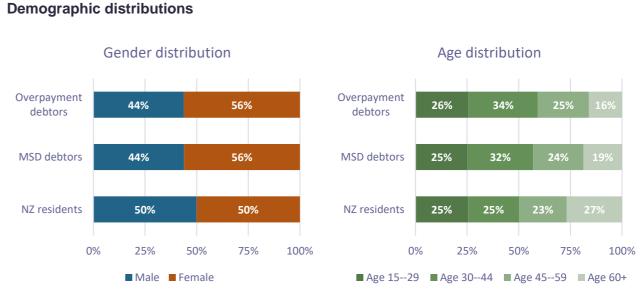


For each debt type, this chart shows the number and percent of people who owe overpayment debt to MSD. These people make up two thirds of people with recoverable assistance debt to MSD, and over 40 percent of people with fines, child support, or WfF overpayment debt.



This chart shows the amount and percent of each type of debt, owed by people with overpayment debt to MSD. These people also owe the majority of recoverable assistance debt to MSD, and at least half of the fines debt to MoJ and the WfF overpayment debt to IR.

People with benefit overpayment debt to MSD show evidence of financial hardship. The vast majority have owed debt to MSD for the last twelve months despite a similar number making repayments, and about one-quarter have total debt more than 20 percent of their annual income.

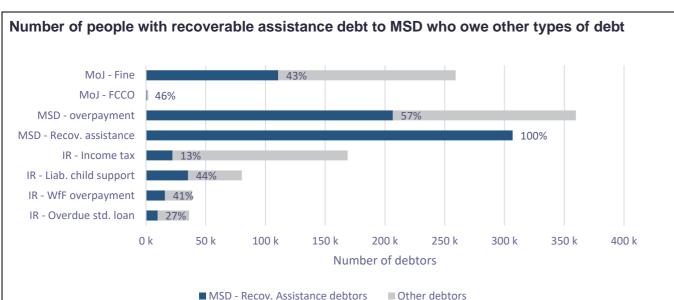


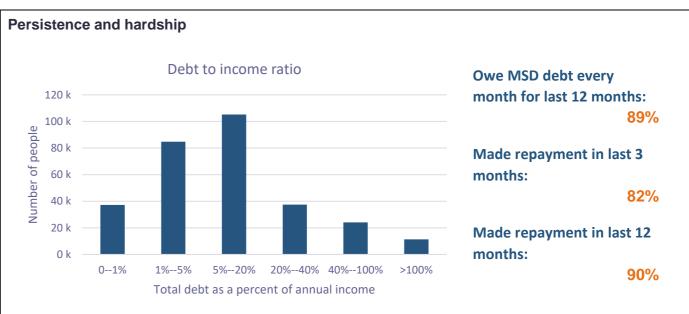
People with benefit overpayment debt are more likely to be female (56%) and aged between 30 and 44 compared to the NZ residential population. This is consistent with the overall pattern of people with debt to MSD, and mostly consistent with the overall pattern of people on benefits.



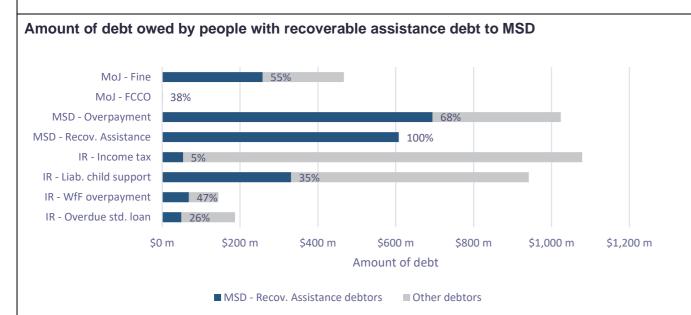
## **Recoverable assistance debtors to MSD**

A total of 306,700 New Zealand residents owe \$0.61 billion of recoverable assistance debt to MSD and \$1.46 billion of other debt to MSD, IR, and MoJ.



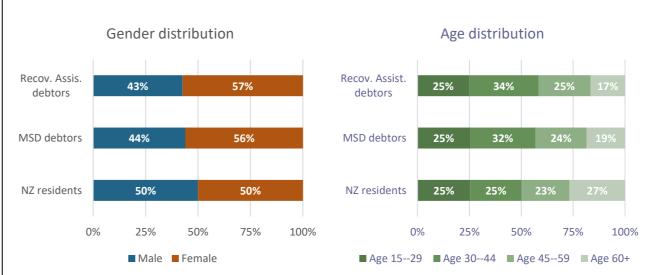


For each debt type, this chart shows the number and percent of people who owe recoverable assistance debt to MSD. These people make up over half of people with overpayment debt to MSD, and over 40 percent of people with fines, child support, or WfF overpayment debt.



This chart shows the amount, and percent of each type of debt, owed by people with recoverable assistance debt to MSD. These people also owe the majority of overpayment debt to MSD and at least half of the fines debt to MoJ.

People with recoverable assistance debt to MSD show evidence of financial hardship. The vast majority have owed debt to MSD for the last twelve months despite a similar proportion making repayments, and about one-quarter have total debt more than 20 percent of their annual income.

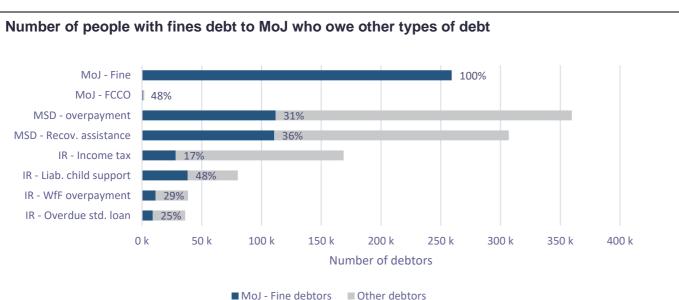


People with recoverable assistance debt are more likely to be female (57%) and aged between 30 and 44 compared to the NZ residential population. This is consistent with the overall pattern of people with debt to MSD, and mostly consistent with the overall pattern of people on benefits.

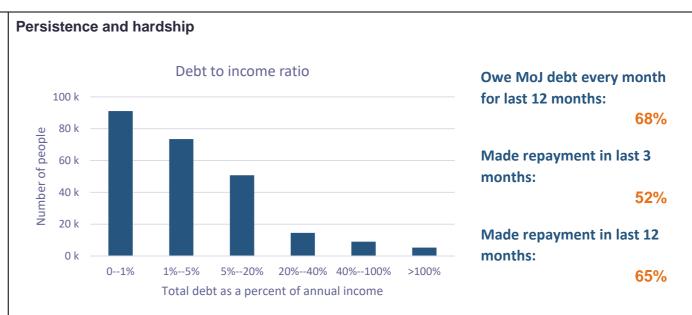
### Demographics distributions



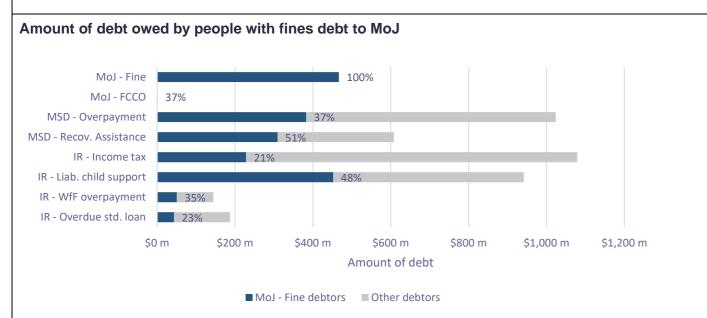
## **Fines debtors to MoJ**



A total of 259,100 New Zealand residents owe \$0.47 billion of fines debt to MoJ and \$1.47 billion of other debt to MSD, IR, and MoJ.

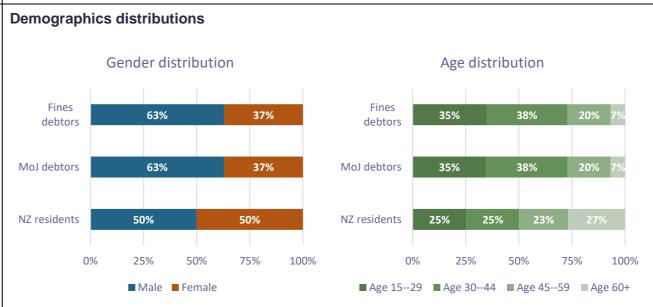


For each debt type, this chart shows the number and percent of people who owe fines debt to MoJ. These people make up almost half of people with child support debt to IR, and close to 30 percent of people with recoverable assistance, benefit or WfF overpayment debt.



This chart shows the amount, and percent of each type of debt, owed by people who owe fines debt to MoJ. These people also owe close to half the recoverable assistance debt to MSD and half the liable parent child support debt to IR.

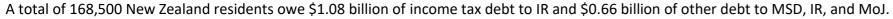
People with fines debt to MoJ show some evidence of financial hardship. The majority (68%) have owed debt to MoJ for the last twelve months, despite similar numbers making repayments. One-in-ten of these people have total debt more than 20 percent of their annual income.

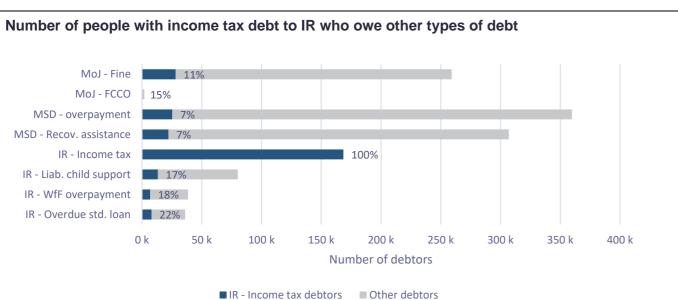


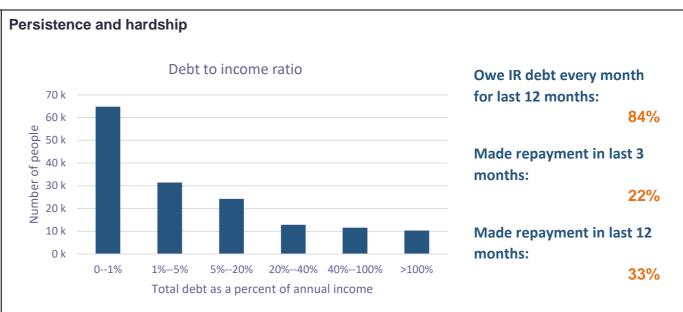
People with fines debt are more likely to be male (63%) and aged under 45 (73%) compared to the NZ residential population. This is consistent with the overall pattern of people with debt to MoJ.



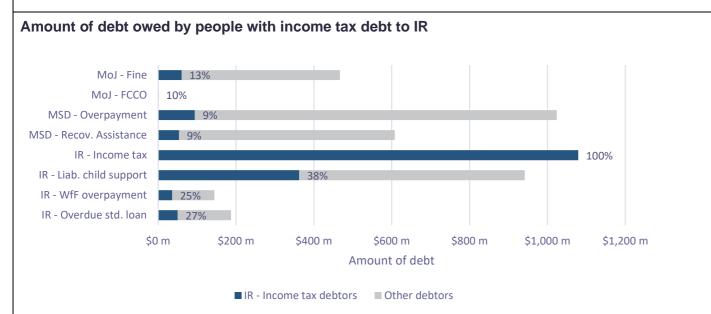
## Income tax debtors to IR





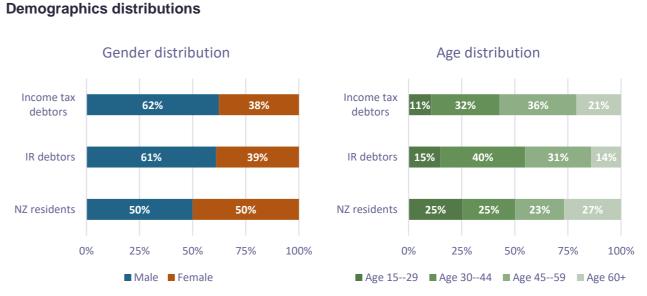


For each debt type, this chart shows the number and percent of people who owe income tax debt to IR. These people make up less than 10 percent of people with debt to MSD, but close to 20 percent of those with each other type of debt to IR.



This chart shows the amount, and percent of each type of debt, owed by people who owe income tax debt to IR. These people also owe more than a quarter of the other types of debt to IR, but only around 10 percent of the debt to MSD or MoJ.

People with income tax debt to IR show some evidence of financial hardship. While 84 percent have owed debt to IR for the last twelve months, only one-third (33%) have made any repayment in the last twelve months. About one-fifth of people have total debt more than 20 percent of their annual income.

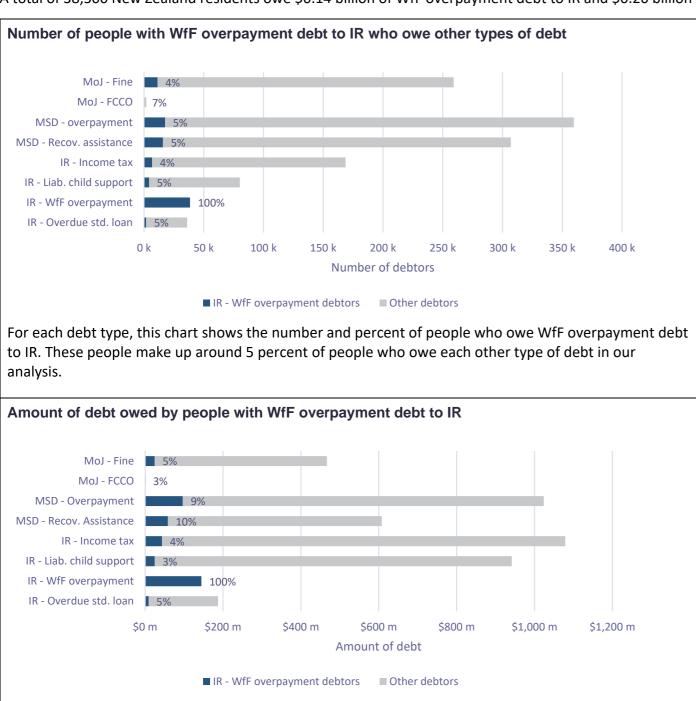


People with income tax debt are more likely to be male (62%) and aged between 30 and 59 compared to the NZ residential population. This pattern is broadly consistent with the overall pattern for people with debt to IR.

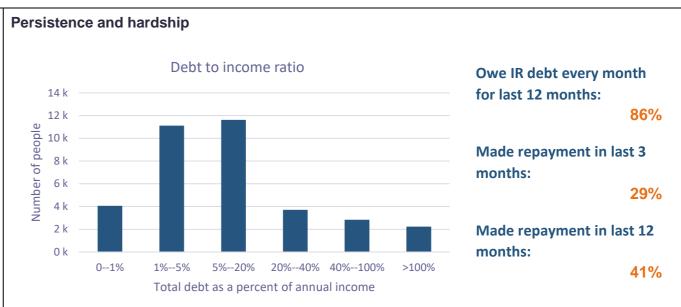


## Working for Families (WfF) overpayment debtors to IR

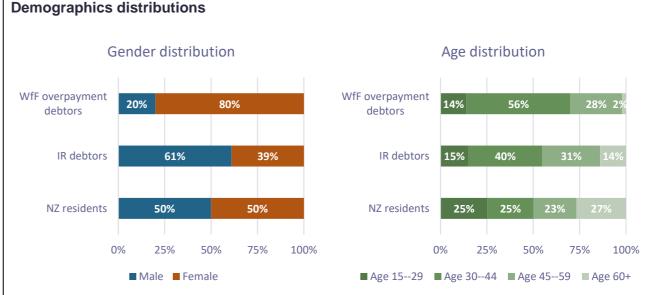
A total of 38,500 New Zealand residents owe \$0.14 billion of WfF overpayment debt to IR and \$0.26 billion of other debt to MSD, IR, and MoJ.



This chart shows the amount, and percent of each type of debt, owed by people who owe WfF overpayment debt to IR. These people also owe around 10 percent of all debt to MSD, but less than 5 percent of other types of debt to IR or to MoJ.



People with WfF overpayment debt to IR show evidence of financial hardship. While 86 percent have owed debt to IR for the last twelve months, less than half (41%) have made any repayment in the last twelve months, and one-quarter have total debt more than 20 percent of their annual income.

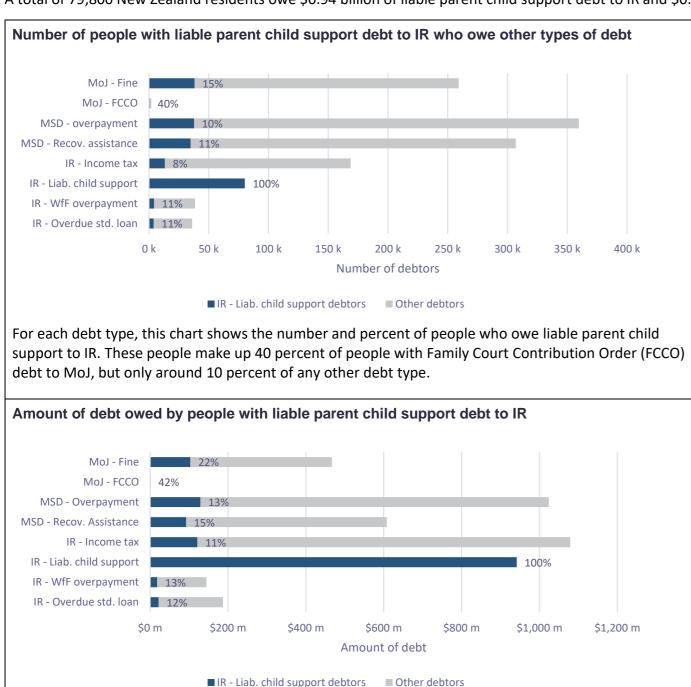


People with WfF overpayment debt are much more likely to be female (80%) and over half are aged between 30 and 44. This is very different from both the New Zealand residential population and the overall pattern of people with debt to IR, but is consistent with the population who receive WfF tax credits.

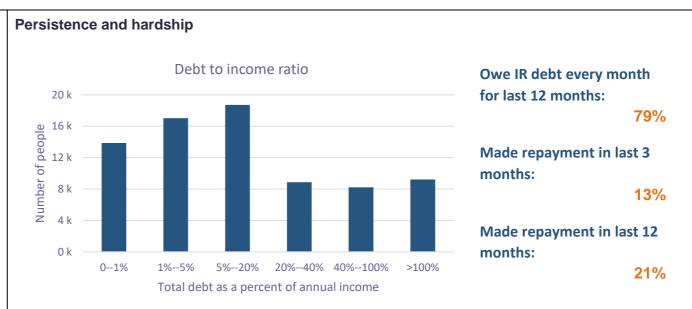


## Liable parent child support debtors to IR

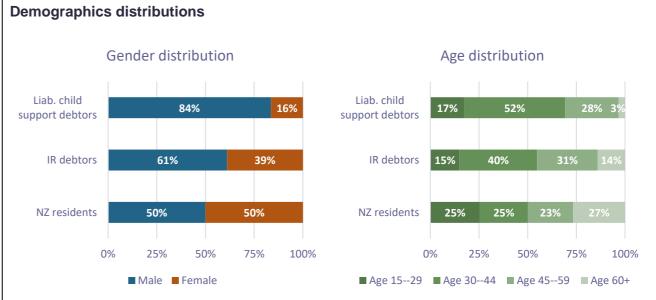
A total of 79,800 New Zealand residents owe \$0.94 billion of liable parent child support debt to IR and \$0.49 billion of other debt to MSD, IR, and MoJ.



This chart shows the amount, and percent of each type of debt, owed by people who owe liable parent child support debt to IR. These people also owe more than 20 percent of the debt to MoJ but less than 15 percent of the debt to MSD, or the other types of debt to IR.



People with liable parent child support debt to IR show evidence of financial hardship. While 79 percent have owed debt to IR for the last twelve months, only one-fifth (21%) have made any repayment in the last twelve months, and more than a third have total debt more than 20 percent of their annual income.



People with liable parent child support are more likely to be male (84%) and over half are aged between 30 and 44. This is very different from both the New Zealand residential population and the overall pattern of people with debt to IR, but is consistent with the population who have child support obligations.

