

# Addressing the growth in Sickness and Invalid's Benefit receipt

Presentation to Welfare Working Group  
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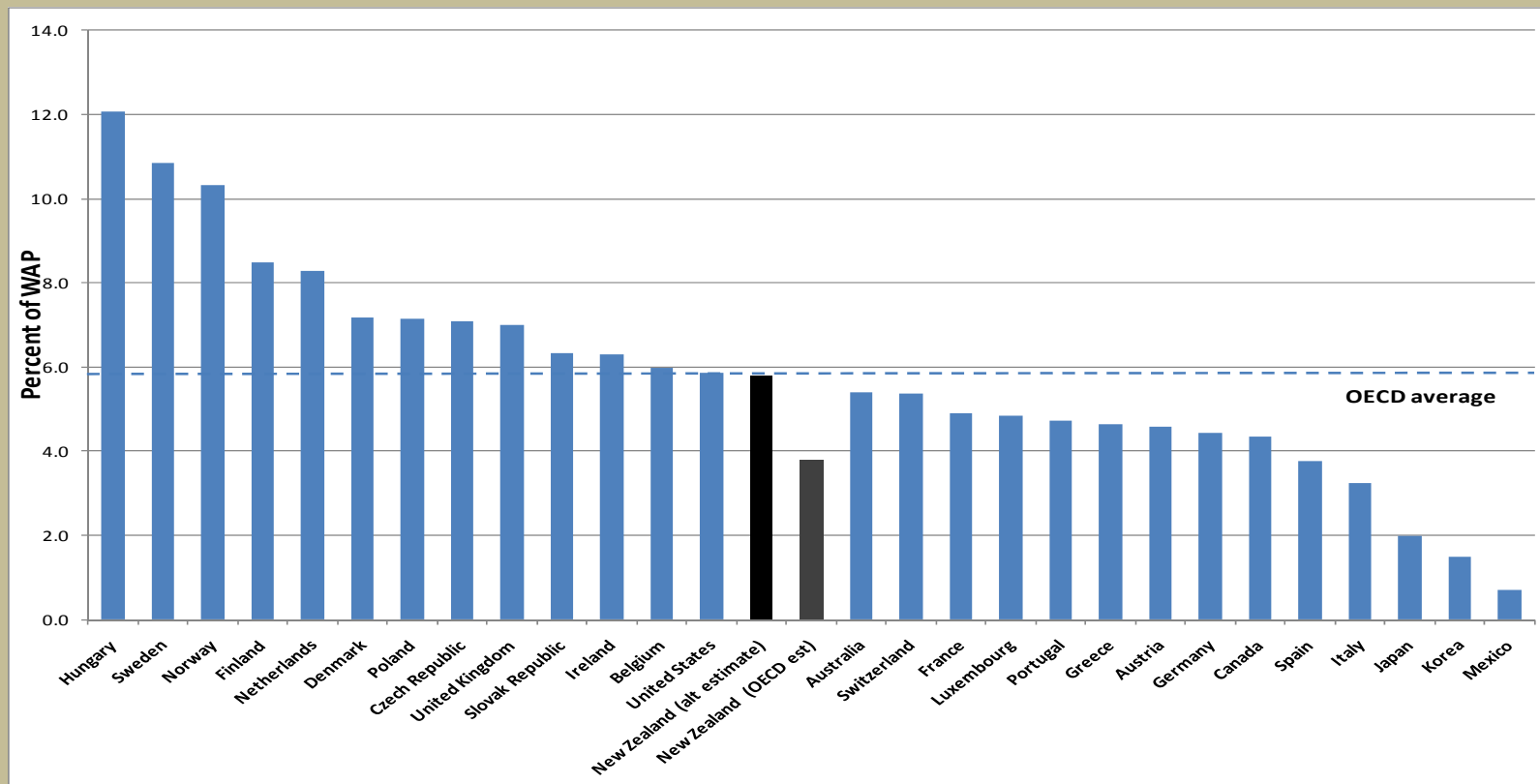
- Presentation based on 2009 paper for NZ Treasury

- Treasury asking two questions:

- *Reasons for the long-run growth in SBIB?*

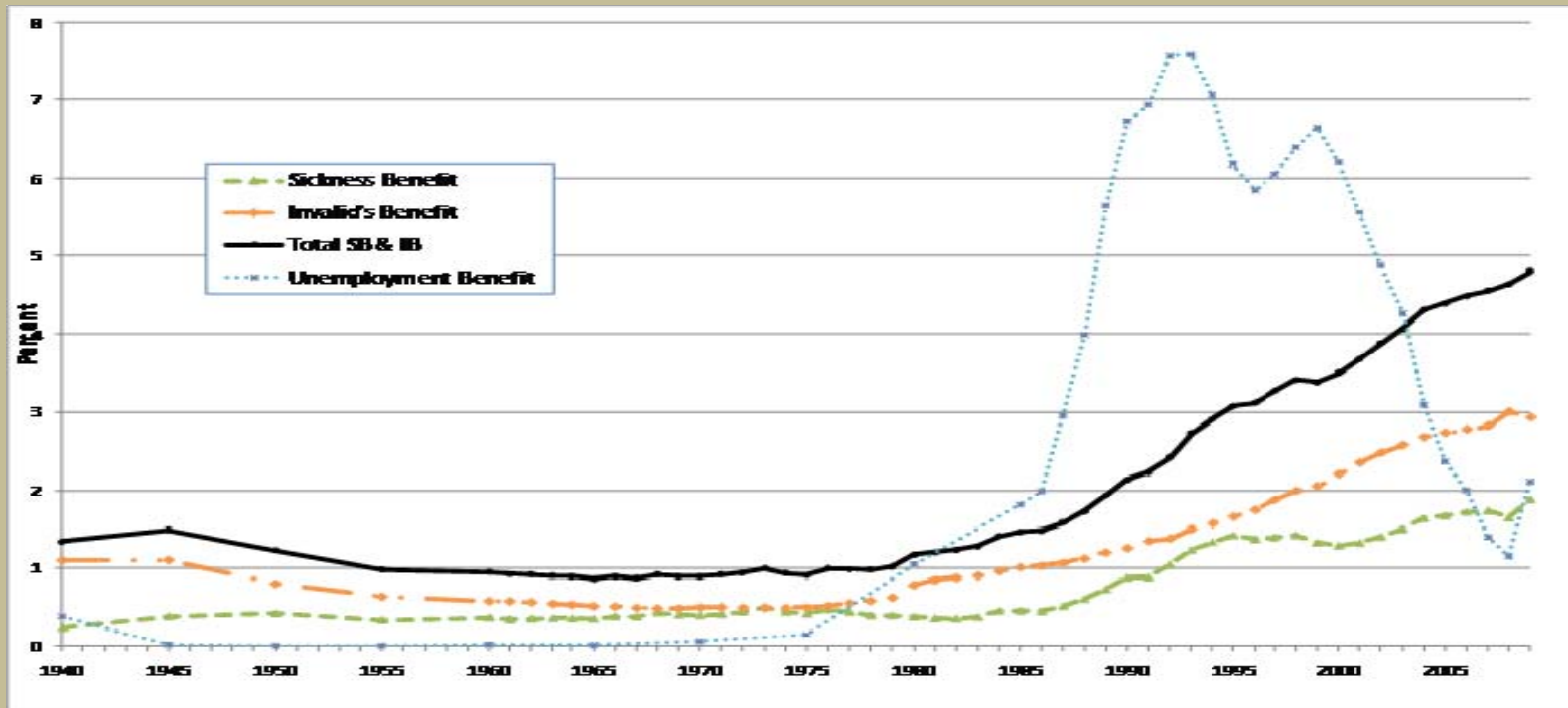
- *Options for turning that growth around, while also achieving better outcomes?*

# New Zealand incapacity benefit receipt rate is about or below OECD average, depending on how measured



OECD estimate for NZ is 3.8% compared with 5.8% OECD average (2007).  
But close to OECD average when all SBs and ACC weekly compensation recipients are included.

# Sickness, Invalid's and Unemployment Benefit numbers, 1940 - 2009

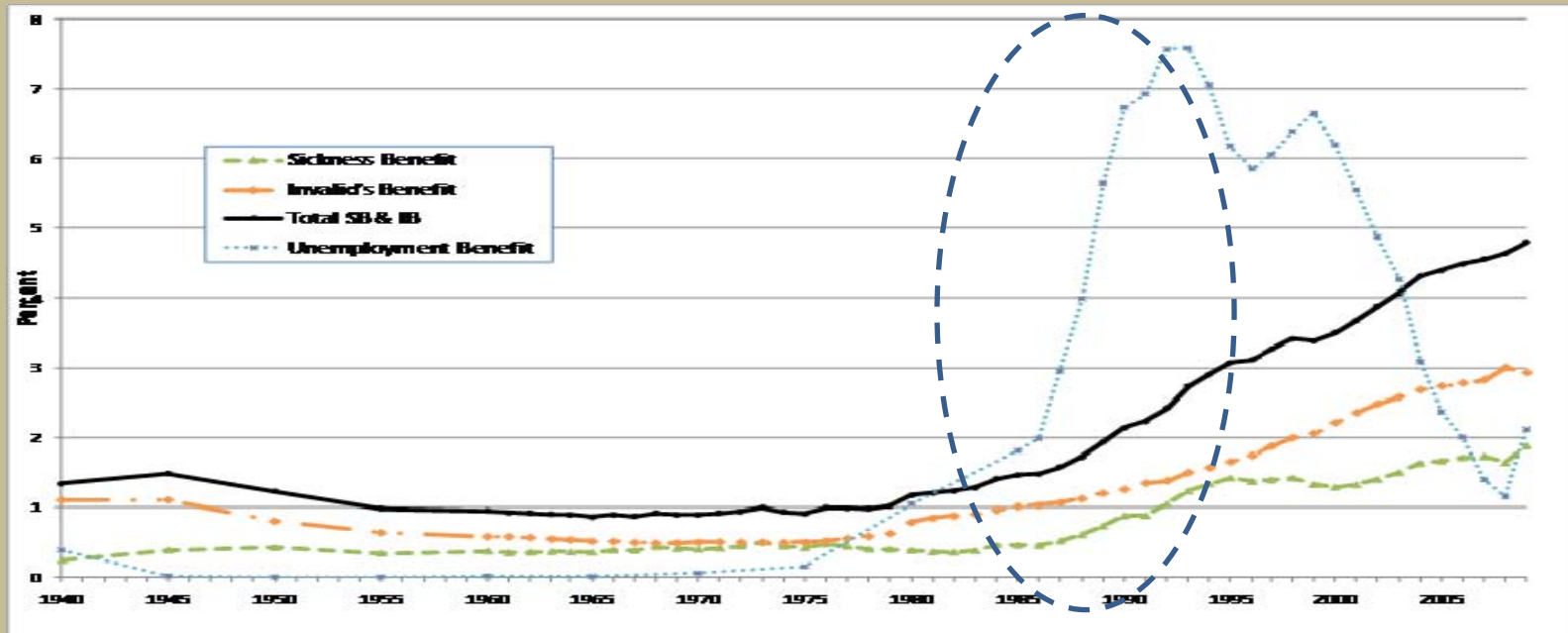


- Total SB&IB around 1% of WAP for about 35 years to end-1970s, has risen steadily since
- IB rose first and has risen consistently
- SB flat until late-1980s; some sign of lagged relationship with UB?

# What caused the long-run rise in SB and IB numbers?

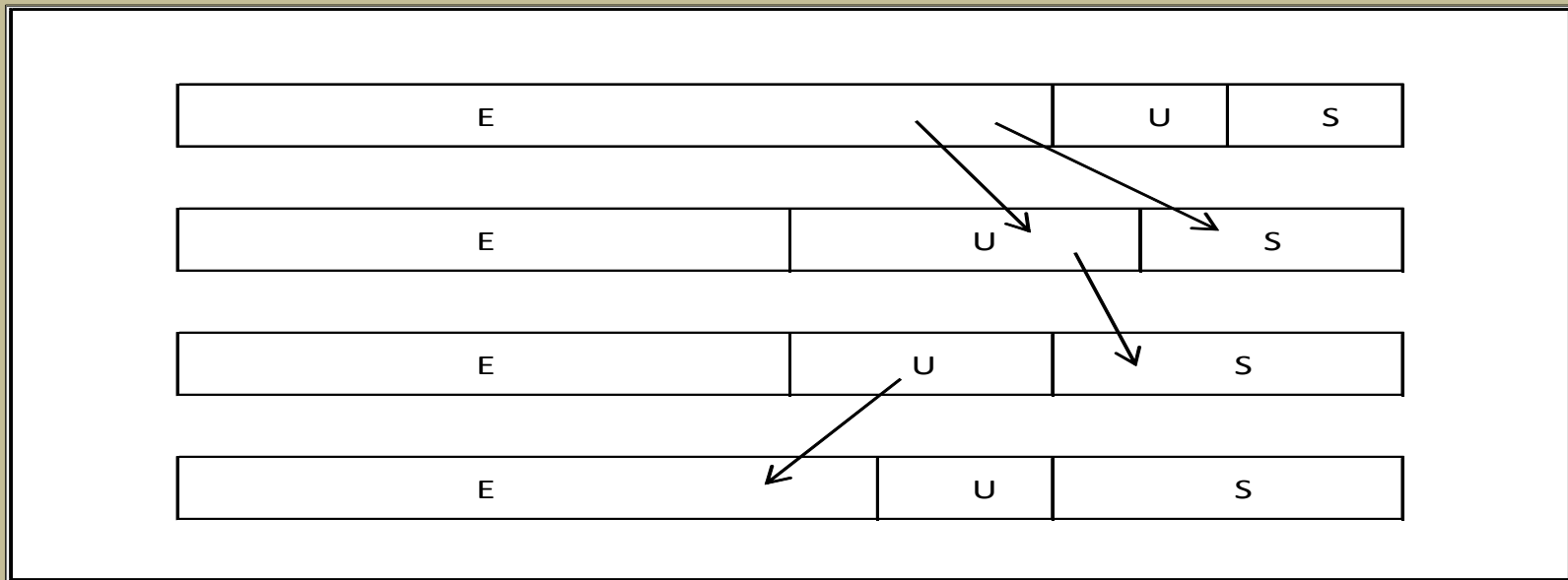
- **health, demography, 'exogenous' policy changes all had an effect, but do not appear to be the main drivers**
  - Some effect from better recognition (higher prevalence?) of mental ill-health but no overall deterioration in pop'n health. (Note, data on SBIBs health status are not good.)
  - Population ageing, lower partnering rates had only a small effect
  - Deinstitutionalisation had some effect
  - Increase in NZ Super age had an effect 1992 – 2001
  - ACC work capacity testing – small impact

# Rising unemployment from late-1970s and major job losses and rapid increase in unemployment in late-1980s/early-1990s was significant



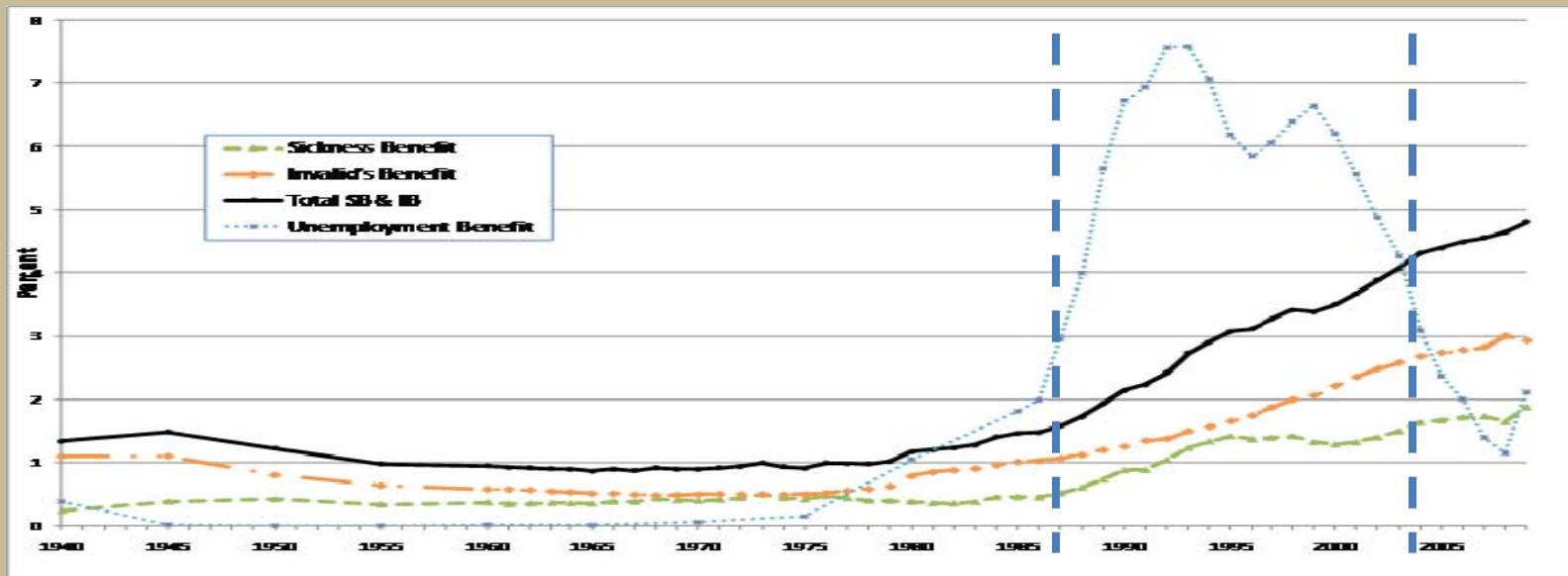
- Beatty *et al* (2000) schematic model of impact of job losses
  - Based on UK, but fits NZ stylised facts quite well
  - Produces a semi-permanent rise in Incapacity Benefit receipt following a shock

## Beatty *et al* schematic model of impact of job losses



- Key features:
  - Can occur with no change in pop'n health status
  - Assumes no benefit fraud or mis-categorisation
- Assumes only:
  - Some people affected by ill-health are working
  - Probability of exit from IB is lower than from UB

*Unemployment benefit numbers have been high right through from mid-1980s to mid-2000s – may be going up or down, but level high:*



- Focus has been on responding to UB numbers and long-term unemployment.
- Have been some MSD initiatives, but weight and prioritisation of resourcing was on unemployment and LTU.
- Not unique to NZ - occurred across the OECD.

# Summary of characteristics and dynamics

	Sickness	Invalid's
Age	Similar to Working Age Pop'n	73% over 40. 35% over 55.
Sex	60% male	53% male
Ethnicity	27% Māori (UB is 35% Māori)	22% Maori
Duration	Mixed: ~ 60% leave within 6 months. 14% of stock on over 4 years	Mostly very long: 74% stock on benefit over 4 yrs (and 47% over 10 years)
New grants	Now mostly from off-benefit	Mostly transfers (but off-benefit is rising)
Exits	Many do exit to work (or off benefit) but exit to IB rises after 3 yrs	Exits to work very low. Deaths and transfers to NZ Super are main reasons for exit
Lab Mkt	Little info on qualifications and lab mkt experience	
Incapacities	Psych, musculo-skeletal, D&A	Psych, intellectual, musculo-skeletal

## Policy issues for medium-term reforms (i)

- *Prioritising SB and IB*
  - Shift resourcing balance from the short-end/less-disadvantaged to those with higher LM needs.
  - Must apply throughout the business cycle
- *Effective work capacity and needs assessment*
  - Essential – the central element for determining eligibility and entitlements and, most importantly, vocational rehabilitation and labour market & health assistance.
  - Cannot expect doctors to do what is a complex task of assessing effects of health and incapacity on labour market competitiveness. Incentive problems too.
  - Not effective if just used to control ‘gateway’.

## Policy issues for medium-term reforms (ii)

- *Benefit structure*
  - Hinges on good work capacity assessment system.
  - Options, but I favour focusing SB on those with lasting partial loss of work capacity. Use job search waivers on UB for temporary incapacity. IB for those with permanent and severe work capacity reduction (but drop the 15 hour rule).
- *Vocational rehabilitation and labour market assistance*
  - Also critical. It costs in the short-run – and for some an ongoing cost – but good outcomes won't happen without a good range of support measures
  - Access to training/re-training important (probably better than widespread use of wage subsidy programmes like Danish *Flexjobs?*)

## Policy issues for medium-term reforms (iii)

- *Financial incentives*
  - Replacement ratios have been falling as numbers rise.
  - Incentive to shift to IB, but higher rate justified.
  - A part-time abatement for SBs with permanent partial work capacity?
- *Involving employers more*
  - Employers could do much more
  - How to encourage employers to monitor staff health/well-being better?
  - How to make better staff well-being provisions an expected part of good Human Resources practice?

# Conclusions

- *NZ can do much better  
(and will need to as population ages)*
- *.Not enough information to estimate how much lower SB & IB numbers could be in medium-term*
- *Not likely to save money in short/medium term  
-effective assessment, rehabilitation and assistance costs*
- *but:*
  - Better outcomes*
  - *potential for longer-term savings*