

Reducing Long-Term Benefit Dependency

The Options

“Anei tātou nā ko te po: ana tātou nā he rā ki tua”
Here we are in the night, and the day is yet to come.

Acknowledgements

The Welfare Working Group acknowledges all the contributions that members of the public, non-government organisations, and government organisations have made to this process to date.



We would like to thank the School of Government at Victoria University of Wellington and the Institute of Policy Studies for hosting the Welfare Working Group Secretariat.

Preface

Tēnei te maioha ake nei kia koutou ngā Iwi Morehu o ngā hau e whā. Te Hunga aitua, kua wairuatia kua heke iho ki te rua tapu o Hinenuitepo, te kaitiaki o Te Ao Wairua. Tātau ngā kanohi ora o ngā mātua tupuna, e mihi ana kia rātou, nō reira, tēnā koutou, tēnā koutou, tēnā koutou katoa.

The Welfare Working Group is entering the next stage of its review of New Zealand's benefit system, with the release of this discussion paper on the options for reducing long-term benefit dependency.

The Working Group was established in April 2010 to develop practical recommendations on how to improve economic and social outcomes for people on a benefit and New Zealanders as a whole.

New Zealanders continue to contribute generously to our review and this has been an important underpinning of our work to date. I would like to thank everyone who has made formal submissions and informal written comments on the Issues Paper we released in August, and acknowledge the valuable input of the many individuals and groups that have met with us across New Zealand.

In the Issues Paper we expressed our concern at the large number of working age New Zealanders relying on benefit income for long periods – around 170,000 have been on a benefit for at least five of the last 10 years. Long-term reliance on benefits has contributed to many adverse impacts, such as poverty, poor physical and mental health and deep deprivation where intergenerational dependency has taken hold.

The feedback generally confirmed our concerns about the issues arising from long-term benefit dependency and the importance of paid work to well-being. Not surprisingly, there are many different views on what needs to change. This feedback is reflected in the broad range of options we are now putting on the table for the public to debate. The potential options cover a spectrum from relatively minor amendments to the status quo, to a fundamental paradigm shift.

We also consider it is important to look at options for all those involved – the Government, community, employers, health professionals, and those people receiving benefits. Each has an important role to play in finding sustainable solutions to long-term benefit dependency.

We are now seeking feedback from New Zealanders on how the various options presented here are likely to deliver improved outcomes for beneficiaries, their families and communities, and the taxpayer. Fundamentally, we are asking New Zealanders to consider whether it is time for major change in the way we think about and deliver welfare.

Following consultation on this document, the Working Group will present its recommendations to Government.

*Paula Rebstock
Chair of the Welfare Working Group*

Welfare Working Group

Chair of the Welfare Working Group

Paula Rebstock CNZM

Working Group Members

Associate Professor Ann Dupuis

Professor Des Gorman

Catherine Isaac

Professor Kathryn McPherson

Enid Ratahi-Pryor QSO

Adrian Roberts

Sharon Wilson-Davis

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Executive Summary

Introduction

This paper presents a range of options to reduce long-term benefit dependency

The Welfare Working Group has been asked by Government to develop practical options that:

- reduce long-term benefit dependence and get better work outcomes;
- promote opportunities and independence from benefit for disabled people and people with ill health;
- consider how welfare should be funded, and whether there are things that can be learned from the insurance industry and ACC in terms of managing the Government's future liability for the welfare system; and
- consider the structure of the benefit system and hardship assistance, and its contribution to long-term benefit dependency.

In August 2010 we published an analysis and sought feedback on the performance of the current benefit system in our Issues Paper. Our assessment was that the current system was insufficiently focused on helping people into paid work and was failing to deliver the economic and social outcomes that the community and taxpayers expect.

In June 2009 there were over 170,000 people who had spent more than five years out of the past ten years on a benefit. Most of these beneficiaries were receiving benefits that did not have a focus on paid work. This long-term benefit dependence has led to intolerable social costs for the individuals themselves, their children, the broader community, employers and taxpayers. The resulting unintended consequences have been intergenerational benefit receipt, high rates of poverty, poor child outcomes and poor physical and mental health.

Paid work is increasingly the norm for all people of working age with work capacity, including mothers and disabled and sick people. Yet current policy ignores the importance of paid work to the health, social and financial wellbeing of many people receiving benefits. Policy settings are not focused on intervening early to avoid the cost of long-term benefit dependency, including intervening before people enter the benefit system. In addition, they have not kept pace with the changing nature of families, work and career patterns and this has contributed to the poor outcomes.

In this paper we present options for change based on the topics raised in the Issues Paper. We put forward a wide menu of options to address these issues and seek public submissions on these options. No judgement or decision has yet been made as to which may be preferable or most practicable.

The feedback on the Issues Paper confirmed that the benefit system is leading to poor social and economic outcomes

Feedback on the Issues Paper highlighted that New Zealanders are compassionate, are concerned about looking after people who need support, and want to ensure the system is fair. The feedback was that there needs to be a strong safety net for people in times of crisis or hardship, and that people with no capacity to work should receive strong permanent support. Feedback also confirmed that there should be clear work

expectations of beneficiaries, as well as recognition that Government, health professionals and employers all have a role to play in supporting beneficiaries into paid work.

“Long-term benefit dependency for the able-bodied is very destructive at every level: it destroys initiative and drive, cripples the future opportunities of children, encourages family breakdown, fuels intergenerational dependency and the growth of the underclass, and is an enormous cost burden on society that the country cannot afford.”

On-line submission on the Welfare Working Group Issues Paper

Many submissions confirmed the Welfare Working Group’s view that the benefit system is frequently disabling rather than enabling. They noted that the benefit system should actively help more people back into paid work, rather than simply make a basic payment of income. Some noted that there do not seem to be co-ordinated effective processes in place to support many people back into paid work. It is clear from the submissions that more can be expected from policy settings and delivery agencies.

We have heard from submissions and in workshops about the low levels of engagement and confidence of some beneficiaries. Long periods on a benefit in families, communities and locations with high benefit rates can normalise the receipt of benefit and can lead to disengagement with paid work. Some submissions noted the emergence of inter-generational benefit receipt leading to long-term deprivation for beneficiaries and their families and that long-term benefit dependence is a significant lost opportunity. The importance of re-establishing a culture where paid work is the norm and where benefits are a temporary support in times of crisis or hardship was discussed.

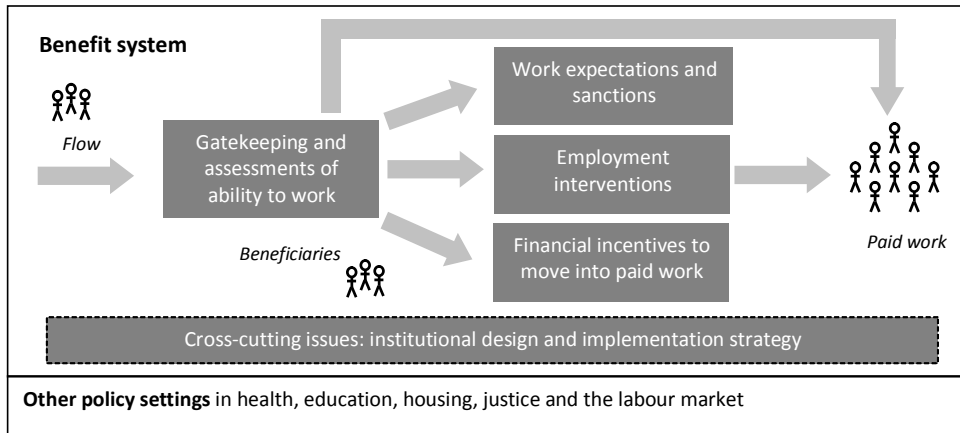
Many submissions, while acknowledging the importance of paid work, expressed anxiety about the availability of jobs for people looking for paid work. On the other hand, many employers have told us of the difficulties they have had in recruiting people into entry-level jobs. While this problem was less pronounced during the recession, they indicate it is once again emerging. Many employers have told us that they have employed beneficiaries who have become valued long-term staff members. However, some employers have noted that employing beneficiaries who have spent long periods on a benefit can sometimes be difficult as some have become unaccustomed to the routines, work ethic and requirements of modern workplaces. It is clear that more can be done to work with employers.

Many submitters noted that the benefit system is resulting in poor social and economic outcomes and long-term benefit dependence. Incremental changes to the system have resulted in a complex and unwieldy system. Some queried whether it is time for a fundamental paradigm shift in the way we think about and provide welfare in New Zealand.

Our review of the evidence highlights features of a well-performing benefit system

Figure 1.1 shows the key elements of the benefit system. It highlights the major areas inside the benefit system that influence the extent to which people both use benefits, and move from benefits into paid employment.

Figure 1.1: Policy levers and the benefit system



We have reviewed the evidence about the key features of well-performing benefit systems that best reduce long-term benefit dependence and poverty, and increase employment.

The evidence suggests that early and effective interventions that actively focus on those people with the highest risk of long-term benefit receipt have the potential to result in significant long-term savings. The life-time costs of benefit receipt, not only the costs in the current year, need to be considered. For someone currently on a benefit, it is estimated that the total cost of all future benefit payments will be \$192,000 for a person on the Invalid’s Benefit and \$161,000 for someone on the Domestic Purposes Benefit, compared to \$65,000 for a person on the Unemployment Benefit.

More specifically, the evidence suggests that the key components of a strong benefit system are:

- economic, labour market, health and education settings aligned to reduce long-term benefit dependency;
- an approach that intervenes early to reduce the costs associated with long-term benefit dependency, including intervening before entry to the benefit system;
- a focus on paid work, which is complemented with active support and clearly communicated reciprocal obligations – with greater focus on personal responsibility – so that people take opportunities as they emerge;
- early intervention points that are focused on paid work, including programmes to reduce the numbers of people entering the benefit system;
- well designed and robust gateways onto benefits;
- clear and comprehensive expectations to look for and accept reasonable offers of paid work, and address barriers to paid work, backed up by sanctions, and community expectations about participation in paid work;
- responsive and affordable childcare for children of beneficiaries who are transitioning into work;
- personalised support to address barriers to obtaining jobs for those at-risk of long-term dependency. These include, but are not limited to, job search, wage subsidies for people most at risk, vocational rehabilitation, and alcohol and drug rehabilitation;

- benefit and tax systems that have financial incentives for people to enter and remain in paid work; and
- service delivery that has a strong focus on outcomes, innovation and transparent accountability arrangements.

Throughout this paper we present a broad range of questions and options for reform

The Welfare Working Group has been asked to make practical recommendations to Government about how to reduce long-term benefit dependency. Based on the submissions and feedback from workshops, we consider that the benefit system should provide temporary help to people in times of unemployment and adverse life events when they have no other means of support, aimed at assisting them back into work; and permanent support for those who have no means of caring for themselves.

In looking at possible options we are guided by our principles for reform:

- recognise the value and importance of paid work to wellbeing;
- foster strong social outcomes, including improved physical and mental health outcomes and low child poverty;
- respect the dignity of people;
- promote personal responsibility, accountability and reciprocal obligations;
- be efficient and free from misuse;
- be affordable and sustainable;
- provide financial help when not in employment and when no other appropriate resources are available; and
- be practical, able to be implemented and have a low risk of adverse unintended consequences.

In this paper we discuss major issues that are driving long-term benefit dependency and options to address these. The options need to be assessed against the status quo. In many cases more than one of the options could be implemented to address the issues.

We comment on the implications of the various options, but we will not provide a full assessment, costings or recommendations until our Final Report. We pose questions for which we are seeking feedback. We ask people to consider whether there are any significant options that are not presented, provide comment on which options are most likely to reduce long-term benefit dependence in a cost effective way, and which options are most likely to carry significant risks for the community and taxpayers, beneficiaries and employers.

Structuring welfare differently may contribute to reducing long-term benefit dependency

At a high level, the way the benefit system is structured drives the way both beneficiaries and those administering the system make decisions. The structure may provide incentives or disincentives for various actions.

In the introduction to Chapter 1 we present high-level options for reform based on insurance principles. One of the key principles of insurance is that it is structured around helping people with high risk of long-term benefit dependency into paid work. Policy and delivery decisions are made with respect to the expected life-time costs.

These options include an enhanced status quo, a social insurance model in full or in part (including the use of levies), or incorporating some insurance-based investment strategies into New Zealand's benefit system.

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?		
(i) Focus on early intervention	Option 1: Enhanced status quo	<i>Increase work expectations within current benefit categories and target interventions for those people who are most likely to stay for long periods.</i>
	Option 2: Social insurance in full or in part	<i>A system with an actuarial assessment of risk and its future cost; in return for a premium, the management of risk is shared by the insured and the insurer. If the risk eventuates, the insurer provides benefits.</i>
	Option 3: Incorporating some insurance based investment strategies into New Zealand's benefit system	<i>A benefit system structured around helping people with high risk of long-term benefit dependency into paid work. Policy and delivery decisions being made with respect to the expected life-time costs.</i>

In the second half of Chapter 1 we consider options around how a greater focus on paid work could be introduced. It is vital that the importance of paid work for people of working age is placed at the centre of the benefit system.

At one end of the spectrum is the Guaranteed Minimum Income that is an unconditional tax credit with a uniform tax rate that would replace all benefits and supplements. At the other end of the spectrum the Unemployment Benefit could be expanded to include all people with current or future work capacity. In between is an option to develop a new benefit structure focused on paid work for people with current or future work capacity.

2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?		
(i) Promoting a greater focus on paid work	Option 1: Guaranteed Minimum Income	<i>An unconditional tax credit with a uniform tax rate that would replace all benefits and supplements.</i>
	Option 2: Enhanced status quo	<i>Maintain categories of benefit, but increase the work expectations within those categories.</i>
	Option 3: Expansion of the Unemployment Benefit	<i>A benefit system that includes one benefit for all people who have current or future work capacity (and no means to support themselves) and one for people who have no work capacity over the long term.</i>
	Option 4: A work-focused benefit system	<i>New Zealand's benefit system would be structured around:</i> <ul style="list-style-type: none"> • <i>a focus on paid work for people with current or future work capacity;</i> • <i>clearly communicated reciprocal obligations on the Government, the delivery agent, and the beneficiary with an expectation of temporary benefit use backed up by sanctions for most;</i> • <i>stepping up work expectations and obligations of beneficiaries as their time on benefit increases.</i>

People on an Unemployment Benefit

In Chapter 2 we discuss the reforms that have been made to the Unemployment Benefit over the past 20 years to make it a more active payment and to promote a greater focus on paid work. While reforms to the Unemployment Benefit have underpinned a significant movement of people into paid work, there remain 12,000 people aged 28-64 years on the Unemployment Benefit who have spent more than 5 years out of the past 10 years on a benefit (as at June 2009). As noted earlier, some employers have told us that despite this, they experienced skills and labour shortages when the economy was growing up until early 2008.

3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?		
(i) Interventions	Option 1: Improved diversion and triage strategies	<i>Improved diversion strategies so that more resources are invested in helping people to secure paid employment before applying for a benefit; and better triage for those entering the system.</i>
	Option 2: Future liability and investment model	<i>Reduce the life-time costs of benefit receipt by better targeting and designing active employment interventions.</i>
	Option 3: Six month threshold	<i>A threshold, for example, six months, at which point a person identified as at risk of long-term receipt would be placed in either paid or unpaid work (including voluntary work) to enhance chances of entering paid work.</i>
(ii) Expectations	Option 1: Clearer expectations	<i>Clearer and more immediate communication of the expectations to look for and accept paid work.</i>
	Option 2: More effective sanctions	<i>A more effective sanctions regime that is proportionate, credible, and enforceable. A minimum sanction period could also be considered.</i>
(iii) Offenders	Option 1: Services for offenders	<i>Supporting a cross-government approach to offenders, with a focus on paid work, removing barriers and addressing successful reintegration, increased outcomes-based funding of employment programmes for people leaving prison or serving community sentences.</i>
(iv) Drugs and alcohol	Option 1: Alcohol and drug treatment	<i>Increased funding and expanded access to alcohol and drug treatment for beneficiaries.</i>
	Option 2: Obligations	<i>Clearer obligations regarding drug testing and sanctions relating to drug use, combined with treatment services.</i>
(v) Regions	Option 1: Local development	<i>Work and Income engaging more intensively in supporting regional economic and social results. Development of local model with specific funding and engagement with key agencies and people.</i>
	Option 2: Strengthening limited-employment location provisions	<i>Stricter enforcement of current provisions about moving to limited-employment locations. More active management of people in these locations to encourage them to locate paid work in other locations. This could also include help for transport.</i>
(vi) Gatekeeping	Option 1: Strengthen rules and processes	<i>Reduce the incentives for delivery agencies and beneficiaries to move beneficiaries to less active payments. Strengthen rules and processes to create more robust work capacity assessments to ensure people with work capacity are on the Unemployment Benefit.</i>

An important challenge is to reduce the numbers of people who are on the Unemployment Benefit long term. A greater employment focus to the benefit system makes it even more important that expectations and obligations are clear, that support is appropriate, and that there are consequences when people fail to meet their personal obligations. There is a range of options discussed in Chapter 2 to improve the effectiveness of expenditure and expectations focused on people on the Unemployment Benefit.

Three other specific issues that we have heard in our workshops and submissions relating to improving the outcomes for people looking for work have been the limited availability of paid work in some regions; that many employers are concerned about high rates of drug and alcohol use and dependence as a problem among beneficiaries looking for work; and the specific needs of ex-offenders.

In the Issues Paper we discussed how in the current system many people who have work capacity and are out of work are not classified as unemployed. The benefit system is designed such that there are financial and non-financial incentives for beneficiaries to be placed on benefits with a weaker work focus. In the table above we present an option that involves strengthening rules and delivery processes to create more robust work capacity assessments to prevent people who enter the benefit system with work capacity being classified as sick or disabled and moving to non-active payments (also see Chapter 4).

Sole parents on a benefit

In Chapter 3 we present options to reduce long-term benefit dependency among sole parents. In June 2009 there were 46,700 sole parents aged 28-64 years who had spent more than five out of the past 10 years on a benefit. This high rate of long-term benefit dependency (and accompanying low employment rate) is one of the main reasons that New Zealand has a high rate of child poverty.

Reducing the number of sole parents who are long-term beneficiaries will require a significantly greater policy and delivery focus on helping sole parents into paid work, building on recent reforms to the Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010. Access to childcare, including out-of-school care for children of school age, is vital. While there is a significant level of Government funding already directed to childcare and early childhood education services there remains a question of whether that is well targeted to the groups at risk of long-term benefit dependency.

International evidence suggests that effective approaches combine increased work expectations with targeted childcare support and interventions to help sole parents overcome the barriers to moving into employment. In Chapter 3 we discuss how the benefit system can help improve outcomes for children.

4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?		
(i) Focus on paid work	Option 1: Enhanced status quo	<i>Work within current expectations (part-time work expectation from when the youngest child is six years old).</i>
	Option 2: Early Childhood Education alignment	<i>Part-time work obligation from when the youngest child is three years old; full-time work obligation from when youngest child is six years old.</i>
	Option 3: Alignment with parental leave protection	<i>Part-time work obligation from when the youngest child is one year old; Unemployment Benefit from when the youngest child is six years old.</i>
	Option 4: Unemployment Benefit	<i>Provide for all sole parents through the Unemployment Benefit with reciprocal obligations, and with employment related support.</i>
	Option 5: Youngest child	<i>Tie the beginning of work expectations to the age of the first child rather than subsequent children of a parent who enters the benefit system.</i>
(ii) Child wellbeing	Option 1: Conditions that promote the wellbeing of children	<i>Require every beneficiary with children to meet their parenting obligations. This could include tying the payment of a full benefit to the child's attendance at school and meeting minimum child health standards.</i>
	Option 2: Budgeting activities	<i>Requiring at-risk sole parents to engage in budgeting activities, including budgeting advice.</i>
	Option 3: Income Management	<i>Management of a component of beneficiaries' payment. Components of benefits are strictly managed when sole parents demonstrably fail to use the benefit appropriately (for example, failure to provide essentials for children).</i>
(iii) Childcare	Option 1: Childcare for low income sole parents (permanent)	<i>Provide more childcare assistance for low income sole parents who are in employment.</i>
	Option 2: Childcare for low income sole parents (temporary)	<i>Provide time-limited subsidies to sole parents who move into paid work. This could either be paid to the provider or the beneficiary.</i>
	Option 3: Expand out of school services	<i>Expand out-of-school care for school-aged children. This could be targeted just at sole parents.</i>
	Option 4: Personalised childcare support	<i>Provide help to sole parents to locate and arrange childcare as part of case management. Some funding could also be available.</i>
(iv) Support to move into paid work	Option 1: A long-term cost and investment model	<i>Ensuring interventions for sole parents are focused on reducing long-term benefit dependence.</i>
	Option 2: Greater support through Work and Income	<i>Work and Income would have a greater focus on supporting paid work of sole parents with more dedicated funding and a greater focus on post-placement support.</i>
	Option 3: Greater support through external delivery	<i>A range of new service and supports could be developed and delivered by outside providers.</i>
	Option 4: The use of Student Allowances	<i>Sole parents encouraged to move onto Student Allowances when in effective, relevant or appropriate education or training.</i>

People on a Sickness Benefit and people on an Invalid's Benefit

Despite a strong labour market until 2008, and no evidence of deteriorating population health, the number of people on a Sickness Benefit or an Invalid's Benefit grew significantly during the 1990s and 2000s. As at June 2009 there were 23,900 people, aged 28-64 years, on the Sickness Benefit who had been on the benefit for more than 5 out of the past 10 years, and 65,300 people who had been on the Invalid's Benefit for more than 5 out of the past 10 years.

The current benefit system has little focus on ensuring that people on the Sickness Benefit and the Invalid's Benefit receive immediate and effective assistance to address their health and labour market needs. This fails to take account of the strong evidence that early intervention is critical to ensuring a successful return to work for people with sickness and disability. There is too much focus on incapacity, not enough focus on ability to work and as a consequence employment-related issues are often medicalised.

Advice from the OECD and others suggests that comprehensive reform is required in this area. This would include system-wide change, increasing the work focus for people on Sickness Benefit and Invalid's Benefit, better assessment of work capacity and a concentration on prevention and early intervention.

One way to make this change is to take a long-run perspective of the potential life-time costs for this group. Incorporating some insurance-based investment strategies into the benefit system could provide this perspective. Transparent accounting of the life-time costs of benefit receipt would mean interventions would be made on the basis of how they reduce long-term dependency and, as a result, costs.

New capabilities and potentially institutions would be needed to provide improved rehabilitation and employment support. One approach to building this capability quickly would be to leverage off existing capability provided to ACC clients. In the table below we present options that more closely align the Sickness Benefit and Invalid's Benefit with ACC systems – including possible integration of parts of the two systems.

In the table below we also present options to improve the employment, job search and vocational rehabilitation that people receive on the Sickness Benefit and the Invalid's Benefit.

Working with employers to reduce the likelihood of sickness or disability being barriers to paid work is critical. Some employers already recognise the advantages of promoting wellness in the workplace through increased productivity, reduced staff absences, and turnover.

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?		
(i) System changes	Option 1: Widen the Unemployment Benefit	<i>Include people with current or future work capacity in the Unemployment Benefit.</i>
	Option 2: Incorporate some insurance-based investment strategies into the management of Sickness Benefit and Invalid's Benefit	<i>Investment and delivery model to better support people on the Sickness Benefit and Invalid's Benefit based on the life-time costs of the claim and evidence on what works.</i>
	Option 3: Align the provision of support and services	<i>Align the provision of services to Sickness Benefit and Invalid's Benefit recipients with those provided to ACC claimants.</i>
	Option 4: Extend ACC services	<i>Extend the non-compensation components of the ACC scheme to people covered by the Sickness Benefit and the Invalid's Benefit.</i>
(ii) Focus on paid work	Option 1: Stream individuals based on their work capacity	<i>Stream individuals into groups with expectations for each group varying between part-time, full-time or no work expectations. Work search and preparation depend on stream. This relies on a quality streaming tool.</i>
	Option 2: Personalised expectations based on people's work capacity	<i>Introduce personalised plans with expectations specific to the circumstances of each individual, relying on quality information.</i>
	Option 3: Standardised reassessment	<i>Standardised reassessment and review periods for some people on Sickness Benefit and Invalid's Benefit. This option places review timeframes on beneficiaries according to stream they are put into, as per Option 1.</i>
	Option 4: Personalised reassessment	<i>This option follows the personalised approach in Option 2 with review periods being based on individual circumstance.</i>
(iii) Work capacity assessment	Option 1: Improve medical assessments	<i>Greater use could be made of second opinions, auditing processes and regular audits of random sickness certificates.</i>
	Option 2: Introduce fit notes into the application process	<i>Introduce fit notes in to the application process for Sickness Benefit and Invalid's Benefit. This is a note that not only outlines the condition, but also how a return to being fit for work will be achieved.</i>
	Option 3: Introduce comprehensive work capacity assessments	<i>Introduce comprehensive assessments of a person's capacity to perform a range of activities or their work capacity, or a combination of both.</i>
(iv) Employment support	Option 1: Provide intensive case management	<i>Provide intensive case management for those with greatest risk of long-term dependency.</i>
	Option 2: Vocational rehabilitation and employment	<i>Increase vocational rehabilitation and employment programmes where there is evidence of cost effectiveness.</i>
	Option 3: Early intervention approaches	<i>Improve the effectiveness of current funding by reviewing what works, including shifting toward low cost, early intervention strategies.</i>

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?

(v) Prevention and early intervention	Option 1: Information about financial benefits	<i>Provide information to employers about the financial benefits of promoting wellness in workplaces.</i>
	Option 2: Support health professionals	<i>Support health professionals to focus on work capacity and provide them with information about the health benefits of work.</i>
	Option 3: Increase financial incentives	<i>Increase financial incentives for employers to invest in prevention, and for health professionals to focus on the value of paid work for their patients.</i>
	Option 4: Support employers	<i>Support employers and health professionals to intervene early when sickness and disability arises. This could build on the approach used in the ACC Better@Work pilots.</i>

Māori and benefits

Māori are significantly over-represented in the benefit population. At the 2006 Census, over 27 per cent of working-age Māori were on a benefit, compared to just over 12 per cent for the total working age population. By today's numbers, if Māori had the same rate of benefit receipt as non-Māori, there would be 64,000 fewer Māori on a benefit.

In order for any changes to the benefit system to be effective in reducing long-term dependency, they will need to work for Māori.

A specific option has been developed to bring focus and leadership to the challenge of improving Māori employment outcomes by establishing a high level Strategic Memorandum of Understanding between the Minister for Social Development and Employment and Iwi/Māori. Sitting behind this is the need for Government and Iwi/Māori to lead the response. Key features would include: clear accountability; high level goals and targets; agreed actions and clear responsibilities; and transparent reporting against targets.

6. What changes do we need to improve paid work outcomes and reduce long-term benefit dependency amongst Māori?

(i) Policies to support Māori	Option 1: A Strategic Memorandum of Understanding	<i>A Strategic Memorandum of Understanding between the Minister and Iwi/Māori to bring a concerted focus to Māori benefit dependency involving a goal, clear targets and accountability, and to drive effort and innovation.</i>
	Option 2: Using specific outcome targets for Māori	<i>Using specific outcome targets for Māori to ensure that focus is being directed at the challenge of improving Māori economic and social outcomes and reducing benefit dependency.</i>
	Option 3: Developing specific programmes for Māori	<i>Developing specific programmes for Māori including for-Māori-by-Māori, where evidence shows this is the best approach to reducing long-term dependency.</i>
	Option 4: Increased use of not-for-profit organisations to deliver services to Māori	<i>Identify opportunities to bring in not-for-profit organisations to develop innovative solutions to address the causes of poor employment outcomes.</i>

Young people and benefits

There were around 21,370 16 – 19-year-olds in the benefit system as at June 2010. Of these, there are around 3,700 young people aged 16 and 17 years old in the benefit system. We expect that half of young people who enter the benefit system before their 18th birthday will spend five or more years out of the next 10 years on benefit, based on a cohort who entered in 1999.

Reducing the number of young people entering the benefit system, and shortening the length of time that they stay, requires a variety of approaches. These include a greater focus on at-risk young people before they enter the benefit system, greater expectations when they enter the benefit system, and a focus on active engagement with young people when they are in the benefit system.

7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?		
(i) Policies to support at-risk young people in the education system	Option 1: Reform of funding for secondary education	<i>Create flexible funding mechanisms for secondary education so that resources clearly follow students.</i>
	Option 2: More focus on work-related education and training.	<i>This would include increased work experience and emphasis on work-relevant skills within schools, as well as more emphasis on apprenticeships as a valid alternative to university.</i>
	Option 3: Identification, early intervention and pastoral care for at-risk young people in education	<i>This could include identifying at-risk students from early ages, reducing truancy and improving behaviour, and greater use of targeted pastoral support for at risk-young people and their families.</i>
(ii) Policies for at-risk young people outside of the education system	Option 1: Better targeted expenditure	<i>Review the existing fragmented programmes and their funding to improve cost effectiveness and coordination of programmes, based on evidence about what works.</i>
	Option 2: Participation in education and training	<i>Introduce a requirement that young people need to be in education or training to qualify for a benefit.</i>
	Option 3: Increase support inside the benefit system	<i>More active case management and personalised support with education or training as the first option for young people.</i>
	Option 4: Strengthen obligations for pastoral care	<i>Extending statutory coverage of Child, Youth and Family up to age 18 to take responsibility for at-risk young people.</i>
	Option 5: Remove payment to young people	<i>Pay benefit directly to family or carer, instead of to young people aged 16-17 years old.</i>
(iii) Teen parents	Option 1: Better/enhanced support for teen parents and their children	<i>Address health and housing needs as part of an overall youth-focused strategy. Require parents under 18 years to engage in education, work-focused training or work as a condition of benefit.</i>
	Option 2: Teen parenthood prevention	<i>Provide more education about the consequences of teenage pregnancy. Require teen parents under 18 years to live at home, or with a responsible adult; require teen parents to receive counselling as part of ante-natal health care.</i>
	Option 3: Requirements aimed at achieving better outcomes for children of teen parents	<i>Require teen parents to engage in parenting programmes such as Plunket and programmes accessed by other sole parents.</i>

Financial incentives in the benefit system

For most people, the financial incentives to work in the current structure are reasonably strong. In addition, for people who are on a benefit with a work expectation, such as the Unemployment Benefit, there is an expectation that reasonable offers of paid work will be accepted. However, high levels of supplementary assistance, the abatement regime and costs associated with paid work can discourage paid work. In turn this can undermine an overall system focus on encouraging people into paid employment. Chapter 7 discusses a range of specific options to increase the incentive for people who are on a benefit to take up and remain in paid work.

The New Zealand benefit system is made complex by supplementary allowances, including a second tier of payments. The most important of those are: the Accommodation Supplement; Disability Allowance; and Working for Families Tax Credits (delivered by the Inland Revenue Department). In addition, there is a third tier of grants to cover costs like dental care or white goods. These are Temporary Additional Support to temporarily help people who have essential living costs that they have no other ways to meet, and loans, including recoverable Special Needs Grants, that are recoverable from future allowances or earnings.

While the aim of these programmes is to direct resources where there is greatest need, this process requires substantial administration. Furthermore, it is rule-bound and does not always succeed in targeting need. It leads to requirements for multiple form-filling, repeated requests to reveal highly personal information and the need to demonstrate poverty. The complexity of the system makes it hard to administer, and sends confusing signals to beneficiaries that can undermine personal responsibility.

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?		
(i) Financial incentives to work	Option 1: Transfer people from benefit system to tax system where they have part-time work	<i>Migrate people in part-time work from the benefit system to the tax system by moving abated benefit to an in-work tax credit.</i>
	Option 2: Increase the financial incentives for people working part-time to work more hours	<i>Increase the financial incentives for people working part-time to work more hours by enabling them to keep more of their additional pay, offset by higher abatement at lower levels of earning.</i>
	Option 3: People with no work expectations	<i>Relax abatement of benefit for people with no work expectations.</i>
(ii) Additional help for people when they move into employment	Option 1: In-work payments to beneficiary	<i>Provide long-term beneficiaries with an allowance for the initial period of employment.</i>
	Option 2: Provider-delivered in-work support	<i>Building on current programmes, have a more significant pool of funds that can be used to support work outcomes by long-term beneficiaries.</i>
	Option 3: Transition assistance for sole parents	<i>Cover the cost of transport, childcare and other direct costs for first year of employment up to a cap.</i>
	Option 4: Transition allowance for sick and disabled people	<i>Cover the direct costs associated with sickness and disability, including workplace modification, as a sick or disabled person moves into paid work.</i>

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?

(iii) Strong signals to discourage semi-permanent use of the benefit system	Option 1: Increasing conditions with benefit duration	<i>Increasing conditions with benefit duration to send signals about the temporary use of benefit. This could include ensuring people are active while on a benefit, including a limited work-for-the-benefit, for example, 2 days per week or 16 hours after 2 years continuous duration.</i>
	Option 2: Income Management for long-term beneficiaries	<i>A component of benefit payment may be strictly managed when people with work capacity are on a benefit almost permanently and they demonstrably fail to use the benefit appropriately, for example, failing to provide essentials for children.</i>
	Option 3: Step down	<i>Components of benefits withdrawn when people with work capacity are using the benefit system on an almos- permanent basis, for example more than a year.</i>
	Option 4: Strict time limit	<i>Each person without an exemption from work expectations is funded for a certain period, for example, up to a limit of five continuous years on a benefit. Reliance on hardship assistance beyond this period.</i>
(iv) Supplementary programmes	Option 1: Second and third tier and main benefits	<i>Roll the funding currently spent on second and third tier payments into main benefits. A variation of this option would be to only roll the third tier of payments into main benefits.</i>
	Option 2: New capped hardship fund	<i>Roll the funding currently spent on third tier payments into a new capped hardship fund administered regionally.</i>
	Option 3: Regional supplement	<i>Roll the funding currently spent on second and third tier payments into a new regional supplement.</i>
	Option 4: Integrate accommodation payments	<i>Integrate Accommodation Supplement and Income-Related Rents with Temporary Additional Support.</i>
	Option 5: Expand NGO and not-for-profit provision of budgeting, banking and insurance services	<i>Encourage beneficiaries to build financial independence through provision of specialist savings and insurance schemes delivered by NGOs and not-for-profit organisations, with funding drawn from current supplementary assistance.</i>

Effective service delivery

A key theme throughout our work is how to send strong signals about intervening early to reduce benefit dependence among people likely to stay on a benefit for a long period. Government organisations are typically funded by annual appropriations funded from annual tax revenue. The issue with this approach for funding social assistance is that it underestimates the financial commitment the Government has made when agreeing to pay the benefit. For instance, when agreeing to pay an Invalid's Benefit, the Government has committed to make payments while that person continues to qualify for that benefit. This commitment is far greater than the single year cost of paying the benefit.

Effective employment service delivery needs a focus on employment outcomes, clear accountability arrangements, robust measurement of effectiveness, and strong organisations with a capability to innovate and deliver outcomes. Work and Income have effective processes that deal with those who have few barriers to getting into or back into work. Building on these, there may be advantages in introducing contestability to place a greater focus on innovation and outcomes among delivery agencies. A key question then relates to what the optimal mix of government and non-government (private and voluntary sectors) delivery is, in getting the best outcomes for beneficiaries at risk of long-term benefit dependence.

9. What changes do we need to improve the approach to funding and delivery of employment and other services?		
(i) Investing early to avoid costs of long-term benefit dependency	Option 1: Current model with life-time cost focus	<i>Retain the current model, but the life-time cost is independently assessed and reported, the future liability would be used as a key measure of performance, and there would be a greater access to multi-year funding and consequences if the future liability changes.</i>
	Option 2: New model focused on future liability	<i>A new model of welfare based on the expected life-time cost of benefit receipt. In this approach, new institutional arrangements would finance welfare directly, would be accountable for the life-time costs of benefit receipt to the people financing the system, and they would have access to the full range of instruments and funding to address life-time costs.</i>
(ii) Delivery of the services	Option 1: Enhanced status quo	<i>Identify opportunities to improve the delivery of employment services through Work and Income with contracting-out on a regional basis.</i>
	Option 2: Greater accountability for outcomes	<i>Increase transparency and strengthen incentives for the delivery agent to deliver cost-effective outcomes, including the use of innovation, skills and capability outside of Government.</i>
	Option 3: A contestability model	<i>Provide employment and other services through a network of providers who are paid on an outcomes basis. Government manages the model, the tendering process and designs the policy settings for service delivery and delivers services for people who do not need specialist support.</i>
	Option 4: A fully contracted-out contestability model	<i>As Option 3, but contracting for services is undertaken by a separate agent outside of Government, as is done in the United Kingdom.</i>

In this paper we discuss options around how employers can be involved and supported in providing paid work for beneficiaries. In many cases beneficiaries can gain employment with little or no active support. In other cases there can be a significant gap between what employers expect and what the beneficiary is able to provide without a significant level of support. A greater focus on getting people into paid work will require that the gap be narrowed. The evidence on what is effective in helping beneficiaries into paid work is clear – effective interventions need to have a focus on employers and their needs. We have heard from employers that they are concerned with absenteeism, punctuality, work ethic, attitude and behaviour.

Employers have suggested a number of other ways to ensure prospective employees are work ready. These include stricter conditions for Unemployment Beneficiaries regarding accepting and remaining in work, developing NZQA certified training programmes with a substantial on-the-job component, and more use of private sector employment placement and retention providers.

10. What changes do we need to support employers to achieve better employment outcomes for beneficiaries?		
(i) Supporting Employers	Option 1: General employment programmes	<i>Ensure that all general employment programmes are more directly tied to employers' needs.</i>
	Option 2: Engage with employers to locate vacancies	<i>Incentives targeted at the collection/filling of vacancies by delivery agencies.</i>
	Option 3: Expansion of Industry Partnerships model	<i>Develop further training options based on employers' workforce and support needs.</i>
	Option 4: In-work support	<i>Increase the scale and scope of current programmes that provide an active role in establishing and maintaining the employment relationship between employers and beneficiaries.</i>

There is anecdotal evidence of community perception that benefit fraud is a victimless crime, with people turning a blind eye to it. This view fails to recognise that there is a cost to the taxpayer and the community. Fostering higher levels of personal responsibility is the key to addressing benefit abuse and fraud. This might involve delivering strong public messages about the use of the benefit system, effective monitoring and rapid penalties, and ensuring there are simple, clear rules and reduced incentives for abuse and fraud around relationships.

11. What changes do we need to address benefit fraud and abuse?		
(i) Fraud and abuse	Option 1: Public campaigns	<i>Deliver strong public messages about integrity in the use of the benefit system through public campaigns.</i>
	Option 2: Enforcement	<i>Tougher penalties, and stricter monitoring and enforcement.</i>
	Option 3: Relationship fraud	<i>Clarify rules relating to relationship fraud and address the systematic drivers of relationship fraud.</i>

The implementation of any reform will be critical to its success. On the one hand a major immediate reform package can lead to the benefits of reform being observed quickly. On the other hand a staged implementation enables policy makers to evaluate the success of reform and build on what works. A staged reform can also mean that people who are currently on a benefit have a reasonable period to prepare for new policy arrangements.

12. How should a new benefit system be introduced?

(i) Transitioning to a new system	Option 1: Uniform transition	<i>Apply the new approach to welfare to both existing clients and clients who are new to the system.</i>
	Option 2: Grandparenting or sunset clauses	<i>Allow some or all existing clients to maintain their current status either permanently (grandparenting) or temporarily (sunset clause).</i>
	Option 3: Staged reform	<i>A staged implementation approach that explicitly recognises the savings from lower benefit receipt. This would allow the time to develop new delivery agents.</i>

Tell us what you think

In this paper we present a range of options to address issues relating to reducing long-term benefit dependency. The experience of reform in New Zealand and elsewhere is that successful reform requires some tough decisions and judgements about the trade-offs in policy design. However, reform packages that have a range of mutually reinforcing initiatives with a clear overall goal can be successful.

The benefit system should provide temporary help to people in times of unemployment and adverse life events when they have no other means of support, aimed at assisting them back into work. The system should also provide permanent support for those who have no means of caring for themselves. A strong benefit system needs to send stronger signals about the value of paid work for wellbeing and the importance of intervening early to avoid the costs of long-term benefit dependency.

The Welfare Working Group has been asked to make recommendations to the Government about how to reduce long-term benefit dependency. We would like your views on the practical options for change set out in this paper.

We have identified a number of questions about the range of options for reducing long-term benefit receipt that we consider to be important when thinking about the benefit system. Your responses to these questions will help us develop our final recommendations to Government.

When you are responding to the following questions, your submission could consider:

- whether we have asked the right questions;
- whether there are options that we have not identified;
- which options will work to reduce long-term benefit dependence in a cost effective way; and
- which options are most likely to carry significant risks for the community and taxpayers, beneficiaries and employers.

Questions about the range of options

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?
2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?
3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?
4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?
5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?
6. What changes do we need to reduce long-term benefit dependency amongst Māori?
7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?
8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?
9. What changes do we need to improve the approach to funding and delivery of employment and other services?
10. What changes do we need to involve and support employers to achieve better employment outcomes for beneficiaries?
11. What changes do we need to address benefit fraud and abuse?
12. How should a new benefit system be introduced?
13. What are the key components of a successful package of reform to reduce long-term benefit dependency?
14. Are there other questions and areas for change not discussed that are critical to reducing long-term benefit dependency within the scope of the Welfare Working Group's Terms of Reference?

Chapter 1. Introduction

1.1 The issues

The Government has asked the Welfare Working Group to develop practical options to reduce long-term benefit dependence.¹

New Zealand's welfare system

New Zealand's welfare system is based around categories of benefits.

Benefits are provided to sole parents, unemployed who are looking for and available for work, people who are sick or disabled, widows, carers for the sick and infirm, and women who have lost the support of their partner.

Benefits are only available for those people in low income households and the rates for younger people are less.

The types of formal obligations are based on largely historical judgements about the different categories of people. People who are unemployed and some sole parents are required look for work and other categories of people are provided with long-term support.

The issues facing New Zealand's benefit system

In August 2010 we published an analysis and sought feedback on the performance of current benefit system in our Issues Paper. Our assessment was that the current system was not focused enough on work, and was failing to deliver the economic and social outcomes that the community should expect.

The current benefit system is outdated: New Zealand's welfare system has evolved in a period of rapid social and economic change over the past 100 years. It was designed to provide temporary support to individuals and families who face adverse events, and permanent support for those people who did not have the capacity to look after themselves. Whilst these aims remain, the system has not been modernised to reflect the changing demographic of our population and current norms about paid work for mothers, older women, and people with sickness and impairment.

Most beneficiaries are receiving benefits that do not have a focus on paid work: When the Issues Paper was released in August, around three-quarters of all beneficiaries were on a benefit that did not have a focus on paid work.² Over 170,000 people have spent more than five out of the past 10 years on a benefit. Long-term benefit receipt is concentrated amongst certain groups, including young and older entrants to the welfare system, sole parents, people with low educational achievement, sick and disabled people, Māori and Pacific peoples.

¹ The Terms of Reference, the Issues Paper and further information about the Welfare Working Group can be found at: <http://ips.ac.nz/WelfareWorkingGroup/Index.html>

² The Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010 put in place a part-time work test requirement for Domestic Purposes Benefit sole parents whose youngest child is six or older. And from May 2011, a part-time work test will be applied to people on a Sickness Benefit with work capacity.

Current policy ignores the importance of paid work to wellbeing: Paid work is associated with lower poverty rates, particularly for parents with dependent children, and allows for long-term employment and career progression. It is also associated with better health. On the other hand, the impact of long-term benefit receipt is disabling for individuals, communities, and families or whānau, and increasingly across generations.

Long-term benefit receipt imposes costs on employers: Greater levels of employment are also associated with better outcomes for employers. In the mid-2000s an unskilled labour shortage imposed significant costs on many employers across New Zealand despite the fact that around 10 per cent of the working age population was on a benefit.

Long-term benefit receipt imposes costs on the community as a whole: Greater levels of employment are also associated with better outcomes for the economy and the community as a whole. Benefit payments are a major cost to taxpayers. Just over \$7.4 billion is currently spent on benefit payments.³ The economic and social costs of the benefit system will be unsustainable, and if current trends continue, the share of the working age population on a benefit could rise to over 16 per cent by 2050.

The system is not focused on intervening early to avoid the cost of long-term benefit dependency: The future benefit liability of all beneficiaries is just over \$50 billion.⁴ However, for most of these beneficiaries there is little active support and focus to enable them to move into work even when they have the capability to do so. There are a group of beneficiaries who have deep levels of disadvantage and who need more intensive and personalised support from a range of different agencies.

Some key features outside of the benefit system are driving long-term benefit dependence: It is clear that significant numbers of young New Zealanders are coming out of the education system with no qualifications. These people are at high risk of spending long periods on benefits. In the Issues Paper we discussed how employers need to be more actively engaged in solutions to help beneficiaries into paid work and to support an early intervention approach for people with sickness and impairment before they lose attachment to the labour market.

1.2 Feedback on the Issues Paper

We invited people to give us feedback on the Issues Paper and the questions within it. As well as submissions, many people have also shared their views with us in workshops. We have heard from beneficiaries, employers and other stakeholders about their experience of the benefit system. There has been:

- a two-day forum with 50 presenters and 200 participants;
- over 40 workshops throughout the country;
- 260 submissions and written comments; and
- 117 online forum responses.

We have heard a range of views and how they might be addressed. The key themes are set out below.

³ Almost \$6.5 billion was spent on benefit payments in 2008/09.

⁴ Ministry of Social Development (2010), Future Liability: Estimating time on benefit and the associated cost, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand; Ministry of Social Development – scenario B.

There is widespread support for a strong safety net, but this should come with clear expectations that people take responsibility for themselves as much as possible: The benefit system is in place to help people when they are unable to work or look after themselves. Some people have significant health and disability issues that mean that they need long-term support, which can mean being on a benefit for long periods. Alongside a strong safety net, people who use the benefit system have a responsibility to the community that is supporting them and most people should use the benefit system only temporarily.

“Requiring beneficiaries to accept suitable offers of employment would emphasise the fact that entitlement and obligation go hand in hand.”

Submission on the Welfare Working Group Issues Paper

People agreed that paid work is the best way for individuals to support themselves and their families: Paid work is good for income, health and wellbeing. Likewise the benefit system should actively help people back into work and independence, rather than simply pay a basic income. Wellbeing is tied up with paid work in our society, and long-term unemployment creates outcomes of poverty, joblessness, entrenched disadvantage and alienation.

People identified that the barriers people face when locating and sustaining paid work are diverse: Barriers to paid work include self-esteem, confidence and motivation, the availability of jobs, the availability and suitability of childcare, availability of health interventions, and the costs and capabilities of moving into employment (transport costs, clothing, access to short courses, help to fill in application forms). The key questions people have been asking about supporting beneficiaries into work are:

- How do we support paid work?
- What is effective in enabling and empowering people to enter the workforce?
- Are interventions effective, or are there significant constraints that make it difficult for some people to enter work even where they are supported?

“The current system asks only about ‘sickness’. A medical diagnosis rarely provides a complete reason why someone is not working. For example a 55-year-old labourer with a sore back goes on a sickness benefit. It is unlikely he will return to labouring work. It might be more useful to focus on what other skills he has that might be able to be enhanced. He might be better categorised as lacking in skills than being sick.”

Submission on the Welfare Working Group Issues Paper

There is a concern that some people who have other alternatives are using the benefit system and that this is undermining help to those who genuinely need support: We have heard from some a concern that a ‘culture of entitlement’ has emerged among some beneficiaries. That is, some beneficiaries are concerned about what they are entitled to with little regard to the obligations that come with being part of a community with a strong safety net. We were told by some that this focus on entitlement has become more wide-spread as more people are using the benefit system for longer. They highlighted that this culture weakens the support that those who need the benefit system receive, and ultimately leads to more poverty and higher taxes. Some people suggested that it needs to be clear that a benefit is paid where it is genuinely needed, but that responsibilities to the community come as part of being on benefit, such as taking up reasonable opportunities to prepare for and then move into paid work.

“Long term benefit dependency for the able-bodied is very destructive at every level: it destroys initiative and drive, cripples the future opportunities of children, encourages family breakdown, fuels intergenerational dependency and the growth of the underclass, and is an enormous cost burden on society that the country cannot afford.”

On-line submission on the Welfare Working Group Issues Paper

Employers have raised a number of specific issues: We have heard of many successful cases of beneficiaries moving into work and becoming trusted and long-term employees. However feedback from some employers was that employing beneficiaries can be difficult as they have become unaccustomed to the routines and requirement of the workplace. Perceived risks that beneficiaries will not work out because of a range of personal issues, ranging from a lack of recent work experience to drug and alcohol problems, are often a major barrier to employment. Some employers were concerned about labour regulation, and that the legal process that may follow if problems arise in the employment relationship will be costly and disruptive to the firm, particularly for small firms.

“Employers tend to look for work experience and having learnt on the job may well stand a prospective employee in better stead than applying for work with a new qualification but no practical experience.”

Submission on the Welfare Working Group Issues Paper

Employers, the health system and other stakeholders need to be more actively engaged:

Feedback has highlighted that the welfare system is not the only driver of the rates of long-term benefit dependence in New Zealand. Submissions highlight that the economy, employers, the education system, the health system, and broader social policy and delivery are all factors in the rates of long-term benefit dependence in New Zealand.

1.3 Principles to assess welfare reform

In the Issues Paper we proposed a number of principles to guide reforms to the benefit system and we asked for feedback on these. As a result of this feedback we have revised our list of principles. The complete set of principles is as follows:

- Recognise the value and importance of paid work to wellbeing.
- Foster strong social outcomes, including improved physical and mental health outcomes and low child poverty.
- Respect the dignity of people.
- Promote personal responsibility, accountability and reciprocal obligations.
- Be efficient and free from misuse.
- Be affordable and sustainable.
- Provide financial support when not in employment and when no other appropriate resources are available.
- Be practical, able to be implemented and have a low risk of adverse unintended consequences.

The Welfare Working Group considers that notions of personal responsibility have been missing from many previous consideration of the New Zealand benefit system. The payment of benefits provides a safety net when times are difficult. However, too often unintended consequences have undermined and been at odds with the intent of the

welfare system. In many cases a sizeable proportion of people receiving benefits have been labelled as unable to work and consigned to the long-term poverty of joblessness.

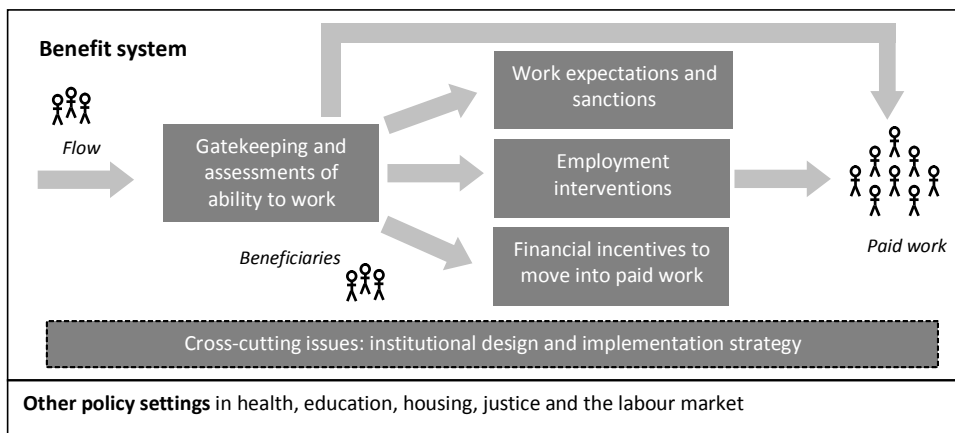
Therefore, we need to move towards a system that expects that individuals will, to the extent that they can, take personal responsibility to change their situation. In many cases this will mean actively looking for a job, taking steps to retrain, or addressing behaviour such as drug use that is a barrier to employment. In this report we often use the term ‘reciprocal obligations’ to refer to the approach where the Government provides income and employment support and beneficiaries agree that as a condition of their benefit receipt they have clear work and other conditions or obligations. The conditions associated with benefit receipt are often referred to as ‘conditionality’.

A set of reforms will be judged effective if they achieve better outcomes for less or similar costs, although higher costs may be acceptable if the outcomes are considerably better. Focusing on employment outcomes, it will be important that effectiveness is measured by the level of *sustained* employment that the reforms achieve. That is, the focus should be on long-term outcomes. In practice, and given the focus on reducing long-term dependency, this may mean that the Government will need to invest in the short term to achieve the long-term gains.

1.4 Key directions in welfare reform

Figure 1.1 shows the key elements of the benefit system. It highlights the major areas inside the benefit system that influence the extent to which people both use benefits, and move from benefits into paid employment.

Figure 1.1: Policy levers and the benefit system



In this chapter, in the context of a strong safety net for those who need it, we review some of the key approaches that have been successful in reducing long-term benefit dependence.

Our review of the New Zealand and international evidence highlights the following features of a well-performing benefit system:

- economic and labour market settings aligned to reduce long-term benefit dependency;
- an approach that intervenes early to reduce the costs associated with long-term benefit dependency, including before entry to the benefit system;

- a focus on paid work, which is complemented with active support and a clearly communicated reciprocal obligation – with greater focus on personal responsibility – so that people take opportunities as they emerge;⁵
- early intervention points that are focused on paid work, including programmes to reduce the numbers of people entering the benefit system;
- well-designed and robust gateways onto benefits;
- clear and comprehensive expectations to look for and accept reasonable offers of paid work, and address barriers to paid work, which are backed up by sanctions, and community expectations about participation in paid work;
- responsive and affordable childcare for children of beneficiaries who are transitioning into work;
- personalised support to address barriers to obtaining jobs for those at-risk of long-term dependency. These include, but are not limited to, job search, wage subsidies for people most at risk, vocational rehabilitation, and alcohol and drug rehabilitation;
- benefit and tax systems that have financial incentives for people to enter and remain in paid work; and
- service delivery that has a strong focus on outcomes, innovation and transparent accountability arrangements.

Economic and labour market settings aligned to reduce long-term benefit dependency

The overall level of employment in the economy reflects the interplay of many factors including international and domestic economic conditions, macro economic policies, labour market settings, such as bargaining arrangements, skill deficits, and crucially the level of job search by people outside of work. We see an ongoing role for stable macro-economic policy to ensure that overall the New Zealand economy creates sufficient employment opportunities for the population. Any regulation of the labour market needs to very clearly prioritise employment.

- *Evidence:* There is considerable evidence that mandating minimum terms and conditions – for example through minimum wages, dismissal provisions and minimum leave entitlements – involves a balance between job creation and protection of vulnerable employees. The OECD urges care in the use of such policies as they frequently have the unintended consequence of reducing employment, often among the vulnerable workers the policies are designed to address. The needs of employers should be given more recognition in active labour market programmes.

Intervening early to reduce the costs of long-term benefit dependency

Effectiveness is driven by the right services and supports being available to the right people at the right time. Effective interventions that actively focus on those people with the highest risk of long-term benefit receipt have the potential to reduce long-term benefit dependence more than interventions that are received by people who would leave the benefit system anyway. A key issue is to assess people’s capacity for work and the level of support that they need.

⁵ In the Issues Paper we provide a comprehensive review of the evidence of the importance of paid work. We do not repeat this discussion here.

- *Evidence:* Analysis suggests that many people will remain on benefit for long periods of time. For example, a recent study suggests that of those people on benefit in 2009 some would be expected to spend between 8 and 11 years on benefit before they reached 65 years of age. This would mean a person on the Invalid's Benefit would on average cost \$192,000. A person on the Unemployment Benefit would on average cost \$65,000.⁶ Streaming clients into different categories based on the risk of them being on a benefit long-term can improve the effectiveness of support. Those people who have the highest risk of long-term benefit receipt can be targeted with early support back into work.⁷

Early intervention points that are focused on paid work, including programmes to reduce the numbers of people entering the benefit system

The initial period on a benefit is critical and an early focus on work can make a difference. Analysis from the Ministry of Social Development shows that more than one-quarter of people who enter the benefit system at one point in time use the system for less than six months out of the next 10 years, but that when people have been on benefit for all of the past three years they can expect to spend a further 11 to 14 years on a benefit.⁸

- *Evidence:* New Zealand and international evidence shows that long-term benefit receipt can be reduced by ensuring that options for paid work are emphasised from the very beginning of contact. As part of the Job Search Service, job seekers are assessed when they first contact Work and Income. This triage approach has consistently meant that more than one-third of people who approach Work and Income for a benefit do not go into the benefit system. This rate has been maintained during the recent recession.⁹

⁶ Ministry of Social Development (2010), Who uses the benefit system and for how long?, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand; Ministry of Social Development (2010), Future Liability: Estimating time on benefit and the associated cost, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand; Ministry of Social Development

⁷ Hasluck, C. (2004), *Targeting Services in the Individual Customer Strategy: The Role of Profiling A Review of Research Evidence*. Coventry: Warwick Institute for Employment Research, University of Warwick. Retrieved from research.dwp.gov.uk/asd/asd5/working_age/wa2004/192rep.pdf. Statistical targeting systems have been tested using historical data to simulate the effectiveness of employment programmes, using statistical targeting compared to existing practice. Studies have found statistical targeting would improve the effectiveness of employment assistance (see for example, Plesca, M., and Smith, J. (2005). Rules Versus Discretion in Social Programs: Empirical Evidence on Profiling in Employment and Training Programmes, Guelph: University of Guelph, University of Maryland). However, putting such targeting systems in practice is yet to be fully implemented. Bloom and Michelopolous (2001), *How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research* highlights that approaches that require more individualised approaches appear most promising (rather than a single type of programme available for all people on welfare) and they particularly note that the types of services provided and the basis on which people are assigned to services appear to be also critical.

⁸ <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/future-liability/future-liability-report.pdf>;
<http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working%20papers/CSRE-Who-uses-the-benefit-system-and-for-how-long.pdf>

⁹ Ministry of Social Development (2010), *Delivery of income and employment services throughout the economic cycle*. Available on the Welfare Working Group website. In addition Blank (2002) describes diversion from benefit as one component of overall welfare reform in the US that lead to a large fall in the numbers of people on welfare. Blank R. (2002), *Evaluating Welfare Reform in the United States*; Journal of Economic Literature, Vol. XL (December 2002) pp. 1105–1166.

Well-designed and robust gateways onto benefits

The OECD and others have highlighted the importance of well-designed and robust approaches for the way that people enter benefits in order to reduce the number of people who leave the labour market and remain reliant on passive income support for long periods.¹⁰ In practice this means that: the eligibility criteria for different benefit types need to be well-defined and based on active principles for people with work capacity; assessments of eligibility for benefits need to be thorough and be focused on people's ability to work; and there needs to be a clear assessment of people's labour market needs and interventions to address these needs as early as possible.

- *Evidence:* In the Netherlands and the United Kingdom significant shares (40% and 69%, respectively) of those people either on or applying for incapacity benefits were classified as fit for work.¹¹

Clear and comprehensive expectations to look for paid work, and address barriers to paid work, which are backed up by sanctions and community expectations about participation in paid work

Long periods on a benefit in families, communities and locations with high benefit rates can normalise the receipt of benefit. It can lead to disengagement with work and with activities that will lead to work. We have heard from submissions and in workshops about the low levels of engagement and confidence of some beneficiaries.

- *Evidence:* Clear expectations associated with benefit receipt mean that people may be more likely to take up other alternative, freeing up resources to provide more intensive support for those who need it.¹² For example, in New Zealand from 1998 to 2003, in Australia from 2004 to 2010, and in the United Kingdom from 2006 to 2010 the numbers on benefit reduced significantly as work expectations for sole parents increased.¹³

Responsive and affordable childcare for beneficiaries with children

Access to reliable and affordable childcare is fundamental for sole parents to participate in paid work.

- *Evidence:* When both childcare assistance and expectations of sole parents to be available for work are combined as part of work-focused reform, the positive impacts on employment and earnings are greater than when either reform is undertaken separately.¹⁴ Internationally, one important conclusion is that by enabling more family

¹⁰ OECD. (2006), *OECD Employment Outlook*. Chapter 3.

¹¹ Fletcher, M. (2009), *Addressing the growth in Sickness and Invalid's Benefit receipt*; a report prepared for the New Zealand Treasury. OECD. (2010), *Sickness, Disability and Work Synthesis Report* highlighted that 40% of the entire caseload of beneficiaries under age 45 was reassessed and found to be fit for work or have a lower disability level than before (younger recipients in particular). An evaluation suggests that about one-third moved into work within a year-and-a-half with special reintegration support.

¹² For a discussion of the effectiveness of clear expectations, see Grubb, D. (2000), *Eligibility criteria for Unemployment Benefits*; OECD Economic Studies 31.

¹³ Analysis undertaken prior to the 1998 reforms for the Domestic Purposes Benefit review working group estimated that 6-12 per cent of people subject to the full-time work test would respond by increasing their hours of work or moving into work. Results from reforms to sole parent benefits across Australia and the United Kingdom suggests that the likely impacts are to the upper end of this estimate. See Australian Department of Education, Employment and Workplace Relations (2008), *Welfare to Work Evaluation* report and Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on the work-related requirements within the benefit systems of different countries*.

¹⁴ OECD. (2006), *OECD Employment Outlook*. Chapter 3.

employment and hence more income, childcare provision has positive effects on children.¹⁵

Personalised support to address barriers to obtaining jobs, including job search, wage subsidies for people most at risk, vocational rehabilitation, and alcohol and drug rehabilitation

Active supports range from the provision of information about vacancies, help with job search techniques, childcare, more extensive temporary wage subsidies for more at-risk individuals, job specific training, and in-work rehabilitation programmes. Support may also or mean encouraging people to be available for and taking steps towards paid work, overcoming personal issues that get in the way of work such as drug and alcohol issues.

- *Evidence:* There is extensive evidence that active support tailored to the needs of people and specific jobs in their local labour market is effective.¹⁶ A cost effective intervention that the Government can make is to introduce a range of benefit conditions to increase job search and job availability.¹⁷

Benefit and tax systems that have financial incentives for people to enter and remain in paid work

Poor financial incentives increase the risk that people will spend long periods out of work. Key policy features which determine the incentive for people to take up paid work are benefit rates compared to wages for the group on benefit, incentives for people and the delivery agent to move people on to non-work tested benefits, the abatement of benefit and the interaction between the tax system and the welfare system, and the structure of in-work support.

- *Evidence:* A recent OECD review highlights that there is significant evidence that people are responsive to financial incentives.¹⁸ In particular this survey concluded that low income groups and sole parents respond more to financial incentives than other groups. In New Zealand there is evidence that the incentive effects from Working for Families had significant effects on the employment of sole parents.¹⁹ People with fewer qualifications, less work experience and longer benefit duration, who have worse earnings prospects and less access to paid work, are far less likely to move into employment.²⁰

¹⁵ OECD. (2009), *Doing Better for Children*, OECD, Paris; Gorgger, J. and Karoly, L. (2007), *The Effects of Work-Conditioned Transfers on Marriage and Child Well-being: A review*. NBER Working Paper 13485.

¹⁶ Martin, J. and Grubb, D. (2001), *What works and for whom: a review of OECD countries' experiences with active labour market policies*. See Chapter 2 for more detail.

¹⁷ Borland, J. and Tseng, Y. (2003), *How do administrative arrangements affect exit from unemployment payments? The case of the Job Seeker Diary in Australia*. Melbourne Institute Working Paper 27/03. Martin and Grubb (2001), *What Works and for Whom: a review of OECD countries' experiences with active labour market policies* notes the importance of regular interventions while people are on benefit to promote their job search and highlight that their effects could be substantial. Reforms in the United Kingdom, the United States and Australia since that time tend to confirm the large size of these types of interventions. OECD (2006), *OECD Employment Outlook*, Chapter 3, also has a discussion of the importance of promoting work availability as a condition of benefit receipt.

¹⁸ Immervol, H. and Pearson, M. (2009), *A Good Time for Making Work Pay? Taking stock of in-work benefits and related measures across the OECD*. OECD Social, Employment and Migration Working Papers No. 81.

¹⁹ Dalgety, J., Dorsett, R., Johnston, S. and Spier, P. (2010), *Employment incentives for sole parents: Labour market effects of changes to financial incentives and support: technical report*. Ministry of Social Development, Inland Revenue Department.

²⁰ Carroll, N. (2006), *Explaining Unemployment Duration in Australia; Economic Record*.

Service delivery that has a strong focus on outcomes and transparent accountability arrangements

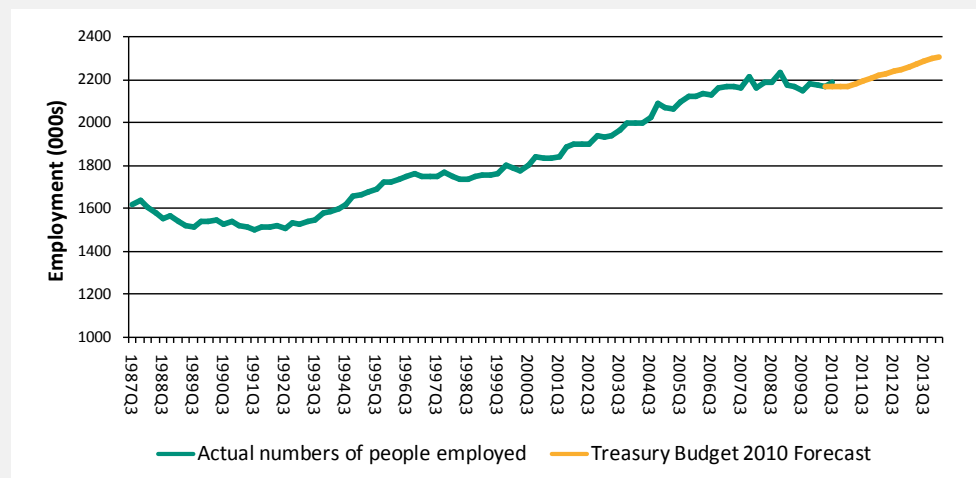
The best designed welfare policy needs to be supported by strong delivery. Investments in better economic and social outcomes need to be delivered in such a way that the best return from the investment is achieved. Non-government service delivery can create greater incentives to deliver programmes effectively and efficiently and can draw on approaches that may not be accessible by government.

- *Evidence:* Delivery agencies (whether government or non-government) need to have strong incentives to deliver on the outcomes within budgets. This means that outcomes and effectiveness need to be well defined and measured. In addition, ineffective approaches need to be substituted for effective approaches, quickly and systematically.^{21,22}

The labour market context for this review

The economy is currently emerging from a significant recession with 6.4 per cent of the labour force unemployed, and the total number of people employed now back to the same level as the same time in 2008. Although the short-term outlook is still characterised by uncertainty, recent data suggests that job opportunities will increase over the coming years. Figure 1.2 shows actual numbers of people employed since 1986, as well as the Treasury forecasts for the next four years set out in Budget 2010.

Figure 1.2: Actual and forecast number of people employed, 1986 to 2014



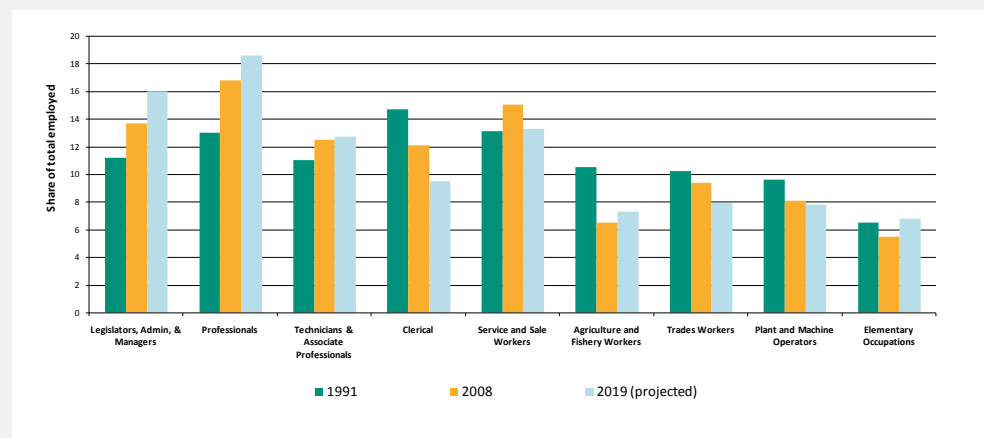
Source: HLFS and Budget 2010 projections

Future job growth will occur amongst a range of occupations, but it is highly likely that the largest increases will be for highly skilled workers. Figure 1.3 shows the Department of Labour’s projected occupational structure of the workforce for 2019. This shows growth occurring in a range of occupations.

²¹ OECD. (2005), OECD Employment Outlook. Chapter 5.

²² Productivity Commission. (2002), *Independent Review of the Job Network*, Chapter 3 and Nunn, A., Bickerstaff T. and Mitchell, B. (2009), *International Review of Performance Management systems in Public Employment Services*. <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep616.pdf>.

Figure 1.3: Actual and projected occupational structure of the workforce, 1991, 2008 and 2019



Source: HLFS and Department of Labour

Future employment is likely to be associated with high levels of instability. Increasing rates of technical change as well as continued globalisation will require rapid adjustment by firms and workers to new competitive pressures. Over the longer term it is also important to expect periods of economic instability similar to the recent global economic crisis.

Employment instability and an increasing demand for skills will require a well-functioning benefit system. It is likely that more people will need to use the benefit system in the future, and this will increasingly be in the context of a change in their occupation. In such an environment the only way of ensuring the welfare system is effective, adequate and affordable will be to ensure that benefit use is temporary. The benefit system will need to be clearly focused on work if it is to deliver real income protection in a dynamic and flexible labour market.

1.5 Designing a system of welfare to invest early to reduce the costs of long-term benefit dependence

The Welfare Working Group has considered options for different structures of benefit systems to increase the focus on investing early to reduce the cost of long-term benefit dependence. We have considered revisions to the status quo, moving to a full social insurance model (in whole or in part), applying the lessons from social insurance to the current structure.

Building on the current benefit system

One approach to reform is to learn the lessons from well-performing benefit systems and apply these to the current benefit structure. The advantage of this approach is that options for reform can improve the current welfare system, but without significant transitional costs. On the other hand, without a greater focus on the future costs of benefit dependency, and if a large group of people remain on benefits that have little focus on work, this may lead to a continuation of some of the current issues in the welfare system.

Social insurance

Social insurance and the greater use of private insurance principles have been considered in some detail by the Welfare Working Group.

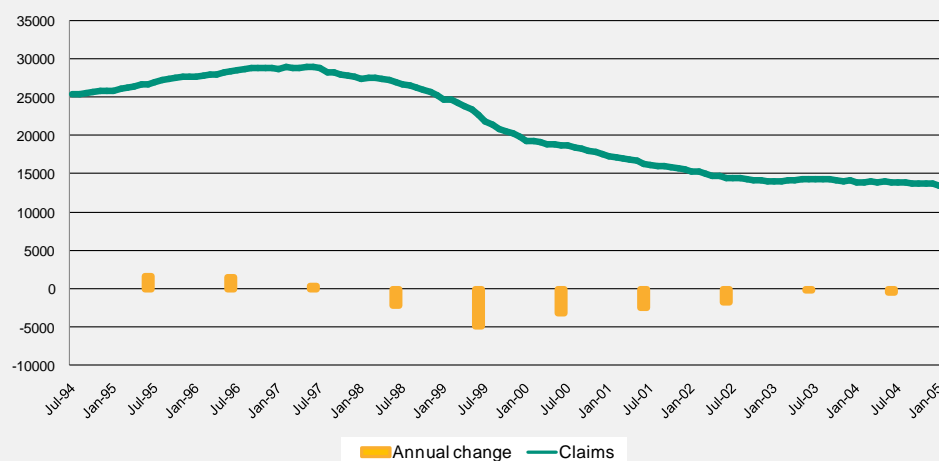
The key features of an insurance scheme are that it is a mechanism for managing risk, it involves the actuarial assessment of risk and its future cost, in return for a premium the

management of risk is shared by the insured and the insurer, and if the risk eventuates the insurer is obligated to provide agreed benefits. A social insurance scheme can be funded through a compulsory levy on an eligible population in return for full coverage.²³ New Zealand and Australia are unusual among OECD countries in not having a social insurance system.

The advantage of an insurance approach for reducing long-term benefit receipt

The advantage of an insurance approach (as reflected in the ACC scheme) is that the cost and performance of the organisation is transparent and it is incentivised to make the appropriate interventions. ACC is incentivised to intervene early where necessary, but not to intervene where that would have little value. The power of using a life-time costs measure can be seen in its impact on the number of long-term ACC claimants during the late 1990s.²⁴

Figure 1.4: Long-term ACC claims 1994 to 2005



Source: ACC

The use of life-time costs combined with its financing structure put pressure on ACC to use the full range of instruments available to it to reduce the long-term costs of receipt (or the life-time costs). Alongside other initiatives, the introduction of more rigorous work capacity testing was able to reduce the number on the scheme from a peak of almost 30,000 long-term claims in 1996 to less than 14,000 by 2004.

The insurance model offers interesting lessons for New Zealand’s system of welfare. In particular, in the model there is an accurate assessment of the current and future need for financial support. In addition, the organisation accurately understands the commitments it has made and takes all reasonable steps to ensure those commitments can be met. It promotes an appropriate level of intervention, with most resources going to those who can most benefit from them and it ensures the cost and performance of organisations is transparent. The power of using a life-time cost measure can be seen in its impact on the number of long-term ACC claimants during the late 1990s.

²³ Further information about social insurance schemes can be found in ACC: Overview for the Welfare Working Group, Martin Jenkins and Associates (2010a); Lessons from insurance for welfare; and Martin Jenkins and Associates (2010b) Aligning Sickness Benefit/Invalid’s Benefit with ACC approaches. All three papers are available on the Welfare Working Group website: <http://ips.ac.nz/WelfareWorkingGroup/Index.html>.

²⁴ ACC Annual Report 2002

At one end of the continuum the benefit rates of Sickness Benefit and the Invalid's Benefit could be changed to be based on individual entitlement and based on income replacement. However, there are financial risks associated with changing payment levels and it is outside of the Welfare Working Group's Terms of Reference.

Learning from insurance

As with many options presented in this paper, it is possible to combine options to produce a stronger overall benefit system. One approach is to maintain a social assistance benefit system, increase the work focus of the benefit system and apply some of the investment strategies from insurance models. Such a model could place a greater policy and delivery focus on the life-time costs of benefit receipt. This means that:

- interventions would be considered based on their impact on the life-time costs of benefit receipt, not only their fiscal cost in the current year;
- there would be greater flexibility to use a range of approaches to improve work outcomes, reduce poverty and reduce the costs of long-term benefit receipt;
- a range of delivery and accountability arrangements would be developed to promote a greater focus on reducing the costs of long-term benefit dependency, including:
 - a reporting framework that places a central role on the life-time cost of benefit receipt;
 - performance management of the public service delivery agent being based on the life-time cost of benefits;
 - designing contracts and placing incentives on private sector and non-government providers to reduce the future life-time cost of benefits.

Table 1.1: Options to promote a focus on investing early

Options	Comment
<p>Option 1.1.1: Enhanced status quo <i>Increase the work expectations within current benefit categories and increase the focus and support for those people who are most likely to stay for long periods.</i></p>	<p>This option would involve the least significant transitional costs while leading to a greater focus on paid work for more people. Without an approach to allocating resources to those most likely to spend long periods on a benefit, the overall cost of the system may remain high.</p>
<p>Option 1.1.2: Social Insurance in full or in part <i>A system with an actuarial assessment of risk and its future cost; in return for a premium, the management of risk is shared by the insured and the insurer. If the risk eventuates, the insurer provides benefits.</i></p>	<p>In this model there is an accurate estimate of the commitments made and all reasonable steps to ensure those commitments can be met is undertaken. The model promotes an appropriate level of intervention, with most resources going to those who can most benefit from them and it ensures the cost and performance of organisations is transparent. The power of an insurance approach can be seen in its impact on the number of long-term ACC claimants during the late 1990s.</p>
<p>Option 1.1.3: Incorporating some insurance based investment strategies into New Zealand's benefit system <i>A benefit system structured around helping people with high risk of long-term benefit dependency into paid work. Policy and delivery decisions being made with respect to the expected life-time costs.</i></p>	<p>This approach potentially draws the key lessons from options 1 and 2 (the importance of paid work and the importance of intervening early) while being associated with lower transitional costs than a full social insurance model.</p>

1.6 Increasing the level of work focus for more people

The Welfare Working Group has emphasised the importance of paid work for wellbeing. In response to the Issues Paper we have received consistent feedback that this focus on the fundamental importance of paid work is justified.

In the Issues Paper we discussed how the current benefit system has a focus on paid work for people who are in the benefit system and who are unemployed, but not sole parents, widows or people who have been provided with a medical certificate from their treating doctor. This judgement that sole parents, older women and people with sickness and impairment cannot and should not work is out of step with current employment rates for women, for people with sickness and disability, and for older women.

In this chapter we consider a Guaranteed Minimum Income (which was raised as an option by some at the Welfare Working Group Forum in June), enhancing the current system, expanding the Unemployment Benefit or developing a work-focused benefit system.

Guaranteed Minimum Income

With a Guaranteed Minimum Income everyone receives an unconditional tax credit and there is a uniform tax rate. This provision would replace all benefits and supplements. The major advantages of the Guaranteed Minimum Income are that it is simple to understand and administer. Treasury has estimated the impact of setting this at \$300 per week (just above the current average benefit level) and found it would cost \$44 billion to \$52 billion per year, leading to personal income tax rates for everyone between 50 and 57 per cent.²⁵

Options to increase the focus on paid work

There are a variety of options to change the system to increase the work focus for these groups.

The first option is to maintain the status quo of benefit categories with a part-time work expectation for sole parents when their youngest child turns six years old and little or no work focus for people on the Sickness Benefit and the Invalid's Benefit. The main issue with this approach is that there is not an early focus on keeping sole parents and people applying for the Sickness Benefit or the Invalid's Benefit attached to the labour market and it continues to send weak signals to sole parents about the value of work. In addition, without sophisticated reporting arrangements there are risks that delivery would not provide enough focus on supporting sole parents and people on the Sickness Benefit or the Invalid's Benefit into work.

The current labels and categories of benefit do not reflect people's capacity to work or current norms about paid work. The primary sole parent benefit name of 'Domestic Purposes' does not reflect the norms about mothers' employment. The 'Invalid's Benefit' is a devaluing name that does not convey the worth of disabled people. The 'Widow's Benefit' and 'Women Alone' benefit names emphasise outdated views the employment of older women. If a categorical benefit system is to be retained there would be value in renaming the categories of benefit.

A second option is to expand the Unemployment Benefit. This would mean that many people who are currently on primarily non work-focused benefits, such as the Domestic

²⁵ More detail can be found in a Treasury paper about the Guaranteed Minimum Income which will be available on the Welfare Working Group website

Purposes Benefit, the Sickness Benefit and some people on the Invalid's Benefit, would move to the Unemployment Benefit. A number of countries including Australia and the United Kingdom have expanded and customised their unemployment benefits. These approaches have successfully increased the work focus for groups of people previously on non work-focused benefits.²⁶

In addition, the OECD has recommended reducing the delineation between work-focused benefits and other benefits.²⁷ This approach weakens incentives for delivery agencies to move hard-to-employ beneficiaries towards inactive payments such as the Sickness Benefit and Invalid's Benefit. It creates a more active system for all beneficiaries, not only for those most employable or work ready. A variant of this approach is to provide an integrated payment structure with a focus on work.

A third option is to develop a work-focused benefit system that is based on lessons from social security reform. This means that:

- when people enter the benefit system significant resource is placed into providing alternative opportunities, particularly for those who are work-ready;
- the service delivery model is focused on promoting the temporary use of benefits with a strong job search focus when people enter the benefit system, and increased levels of activity and expectations as people spend longer on a benefit; and
- clear expectations and obligations that people will move into work when they are provided with opportunities to do so. This would include sanctions, either financial or non-financial, if these activities are not complied with.

Options 1.2.1 or 1.2.2 could be combined with option 1.2.3. That is, a move towards placing more people on work-focused benefits could be combined with an approach to encourage more people to use the benefit system temporarily.

Table 1.2: Options to promote a greater focus on paid work

Options	Comment
Option 1.2.1: Guaranteed Minimum Income <i>An unconditional tax credit with a uniform tax rate that would replace all benefits and supplements.</i>	The cost means that this option is unlikely to be viable. In addition, it is not well-targeted at those who need income support and lacks focus on re-engaging people who are temporarily out of work.
Option 1.2.2: Enhanced status quo <i>Maintain categories of benefit, but increase the work expectations within those categories.</i>	The status quo risks a continued focus on work only for those people who are unemployed and who do not qualify for the Domestic Purposes Benefit, the Sickness Benefit, the Invalid's Benefit and the Widow's Benefit.

²⁶ Australian Department of Education, Employment and Workplace Relations. (2008), *Welfare to Work Evaluation report*. Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on the work-related requirements within the benefit systems of different countries*.

²⁷ OECD. (2010), *Sickness, Disability and Work Synthesis Report*. OECD, Paris. Also OECD (2007), *Employment Outlook*, chapter 5 notes that: effective activation measures for unemployment benefit recipients can be undermined by poorly-controlled access to non-employment or safety-net benefits as some of the long-term unemployed enter benefit schemes that facilitate inactivity. Therefore they argue that there is a case for extending the activation principle to recipients not on the unemployment benefit.

Options	Comment
<p>Option 1.2.3: Expansion of the Unemployment Benefit</p> <p><i>A benefit system that includes one benefit for all people who have current or future work capacity (and no means to support themselves) and one for people who have no work capacity over the long term.</i></p>	<p>This would include most sole parents on a benefit and many people who are classified as sick and disabled. A variant of this model is an integrated payment structure. Maintain a provision for the small number with no work obligations.</p>
<p>Option 1.2.4: A work-focused benefit system</p> <p><i>New Zealand's benefit system would be structured around:</i></p> <ul style="list-style-type: none"> <i>• a focus on paid work for people with current or future work capacity;</i> <i>• clearly communicated reciprocal obligations on the Government, the delivery agent, and the beneficiary with an expectation of temporary benefit use, backed up by sanctions for most;</i> <i>• stepping up work expectations and obligations of beneficiaries as their time on benefit increases.</i> 	<p>There are a variety of options for reform under this option, including option 1.2.3.</p>

1.7 The structure of this Options Paper

In this chapter we have provided a recap of the issues and a summary of the responses to the Issues Paper. We have also presented some evidence on the key directions of reform and presented options for the overall system of welfare. In the chapters that follow we present options for key groups of beneficiaries:

- people on the Unemployment Benefit (Chapter 2);
- sole parents on a benefit (Chapter 3);
- people on the Sickness Benefit and people on the Invalid's Benefit (Chapter 4);
- Māori (Chapter 5); and
- young people (Chapter 6).

In Chapter 7 we discuss options to improve financial incentives in the benefit system. In Chapter 8 we discuss options to improve the effectiveness of service delivery.

A well-designed reform package will get the best economic and social results from the expenditure in the welfare system. In this paper we present a range of feasible options to address major drivers of long-term benefit receipt. In some cases more than one of the options could be implemented to address the issue. In some cases none of the options may be recommended because they are either not cost-effective or have significant risks. When we discuss the options we present the evidence around the options, but we will not be providing recommendations until our Final Report. Costings for options will be provided in the Final Report.

We are seeking submissions on this report by 24 December 2010. We are undertaking further workshops with key stakeholders and developing a Final Report for presentation to the Government by February 2011. The final recommendations will draw on the range of options, evidence and stories presented here. It will recommend a benefit system that promotes better outcomes for people and their families, centred around improving work outcomes and reducing long-term benefit dependence.

Chapter 2. People on an Unemployment Benefit

2.1 Introduction

Over the last decade a number of reforms have strengthened a focus on work for people on an Unemployment Benefit. These reforms included an emphasis on work from the first engagement, the introduction of pre-benefit activities, increased job search obligations, a consistent focus on work outcomes for this group by Work and Income, and a strong focus on the workforce needs of employers through the development of the Industry Partnerships model.

The reforms, in combination with a strong economy, and some migration to non work-focused benefits, saw numbers on the Unemployment Benefit fall from more than 154,000 in the mid 1990s to 28,000 in early 2008. However despite this, there was still a group of people who remained on an Unemployment Benefit for a long time. In 2008, at a time when many employers were facing labour shortages, almost half of the people on an Unemployment Benefit had been on the benefit for more than six months.

With the recession the numbers of people on an Unemployment Benefit have climbed once again. As at June 2010 there were 78,600 working age people on an Unemployment Benefit, and this chapter looks at options to improve outcomes for this group. Based on the available evidence about what works, we look at options that:

- place more emphasis on diverting people into work before they apply for Unemployment Benefit;
- provide more effective and better targeted support for people on Unemployment Benefit through a greater use of future liability and life-time cost of benefits;
- ensure that reasonable expectations to look for and be available for work are clear and backed up by credible sanctions; and
- reduce the movement of people on the Unemployment Benefit to benefits that are less focused on work.

A key lesson from New Zealand and other jurisdictions is that there is considerable diversity in people who are unemployed. Many secure paid work quickly, while a proportion experience unemployment for long periods of time, often in repeated spells.²⁸ A focus on minimising the long-term social and economic costs of Unemployment Benefit receipt requires a focus on intervening for those most at risk, with programmes that have been proven to be cost effective.

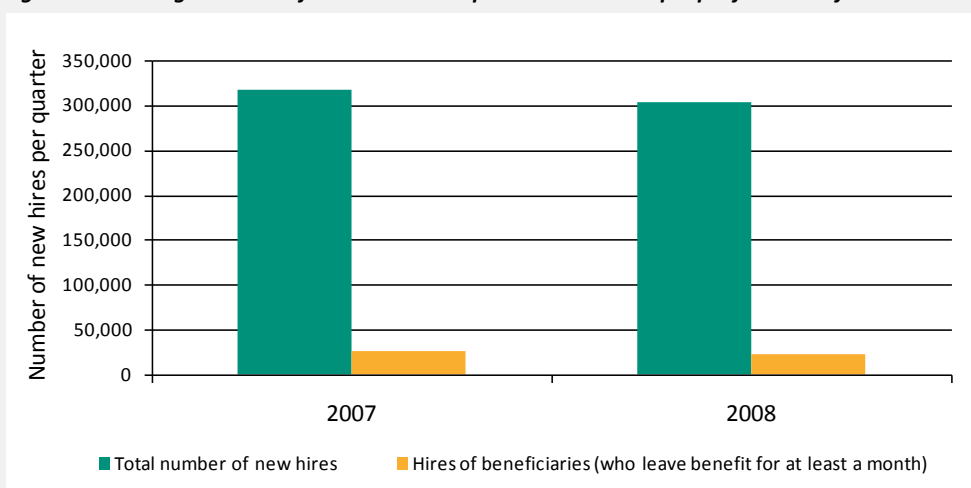
²⁸ Hyslop, D., Stillman, S. and Crichton, S. (2004), *The Impact of Employment Experiences and Benefit-Spell Duration on Benefit-to-Work Transitions*. Statistics New Zealand; Gobbi, M. and Rea, D. (2000), *The unemployment spells of registered job seekers*. Labour Market Bulletin Special Issue, p31-56.

Is it reasonable to expect individuals on a benefit to be looking for work given the current economic climate?

The current labour market is difficult for people who are unemployed. However, even though finding a job takes longer when unemployment is high, the evidence suggests that requiring active and effective job search is in the best interests of a person on a benefit. There is considerable evidence that unemployment harms a person’s health, confidence, future wages and employment prospects, so getting someone back to work as soon as possible is critical.

Even during times of high unemployment there are vacancies in the labour market. For example in 2008 there were around 300,000 hires of workers every quarter. In 2008 we estimate that beneficiaries moving off benefit and into work accounted for 7.4 per cent of these new hires of workers.

Figure 2.1: Average number of new hires each quarter – total and people from benefit



Source: LEED data

There are also good reasons to expect that effective job search will expand the number of jobs available.²⁹ The number of jobs available is not fixed, and there is considerable evidence that over the medium term the number of jobs depends on the number of people who want to work.³⁰ This has been the situation in the New Zealand labour market over the last 20 years. Between 1986 and 2006 over 500,000 additional jobs were created as the labour market responded to a growing population.

There are a number of reasons why the number of people employed will expand as people take more effective steps to look for and secure employment.

One of these is that more effective job search will allow employers to fill vacancies quicker, thereby reducing the length of time that people spend out of work. Reducing the length of time vacancies are open can be particularly important for new and expanding businesses that tend to be responsible for a large proportion of the overall growth in jobs.³¹

²⁹ Schioppa, F. (ed), (1991), *Mismatch and Labour Mobility*. Cambridge University Press, Cambridge.

³⁰ Layard, R. (2000), *Welfare-to-work and the New Deal*. Swiss Journal of Economics and Statistics, vol. 136(III), pages 277-287, September.

³¹ OECD. (2009), *Economic Outlook*, Paris.

Looking for work outside a local area will also lead to an overall expansion in employment. Job vacancies are not always in the same geographic area as people looking for work, and effective job search often requires a person to look for work outside their local community.

Effective job search, where it involves people taking steps to retain or seek work in different occupations, also improves the match between what employers want and what beneficiaries can offer. The changing structure of industries, particularly after a recession, often results in a mismatch between the skills needed by employers and those of people looking for work. Labour market matching improves where people take steps to retrain or seek work in different occupations.

Improving job search and reducing the time individuals spend unemployed also has flow-on effects to the wider economy. As people move from benefit to employment they tend to spend more, and this in turn leads to increased employment across the economy. Historically the response to unemployment has often been to allow certain groups of job seekers to stop looking for work and retire early. However this approach is not in the best interests of people on a benefit as it labels them as permanently unable to work, and means that they are less likely to enter the labour market when job opportunities become more plentiful.

2.2 Diverting people into work before they receive an Unemployment Benefit

A key finding of New Zealand and overseas research is that long-term benefit receipt can be reduced, and incomes improved, by diverting people into work before they are granted an Unemployment Benefit. This means that the initial contact provides information and tools about how to secure paid employment rather than a benefit.

Work and Income uses a *Job Search Service* that triages job seekers into streams depending on whether they are self-directed or need additional support. The later group are required to attend a *Work for You* seminar that provides information on vacancies and job search skills. As a result of the triage process, more than one-third of people are diverted away from receiving a benefit.

There are a variety of additional approaches available to support this process of diversion. Other countries have implemented stricter pre-application job search requirements, made initial support temporary, and invested more in the provision of information about job vacancies before the initial grant of benefit.³²

Table 2.1: Option to help people secure employment before entering the benefit system

Option	Comment
<p>Option 2.1.1: Improved diversion and triage strategies</p> <p><i>Improved diversion strategies so that more resources are invested in helping people to secure paid employment before applying for a benefit; and better triage for those entering the system.</i></p>	<p>There is considerable scope for using information technology to make customised referrals to job vacancies, for example through internet kiosks and text messaging.</p>

³² Rosenberg, L. et al. (2008), *A Study of States' TANF Diversion Programs*. Mathematica Policy Research Inc; Lippoldt, D. and Brodsky, M. (2004), *Public Provision of Employment Services in Selected OECD Countries: The Job Brokerage Function*. In Labor Exchange Policy in the United States, David Balducci et al., eds. Kalamazoo, MI: W.E. Upjohn Institute.

2.3 Increasing the cost effectiveness of programmes

A range of employment and training programmes are provided to people once they are on a benefit. These interventions include vocational training, job search assistance, wage subsidies, work experience, courses to improve confidence and motivation, and vocational services for people with disabilities.

Currently these programmes are disproportionately focused on people receiving Unemployment Benefit.³³ In the financial year 2010/11 nearly \$340 million has been set aside for such programmes.

The evidence suggests that employment programmes can be a cost effective intervention to support people into work.³⁴ However the specific design and operation of programmes matters greatly and effectiveness depends a lot on context, particularly the circumstances of the target beneficiaries and their local labour market.

Effective interventions tend to directly address the barriers to employment faced by people who are jobless. The evidence also suggests that active employment programmes, particularly those that involve training, need to be tailored to the labour needs of local employers. This conclusion has been reinforced by our discussions with employers who have commented favourably on the existing Industry Partnership scheme operated by Work and Income.

The following broad conclusions can be drawn from the evidence about the operation of employment programmes:³⁵

- Low cost job search services, and job search requirements, appear to help most unemployed people, but it is vital to ensure that these services are well monitored and work tests are well enforced.
- On-the-job-training programmes can be effective when targeted to the needs of the job seeker and local employers. As much as possible, this training should be done on the job and lead to a qualification that is recognised and valued by employers. Long-term programmes may not be effective for some groups.
- Subsidies to employers appear to help specific groups, particularly the long-term unemployed. Wage subsidies need to be short in duration and well-targeted.
- Job creation schemes in the public sector appears to be ineffective for most adults and unemployed youth. Where such measures are used, they should be of short duration and targeted to the most disadvantaged.
- Work for the dole schemes tend not to be effective, although there may be some scope to use these programmes to increase the non-financial incentives to find work.

³³ See Issues Paper for details about the distribution of employment and training programmes across benefit types.

³⁴ Martin, J. P. and Grubb, D. (2001), *What works and for whom: a review of OECD countries' experiences with active labour market policies*; Card, D. et al (2010) *Active Labor Market Policy Evaluations: A Meta-Analysis*, NBER Working Paper No. w16173; Card, D., & Hyslop, D., (2006), *The Dynamic Effects of an Earnings Subsidy for Long-Term Welfare Recipients: Evidence from the SSP Applicant Experiment*, NBER Working Papers 12774, National Bureau of Economic Research, Inc; Bond, G. (2004), *Supported Employment: Evidence for an Evidence-Based Practice*. *Psychiatric Rehabilitation Journal*, v27, n4, p345-359; Johri, R., deBoer, M., Heide Pusch, H., Ramasamy, S. and Wong, K. (2005), Evidence to date on the working and effectiveness of ALMPs in New Zealand.

³⁵ See previous references

- In work support can be effective, particularly in relation to addressing health issues.
- Financial payments to job seekers and subsidising childcare can be cost effective.

The extent to which programmes are effective is heavily dependent on the quality of targeting – making sure that effective interventions are provided to individuals at risk of long-term benefit dependency.³⁶ This requires streaming of recipients, and early intervention for those most at risk.

Strong results-based measures to assess delivery agent performance (either public sector or private sector) can help ensure that active labour market programmes are effective.³⁷ A focus on reducing the future liability (both the current and future costs of a person on a benefit) is a key means to ensure agencies invest appropriately. Such a focus can also drive innovation and the consideration of a wider range of effective interventions.

In recent years Work and Income has invested in understanding which of its programmes are effective, and in developing better tools for identifying which individuals would benefit from active supports. However more could be done to improve the quality of the overall investment. There is further scope for improving the early assessment of whether someone is at risk of long-term benefit receipt based on qualifications, work experience, previous benefit history, location, parental or caring responsibilities, health and disability barriers.³⁸

There is also scope for providing frontline case workers with better information about what sorts of programmes work in different situations. A focus on life-time costs would also drive increased levels of investment in support where appropriate. There is also an ongoing need to standardise and evaluate programmes to understand relative cost effectiveness of different active supports.

Table 2.2: Options to improve the effectiveness and targeting of support

Options	Comment
<p>Option 2.2.1: Future liability and investment model <i>Reduce the life-time costs of benefit receipt by better targeting and design of active employment interventions.</i></p>	<p>This option would focus attention on streaming recipients into different groups depending on risk of long term benefit receipt, and working earlier and with more intensity for those most at risk.</p>
<p>Option 2.2.2: Six month threshold <i>A threshold (for example, six months) at which point a person identified as at risk of long-term receipt would be offered either paid or unpaid work (including voluntary work) to enhance chances of entering paid work.</i></p>	<p>This approach could be coupled with early intervention to address barriers to employment prior to reaching a six-month threshold.</p>

³⁶ Hasluck, C. (2004), *Targeting Services in the Individual Customer Strategy: The Role of Profiling A Review of Research Evidence*. Coventry: Warwick Institute for Employment Research, University of Warwick. Retrieved from research.dwp.gov.uk/asd/asd5/working_age/wa2004/192rep.pdf

³⁷ OECD. (2005), *OECD Employment Outlook*, chapter 5.

³⁸ The Australian model of assessment provides a quantitative assessment of the relationship between these variables and the risk of long-term unemployment, see: www.deewr.gov.au/Employment/JSCI/Pages/overview.aspx for further information

A more structured option would be to have a six-month threshold at which point a person would be required to attend an interview. At that point those identified as at risk would be offered a vacancy, subsidised job, unpaid work experience or unpaid community work.³⁹

2.4 Strengthening obligations and credible sanctions to encourage job search

The Unemployment Benefit exists to provide temporary income support to individuals who are actively looking for employment. Most people on the Unemployment Benefit are motivated to find paid work. However the international and New Zealand evidence suggests that obligations backed up by credible sanctions are necessary to encourage a proportion of people to move more rapidly into paid work.⁴⁰ The evaluation evidence suggests that:

- work expectations should be simple and clearly communicated;
- sanctions for non-compliance should be credible, well-governed and proportionate to the nature of the failure and the circumstances of the person on benefit; and
- frequent requirements to demonstrate eligibility reduce the risk of long-term receipt.

The existing job search requirement for someone on an Unemployment Benefit is that they must be actively looking for full-time paid work (for example contacting employers about vacancies), available to start if they receive a job offer, and taking reasonable steps to find paid employment. In practice job seekers must accept any suitable job offers within their abilities, and they cannot restrict their job search to vacancies within their own trade or occupation, and they cannot move frequently from one area to another to avoid getting a job.

There are a range of exemptions to these expectations to reflect the diversity and change in people's circumstances.

Beneficiaries can be sanctioned if they fail to fulfil job search obligations or other activity requirements. The current sanction process is undertaken by case managers, and is guided by the principle that obligations must be undertaken, unless there is good and sufficient reason. The financial penalty is a reduction in benefit. The level of financial penalty depends on the previous history of work test failures, the type of benefit, and whether children are supported by the beneficiary. For example, for a single person on Unemployment Benefit, without children, there is a 50 per cent reduction in main benefit for a first failure. A second failure incurs 100 per cent reduction in both main benefit and supplementary assistance. Benefits can resume when a recipient undertakes a re-compliance activity, which is normally to undertake the activity they were initially required to do.

³⁹ Gregg, P. (2009), *Job Guarantee: Evidence and Design*, <http://www.bristol.ac.uk/cmipo/publications/other/jobguarantee.pdf>

⁴⁰ OECD. (2006), *Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy*, Paris.

Findings from the Jobs Jolt initiatives

Jobs Jolt was a package of initiatives implemented in late 2003 and early 2004 that was aimed at reducing long-term benefit dependency when there were wide-spread labour shortages. The package comprised a wide range of different initiatives including increased obligations, customised case management, and various forms of employment support. Amongst those elements that were evaluated, the most cost-effective were those that emphasised obligations to look for work. These included:

- *A clear and strong expectations campaign.* This was about reminding beneficiaries of their obligations to be available for and actively seeking employment. People were also reminded of the consequences of failing to meet their obligations. The result of the campaign was a marked reduction in numbers – interestingly, more from the announcement and signalling effects than from the actual imposition of sanctions for non-compliance.
- *The removal of a work-test exemption for unemployment beneficiaries aged 55 to 60 years.* During the 1990s a blanket work-test exemption was created for Unemployment Benefit applicants aged 55 and over, where they had been in receipt of Unemployment Benefit for more than six months. This became known as the 55 Plus Benefit. The Jobs Jolt package removed this exemption. As a result there was an increase in older recipients moving off benefit, although a small number moved onto other benefits. The overall impact was an increase of 4.6 percent in the proportion of older Unemployment Benefit recipients who were off benefit compared to a control group.
- *The local employment area initiative aimed at identifying areas of limited employment opportunity* – where people without a connection to the area, were not eligible for Unemployment Benefit if they moved there. This policy did have exceptions, especially for people returning to their home area for family connection reasons.

The current obligations regime for people on an Unemployment Benefit could be strengthened. In particular there could be clearer messaging about the need for job search involving taking a wider range of job options, obligations to address barriers to employment (such as drug use), and requirements to look for paid work across a wider geographical area.

While individuals often want to hold out for a particular type of job, the evidence suggests that future prospects are better if someone is employed rather than unemployed. Being employed does not preclude continued job search, and is often a better platform from which to look for work.

The sanctions regime could also be strengthened. This might include making the loss of benefit more severe when children are not involved, or greater use of voluntary weekend work as a sanction.

Table 2.3: Options to increase work expectations

Options	Comment
Option 2.3.1: Clearer expectations <i>Clearer and more frequent communication of the expectations to look for and accept paid work.</i>	More use could be made of existing communications to reinforce job search obligations.
Option 2.3.2: More effective sanctions <i>A more effective sanction regime that is proportionate, credible and enforceable. A minimum sanction period could also be considered.</i>	Good governance of the sanctions process will also reinforce the existence of more effective sanctions.

2.5 Supporting employment for at-risk beneficiaries

There are a range of groups that have high risks of long-term benefit dependency. In this chapter we particularly focus on the issues facing ex-prisoners, youth offenders and people who use drugs and alcohol. However, across all groups that require intensive assistance, flexible and specialist case management is important.⁴¹ For example, the UK Employment Action Zones had the following characteristics:

- one-on-one tailored approach based on clients' personal barriers;
- action plan for each client based on their needs;
- flexible funding and service provision;
- focus on sustained employment with ongoing contact after work begins; and
- strong links with employers.

The result was a 6 per cent increase in participants starting employment and a 9 per cent increase in finding sustained employment.⁴²

Offenders and recently released prisoners

An important issue for the current system is the ability of recently released prisoners and those finishing a community sentence to secure employment rather than staying on a benefit. In 2009 almost 9,000 people finished their prison sentence, and slightly more than 3,500 were granted a benefit.⁴³ For a variety of reasons ex-prisoners tend to find it hard to find employment, and spend lengthy periods on a benefit.

Importantly, long-term benefit receipt is also a risk factor for re-offending among recently released prisoners. The high level of unemployment among ex-prisoners is part of the explanation for the high rate of re-offending. Approximately 50 per cent of people who finish their prison sentence, return to prison within four years.⁴⁴

There is strong evidence that having a job helps prevent re-offending. Being employed is often a turning point in the lives of young male offenders in their mid 20s. Evidence from the US suggests that offenders who are provided with very short term pre-employment training, short-term subsidised jobs, and post-placement support were less likely to re-offend than those who did not receive these opportunities.⁴⁵ While such programmes are expensive, they have significant social and fiscal payoffs because they reduce benefit receipt, as well as criminal offending and imprisonment.

⁴¹ *International Insights: Best Practice in Employment Programmes*. Ingeus Centre for Policy and Research, 2008; Freud, D. (2007), *Reducing Dependency, increasing opportunity: options for the future of welfare to work*. Department of Work and Pensions, UK; *Job Network Evaluation, Stage 3: Effectiveness report*. DEWR, Australia, 2002.

⁴² Freud, D., as above, p55-6.

⁴³ Data from Ministry of Social Development and the Department of Corrections.

⁴⁴ Corrections website, http://www.corrections.govt.nz/_data/assets/pdf_file/0009/394902/Complete-Recidivism-report-2009-COC.pdf

⁴⁵ Uggen, C. and Staff, J. (2001), *Work as a Turning Point for Criminal Offenders*. Corrections Management Quarterly, 2001, 5(4), 1–16; Bloom, D., Redcross, C., Azurdia, G., Zweig, J, and Pindus, N. (2009), *Transitional Jobs for Ex-Prisoners: Implementation, Two-Year Impacts, and Costs of the Center for Employment Opportunities (CEO) Prisoner Reentry Program*. New York. MDRC, August 2009. Available at SSRN: <http://ssrn.com/abstract=1667003>.

Table 2.4: Option to reduce benefit dependence among offenders

Option	Comment
<p>Option 2.4.1: Services for offenders <i>Supporting a cross-government approach to offenders, with a focus on paid work, removing barriers and addressing successful reintegration. Increased outcomes-based funding of employment programmes for people leaving prison or serving community sentences.</i></p>	<p>Effective programmes for offenders have the potential to reduce large long-term costs for the benefit and prison systems.</p>

Alcohol and drug use

The extent of alcohol and drug dependence among people on a benefit has been an issue frequently raised in workshops. We have heard from employers that they are increasingly using pre-employment and random workplace drug tests because of safety concerns. The 2007/08 New Zealand Alcohol and Drug Use Survey shows that on an age-standardised basis, around 32 per cent of beneficiaries have used recreational drugs (excluding alcohol, tobacco and BZP party pills) in the past year. By way of comparison, 18 per cent of the non-beneficiary working age population report using recreational drugs in the previous year.⁴⁶

A number of people have voiced concerns that current policy settings in the benefit system are quite permissive of alcohol and drug dependence. There are no consequences if recreational drug use is a barrier to a person finding employment, and there are no requirements for individuals to undertake rehabilitation if they are dependent on alcohol or drugs. While there are a variety of drug and alcohol services throughout the country, they are voluntary. As a result, drug use by people on a benefit is increasingly a barrier to employment.

Overseas evidence indicates that there are considerable benefits from a clear strategy to reduce chronic drug use. A recent review of the evidence suggests that for every dollar invested in drug treatment, society benefits to the tune of \$2.50.⁴⁷ Key interventions for problematic drug users include good quality drug rehabilitation programmes, clear messaging, employment, housing and social support networks.⁴⁸

A greater focus on obligations would mean clarifying the rules about drug use while on a benefit, and ensuring there is an appropriate and graduated sanctions regime. It would involve stipulating that failing a work-related drug test is equivalent to refusing to look for work, and that a person in this situation should take reasonable steps to address their dependence. This approach would need to be consistent with the right to refuse medical treatment set out under the New Zealand Bill of Rights Act.

⁴⁶ Report from the Ministry of Health for the Welfare Working Group

⁴⁷ Jones, A. et al. (2009), *The drug treatment outcomes research study (DTORS): Baseline report*, UK Home Office, <http://rds.homeoffice.gov.uk/rds/pdfs07/horr03c.pdf>

⁴⁸ Jones, A. et al. (2009), *The drug treatment outcomes research study (DTORS): Baseline report*, UK Home Office.

Table 2.5: Options to reduce drug related barriers to employment for beneficiaries

Options	Comment
<p>Option 2.5.1: Drug treatment <i>Increase funding and expand access to alcohol and drug treatment for beneficiaries</i></p>	<p>Targeting of these interventions is important.</p>
<p>Option 2.5.2: Obligations <i>Clearer obligations regarding drug testing and sanctions relating to drug use, combined with treatment services.</i></p>	<p>This option would send clear signals about addressing drug use as a barrier to employment.</p>

Engaging with regions

An issue that we raised in the Issues Paper is that long-term benefit dependency is disabling for communities. Of particular concern are regions with few current employment prospects and high rates of benefit dependency. The map presented in the Issues Paper highlighted the key regions in New Zealand with high rates of benefit dependency.

Some communities, particularly in regional New Zealand, have quite specific needs. Some regions had strong labour markets prior to the recession, but have been hard hit by rising unemployment. Other regions have had long periods of high rates of benefit dependence and concentrations of intergenerational disadvantage. In our discussions in some regions there has been a concern that models that work in the main centres have been applied to regional areas where the model works less well.

Work and Income’s service delivery model is based on a devolved regional office structure. In this model each regional office operates in a semi-autonomous way to support the local needs of the job seekers in the region. In addition, decision-making is further devolved to case managers who make a range of decisions within the parameters of the service delivery model, to support individual clients. Each office and case manager has a range of outcomes that they are measured against.

There are no simple solutions to address high rates of benefit dependency in some regions in New Zealand. Each option comes with significant trade-offs and in a country like New Zealand where Māori have such an important relationship with place, it is not appropriate to have unreasonable provisions about where people can and cannot live when they are on a benefit.

Two potential options offer some promise in addressing benefit dependency in regional areas. The first is to re-invigorate the regional development approach based on local responses to local problems. This approach is promising because it draws on local expertise of the issues and opportunities for the region, and it can draw on existing resources and target them better for improved outcomes. The second is to review the current provisions in employment service delivery around limited employment locations, with a particular focus on actively managing and supporting people to find work in high employment regions.

Table 2.6: Options to reduce benefit receipt in some communities

Options	Comment
<p>Option 2.6.1: Local development <i>Work and Income engaging more intensively in supporting regional economic and social results. Development of local model with specific funding and engagement with key agencies and people.</i></p>	<p>Aligning approaches to improve economic and social results at the local level would create a greater focus on addressing local obstacles to better results. Local reporting and engagement will be important to measure the effectiveness of the programmes for local areas.</p>
<p>Option 2.6.2: Stricter limited employment locations provisions <i>Stricter enforcement of current provisions about moving to limited employment locations. More active management of people in limited employment locations to encourage them to locate paid work in other locations. This could also include help for transport.</i></p>	<p>Strengthening provisions around movements to and from limited employment locations may enable more people to work in high employment locations.</p>

2.6 Reducing the movement from the Unemployment Benefit to benefits less focused on work.

While there are 78,600 people on the Unemployment Benefit, there are significantly more in the benefit system who are unemployed, or could reasonably be expected to be ready for work as a condition of their benefit. Experience with reform in New Zealand and elsewhere is that people tend to transfer from benefit types with stricter conditions to other benefits.⁴⁹ In addition, where employment service delivery is primarily focused on supporting people on the Unemployment Benefit into work, less focus is placed on other categories of benefit. Recent changes in the *Future Focus* package move to rebalance this, but more could be done. The OECD has consistently recommended reducing the delineation between work-focused benefits and other benefits.⁵⁰ This approach weakens incentives for delivery agencies to move hard-to-employ beneficiaries towards inactive payments. It creates an active system for more people in the benefit system, not only for those who are most work-ready.

Table 2.7: Option to improve gatekeeping

Option	Comment
<p>Option 2.7.1: Strengthen rules and processes <i>Reduce the incentives for delivery agencies and beneficiaries to move beneficiaries to less active payments. Strengthen rules and processes to create more robust work capacity assessments to ensure people with work capacity are on the Unemployment Benefit.</i></p>	<p>A risk in any system with multiple categories of payment is that people and delivery agencies have incentives to move to less active payments. This could be managed in part by tightening the rules for transfer between benefit types.</p>

⁴⁹ Gregory, B. (2010), Presentation to the Welfare Working Group Forum.

⁵⁰ OECD. (2010), *Sickness, Disability and Work: Synthesis report*. Also OECD (2007) *Employment Outlook*, chapter 5 notes that: effective activation measures for Unemployment Benefit recipients can be undermined by poorly-controlled access to non-employment or safety-net benefits as some of the long-term unemployed enter benefit schemes that facilitate inactivity. Therefore they argue that there is a case for extending the activation principle to recipients not on the Unemployment Benefit.

Chapter 3. Sole parents on a benefit

3.1 Introduction

New Zealanders put a high value on the role of being a parent. Since the 1960s, mothers have increasingly combined paid work with this role. Today, 63 per cent of all mothers are in paid employment.⁵¹ Sole parents face extra challenges in undertaking these roles alone. Nearly nine out of 10 sole parents are women, but many will share their parenting responsibilities with the father of their children.

Family formation and size are personal choices influenced by many factors, including cultural practices. New Zealand has high rates of sole parenthood and sole parent benefit receipt compared with other countries, with over one in four families headed by a single parent. We have the second highest rate of teen parenthood among OECD countries, behind the United States. In 2009, nearly three-quarters of sole parents were on a main benefit.⁵²

As at June 2010, there were 112,000 sole parents of working age on a benefit to support them and their children. The vast majority of these sole parents (102,000) received the Domestic Purposes Benefit, with the remainder on another benefit. Nearly, 47,000 Domestic Purposes beneficiaries had been on a benefit for at least five out of the past 10 years.⁵³ Approximately 183,000 children are being raised in a family on a Domestic Purposes Benefit. Around 40 per cent of recipients are Māori women.

Benefit dependence means some sole parents and their children are spending long periods on low incomes. It contributes to New Zealand's high child poverty rates and poor outcomes for children. In 2009, 74 per cent of children living in a household where there was no paid work were in poverty, and 80 per cent of children in workless households were from sole parent families.⁵⁴ In contrast, only 11 per cent of children living in households where there is an adult working full-time are in poverty. Around half of New Zealand sole parents undertake some paid work. However, this participation rate is low by international standards. Raising the workforce participation rate of New Zealand sole parents closer to other countries would significantly lower child poverty rates.⁵⁵

For some sole parents, and in some communities, the experience of long-term benefit receipt has become a way of life, passed across generations of families. This culture is costly to the wider community and harmful to families and whānau because it creates a recurring cycle of poverty and poor social results. A benefit system which puts no emphasis on supporting sole parents to take up paid work has contributed to these outcomes.

⁵¹ Statistics New Zealand, *Household Labour Force Survey*, June 2010 quarter

⁵² Perry, B. (2010), *Household Incomes in New Zealand: trends in indicators in inequality and hardship 1982-2009*, Ministry of Social Development, Wellington.

⁵³ Ministry of Social Development (2010), *Who uses the benefit system and for how long?*, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington. We also know that young sole parents stay on a benefit for long periods, on average. This statistic is for people aged 28-64 as at June 2009.

⁵⁴ Perry, B. (2010), as above. The poverty measure used in this report is income below 60% of median equivalised household income, after housing costs.

⁵⁵ Whiteford, P. and Adema, W. (2007), *What Works Best in Reducing Child Poverty: A benefit or work strategy?* OECD Social, Employment and Migration Working Papers 51. Paris: Organisation for Economic Co-operation and Development; Esping-Andersen, G. (2007), *Investing in Children and their Life Chances*, Paper presented at Fundacion Carolina International Workshop, *Welfare State and Competitvity*, Madrid April 26-27, 2007.

Most sole parents could potentially be in paid work, and their current low participation in the workforce contributes to significant hidden unemployment. Hidden unemployment refers to people who could reasonably be expected to be in employment who are not recognised as unemployed. In entering the workforce, sole parents want to ensure their children receive good childcare, and some may need extra support to make the transition into paid work.

3.2 The benefit system for sole parents

Until recently, New Zealand's welfare system for sole parents was based on benefit provision while they brought up their dependent children. There was weak encouragement and limited support for sole parents to take up employment. The Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010 increased both the work expectations and support for sole parents when their youngest child turns six years old, with a requirement for those parents to seek part-time work.

A recent review of sole parent policy noted that internationally the common goals are reduced benefit dependency, increased employment and earnings of families, a reduction in child poverty, and related improvement in child wellbeing. Some also aim to change attitudes among sole parents and their children towards employment, the benefit system and their family responsibilities.⁵⁶ Approaches to sole parent reform overseas have focused on increased work-related requirements, redesigned service delivery systems including more personalised case management support, access to a range of job search services, employment assistance programmes, and support services such as childcare provision. In the United Kingdom and Australia, low uptake of voluntary employment programmes has led to required participation.⁵⁷

Nearly 50,000 of New Zealand's sole parents have spent at least five of the last 10 years on a benefit. A focus on the full cost of sole parents staying for long periods on a benefit is important for identifying how resources can be best used to reduce this dependence and improve outcomes for the families most at risk. Intervening early with training and other services to improve work outcomes should reduce the time sole parents are exposed to periods of low income and the associated risk of adverse impacts for their children.

For sole parents key directions for welfare reform include:

- policies which promote a strong focus on paid work by providing clear work expectations, active support and engagement with sole parents to prepare for and move into sustained paid work. This recognises that, for most, being in a job is the best means to avoid poverty and improve long-term wellbeing for themselves and their children. The benefit system should provide temporary support for parents. The earlier sole parents are ready to look for work, the better their chances of securing employment;
- an early assessment of what services and supports each sole parent needs, and measures to be undertaken to address barriers to employment (including training) or improve outcomes for their children;

⁵⁶ Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London. While it was found that voluntary programmes were effective for motivated participants who tended to be work ready, requiring participation meant that providers had to engage with those more likely to have barriers to employment.

⁵⁷ As above.

- a clear process between the sole parent and an advisor which sets out the beneficiary's obligations to prepare for work and any other requirements which may support outcomes for children, and the services they may receive to support these results;
- clear expectations that sole parents are actively seeking and available for work when it is reasonable for them to do so;
- clear messages and support for the measures that parents who receive benefits need to take for their child's health and wellbeing;
- clear expectations that sole parents who are not immediately required to look for work plan and undertake activities which will help them enter paid work at a later date. Supporting sole parents to get ready for work will place them in a better position to find a job when required;
- well targeted and accessible childcare support for sole parents to move into and stay in paid work;
- access to cost-effective training or education opportunities linked to employment outcomes, for sole parents who will most benefit from this support;
- a benefit system which does not affect how people organise their family arrangements. At the present time, the structure of benefit payments and income testing favours single parent status over a couple relationship. At worst this perversely encourages couples to split in order to receive more assistance.

3.3 Addressing weak work expectations of sole parents

Overall, there is good evidence that making benefits conditional on job seeking increases the intensiveness and effectiveness of the job search. It also improves the likelihood of finding work and increases employment rates.^{58 59}

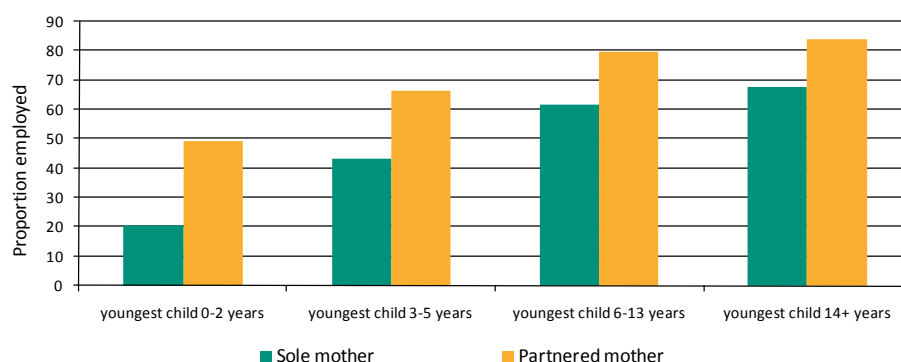
Work expectations for sole parents need to reflect current norms of paid work among parents. While there will be personal circumstances when it is unreasonable to expect sole parents to work, the employment prospects of sole parents today are quite different from when the Domestic Purposes Benefit was introduced in 1972. As at June 2010, 68 per cent of partnered mothers with dependent children and 48 per cent of sole mothers were in some paid employment. Among mothers with a partner, nearly half were in paid work before their youngest child is three years old.⁶⁰

⁵⁸ Department of Education, Employment and Workplace Relations (DEEWR) (2008), *Welfare to Work Evaluation Report*, DEEWR, Canberra. Analysis undertaken prior to the 1998 reforms for the Domestic Purposes Benefit review working group estimated that 6-12% of people subject to the full-time work test would respond by increasing their hours of work or moving into work. Results from reforms to sole parent benefits across Australia and the United Kingdom suggests that the likely impacts are to the upper end of this estimate.

⁵⁹ Smedslund, G. et al (2006), *Work programmes for Welfare Recipients*, Campbell Collaboration Review; Finn, D. and Gloster, R. (2010) *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003) *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

⁶⁰ Statistics New Zealand. (2010), *Household Labour Force Survey*.

Figure 3.1: Employment rate of mothers with dependant children, 2010



Source: HLFS

New Zealand provides 14 weeks paid parental leave and up to 12 months unpaid parental leave for employed mothers. A New Zealand study of employment patterns of recipients of paid parental leave showed that three-quarters returned to work within 12 months, and two-thirds of those returned to work after taking six months leave or less.⁶¹

New Zealand's part-time work test once the youngest child turns six puts us in line with countries like Australia and the United Kingdom where work testing begins around school age. Many other countries such as France, Germany, Norway and Switzerland, impose job search obligations for sole parents whose youngest child is around three years of age. In countries like Sweden and Denmark, where sole parent employment is the norm, an expectation of returning to work begins when paid parental leave ends (which can be up to 18 months) after which income support is available on the grounds of unemployment. In some Canadian provinces and in the United States, work obligations can begin at or under the age of one.

Work-focused reforms overseas have led to significant reductions in sole parent beneficiary numbers and increased employment, especially when job search requirements were included. For example, reforms in the United States from the mid-1990s reduced caseloads from a peak of 5.1 million families on welfare in 1994 to 1.6 million in mid 2008. In Australia, the 2005 introduction of part-time work obligations for sole parents with children over six years old saw around 30 per cent fewer people entering the sole parent benefit (Parenting Payment) and the unemployment benefit (New Start) between 2005 and 2007. There was also evidence that people left income support faster.⁶² There are anticipation effects when reform is introduced, whereby people cease claiming benefits after the announcement and prior to being formally required to look for work.⁶³

⁶¹ Crichton, S. (2008), *Work Patterns after Paid Parental Leave*, Department of Labour and Statistics New Zealand, Wellington.

⁶² Department of Education, Employment and Workplace Relations (DEEWR) (2008), *Welfare to Work Evaluation Report*, DEEWR, Canberra.

⁶³ Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003) *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

Increasing work expectations raises employment - evidence from successive Domestic Purposes Benefit reforms in New Zealand

Policy changes in the late 1990s and early 2000s provide good evidence that job search obligations increase the proportion of sole parents in employment.⁶⁴

Sole parent employment is influenced by a range of factors including the state of the economy, the demographic characteristics of sole parents, the provision of subsidised education, and also the nature of payments, supports and expectations in the benefit system.

Since the early 1990s there have been a range of different policy settings for different groups of sole parents on a benefit.

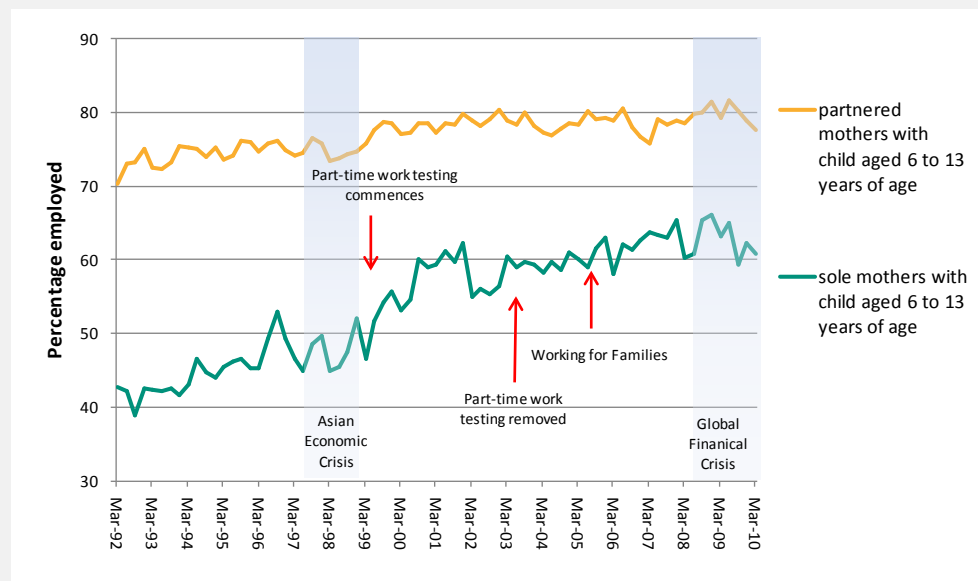
- Until April 1997 sole parents were not required to look for work until their youngest child turned 18 years of age, and until July 1996 they were also subject to a full-time abatement regime.
- From April 1997 to early 1999 there was a part-time work or training test for DPB recipients with a youngest child aged 14 years or over. These requirements were backed up by sanctions for non-compliance. Financial incentives were changed in July 1996 with the introduction of a part-time abatement regime, and the introduction of the Independent Family Tax Credit. The voluntary COMPASS case management programme was also expanded to around 13 per cent of Domestic Purposes Benefit recipients.
- From February 1999 to March 2003 there was a full-time work test and a full-time benefit abatement regime for Domestic Purposes Benefit recipients with a youngest child aged 14 years or over. A part-time work test was introduced for Domestic Purposes Benefit recipients with a youngest child aged six to 13 years. The 1999 reforms also included a new OSCAR subsidy.
- By late 2001 the government was signalling an end to work testing for sole parents, and the policy was formally removed in March 2003. Work testing was replaced by a requirement to participate in Personal Development and Employment Planning. Part-time abatement once more applied to all Domestic Purposes Benefit recipients. The COMPASS programme was discontinued and specialist Domestic Purposes Benefit case managers were introduced.
- From October 2004 to April 2007 a range of measures to make work pay and boost access to childcare was introduced as part of the Working for Families package. Twenty hours free Early Childhood Education for three and four-year-olds was introduced in July 2007.
- From September 2010 sole parent Domestic Purposes Benefit recipients with a youngest child aged six years or over are required to look for at least part-time work. Abatement thresholds have also been increased to create an increased financial incentive to work part-time.

⁶⁴ Wilson, M. and Ball, D. (2000), *Policy change and patterns of Domestic Purposes Benefit receipt: A multiple cohort analysis using benefit dynamics data*, paper to Labour Employment and Work Conference, pp41-53; Centre of Social Research and Evaluation (2007), *The 2002 Domestic Purposes and Widows benefit Reform: Evaluation Report*; Department of Labour and Ministry of Social Development (2001), *Evaluating the February 1999 Domestic Purposes Benefit and Widows Benefit Reforms: Summary of key findings*, <http://www.dol.govt.nz/PDFs/DPBreform.pdf>.

At the same time as these shifts in policy there has been strong employment growth. The two exceptions to this occurred during the period 1997 to 1998 (the Asian Economic Crisis), and from late 2007 (mostly as a result of the Global Financial Crisis).

It is possible to isolate the impact of work testing from overall economic conditions and other policy changes by comparing the employment rates of sole mothers whose youngest dependent child was aged six to 13 years of age, with the equivalent rates for mothers who were partnered. These are shown in Figure 3.2. As can be seen, during the period of the part-time work test, sole mother's employment rates increased relative to partnered mothers. A simple difference-in-differences approach suggests that the impact of the policy was around 8 per cent.

Figure 3.2: Employment rates of sole and partnered mothers with a youngest dependent child aged 6 to 13 years, 1992-2010



Source: Household Labour Force Survey.

For sole mothers whose youngest child was aged over 14 years, the full-time work test (and in this case combined with a full-time abatement regime) also increased employment. The impact of the policy increased full-time employment rates by around 7 per cent, and there was a similar negative impact on employment when the policy was removed.

3.4 Other considerations in determining work expectations for sole parents

Sole parents may face specific circumstances which makes it difficult for them to be in employment. A fair system of work expectations will assess these circumstances. In any given work test, the hours of work which are required of sole parents will reflect a difficult trade-off between the level of basic benefit, and the returns of working part-time or full-time.

Options for deferred or reduced work expectations for some sole parents

Recent changes to the work testing for sole parents in New Zealand, included in Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010, allow for flexibility to recognise a sole parent's individual circumstances. Some situations where work expectations can be reduced or delayed include the event of losing a spouse, either from bereavement or separation, or following domestic abuse. It may be appropriate in

these cases to recognise the need for an adjustment period by delaying work expectations for a period, irrespective of the age of the sole parent's children. Other circumstances where work expectations could be deferred or reduced could be when the sole parent becomes sick, or if the sole parent is caring for a seriously disabled child or an at-risk teenager.

Teen sole parents have a particularly high risk of long-term benefit dependency, leading to concerns about the results for their children. A number of specific conditions could improve results for teen parents and their children. Ways to encourage them back into education and training, and provide targeted support need to be considered. We discuss how to improve support for teen parents in greater detail in Chapter 6 on young people.

Hours of work and the returns from work for sole parents

For many sole parents working 15 hours per week, two factors may not make it worthwhile financially to leave the benefit altogether: relatively low wage rates, and gentle abatement of benefit payments. Most sole parents who work 20 hours per week are better off financially leaving the benefit and taking up Working for Family tax credits.⁶⁵ Full-time work could be defined as 30 hours per week (as defined by Statistics New Zealand), although Working for Families in-work credits are available to sole parents at 20 hours. At 30 hours of work, more sole parents receive more of their earnings in the hand from working additional hours or taking a higher paid job, because their earnings are more likely to take them beyond the income range where high effective marginal tax rates apply.⁶⁶

A number of options to enhance the financial returns of significant part-time work for beneficiaries which could apply to sole parents are discussed in Chapter 7. These include aligning the payments and abatement structures with part-time or full-time work expectations, and transitional payments to encourage people to move into and stay in employment.

Partnering penalties

The benefit system provides less for parents living as a couple compared to those who are separated. For example, if a couple with children are both unemployed, they tend to receive less money if they remain as a couple than if they separate and receive money as a sole parent and a single unemployed person.

The exact size of the financial partnering penalty depends on specific circumstances, including relative accommodation costs. Recent modelling of a typical couple on a benefit with children and no earnings estimated the loss in income after adjusting for differences in housing costs was almost \$3,000 or 9% of income per annum. This represents the amount a couple with children would be financially better off if they separated.⁶⁷

⁶⁵ The Minimum Family Tax Credit (MFTC) component of Working for Families is designed to ensure beneficiaries moving into work are no worse off than when they are on the benefit with part-time earnings. The In-Work Tax Credit is another component of this assistance.

⁶⁶ This is known as escaping the "poverty trap" that is often generated through abatement of assistance provided by the tax or benefit system, some of which also are paid to low paid workers.

⁶⁷ Nolan, P. (2008), *When work and marriage do not pay: poverty traps and marriage penalties in New Zealand's tax-benefit system*. Paper presented to the New Zealand Association of Economists Conference, 2008. <http://www.nzae.org.nz/conferences/2008/090708/nr1215393968.pdf>

The benefit system gives rise to partnering penalties because it is based on the family as the unit of entitlement. There are two issues.

First, the base rates of benefit differ depending on whether someone is living without a partner or children, living with their partner (with or without children), or living as a sole parent. Historically this structure of rates was intended to reflect different living costs, but repeated ad hoc changes mean that there is a weak link between benefit levels and a person's costs.

Second, the amount that benefits and tax credits are abated with earned income depends on whether someone is living with a partner. Couples with the same earned income receive less than non-partnered individuals with the same level of earned income.

We have heard examples of people changing their living arrangements in response to financial penalties. For example, in order to make ends meet, we have heard that some people on a benefit are living separately from their partners. We have also heard that the structure of payments is a barrier for sole parents to start new relationships.

Statistical data shows that a minority of beneficiaries live with partners, and this proportion has been steadily declining in recent years. For example only 25 per cent of people on an Unemployment Benefit are partnered compared to 60 per cent of the working age population.

While partnership status determines the level of payment in the benefit system, it is also often difficult to determine. As a result of the complex rules about relationship status, there are many genuine mistakes as well as deliberate fraud and abuse by beneficiaries. Considerable resources are devoted to monitoring and enforcing this issue by Work and Income.

There are a variety of options for addressing underlying partnering penalties in the structure of payments. These options are often expensive, or require a reduction in the payments to a large number of single people on a benefit. The essence of the options is that they are different ways of increasing the relative payments to couples with children. Potential options include:

- increasing the base rates of benefit for couples with children relative to sole parent rates to increase relative value of support for couples; and
- remove the sole parent premia from the benefit system and instead provide all low-income parents with a tax credit.

The Welfare Working Group understands that this is outside of their Terms of Reference. However, it is highly undesirable to have benefit support influencing family formation. The Welfare Working Group thinks that the Government needs to consider this in the future.

Avoiding unintended outcomes of defining work expectations by the age of child

Significant numbers of sole parent beneficiaries give birth to additional children while on a benefit.⁶⁸ The current benefit system, which now bases work expectations upon the age of

⁶⁸ Ministry of Social Development unpublished data. Of the women newly taking up Domestic Purposes Benefit in the year to June 1999, around one in seven had additional newborn children included in their benefit over the following ten years. Those entering with a newborn child were much more likely to have an additional child included in their benefit over the following 10 years, and tended to be younger than sole parent beneficiaries taken as a whole. Around one in four women receiving Domestic Purposes Benefit at June 2009 have had additional newborn children included in the Domestic Purposes Benefit in the past, looking back to

the youngest child, may create the unintended consequence of providing an incentive for sole parents to have extra children to maintain unconditional eligibility for benefits. Evidence about the impact of measures to discourage this is largely from the United States, where cash benefits are reduced or denied when children are born to mothers on a benefit. This evidence shows some impact in the way of lower non-marital birth rates, but only for some sub-groups of mothers, not all mothers.⁶⁹ This is a difficult issue. There will be a range of circumstances in which women may fall pregnant while on a benefit. While a clear signal that this is not a desirable choice may be required, approaches to address this issue need to carefully consider the potential adverse impacts on children in these families.

Options to address weak work expectations for sole parents

The options set out in the table below range from the status quo to a significant increase in the work expectations placed on sole parents. Introducing work expectations when their children are younger decreases the risk of long-term disengagement. An option which moves some or all sole parents onto the Unemployment Benefit could form part of any of the four options described below, particularly the sole parents for whom a full-time work expectation applies. In all options, if sole parents are not expected to be immediately available for employment due to the age of their children, there would still be an expectation to undertake activities such as training to prepare for work during this period. Options to promote the temporary use of benefits, including time limiting of payments are discussed in Chapter 7. These can be seen as further options to address weak work expectations.

Table 3.1: Options to increase the focus on paid work for sole parents

Options	Comment
<p>Option 3.1.1: Enhanced status quo <i>Work within the current expectations (a part-time work expectation from when the youngest child is six years old). There are weak requirements to plan for a return to work before the child reaches this age.</i></p>	<p>This recent change has moved New Zealand closer to the practice of Australia and the United Kingdom, but these countries, and many others, emphasise a full-time work expectation once children reach school age. These countries both require intensive planning for a return to work before the work test begins.</p>
<p>Option 3.1.2: Early Childhood Education alignment <i>Part-time work obligation from when the youngest child is aged three years; full-time (30 hours per week) work obligation from when youngest child is six years old. This would be combined with stronger requirements to actively plan for a return to work for those with children under three years of age.</i></p>	<p>New Zealand policy settings promote 20 hours participation in early childhood education per week for three-year-old and four-year-old children. After two to three years of age, most studies report some cognitive and social benefits from participation in good quality formal care.⁷⁰</p>

1993. This higher proportion reflects the fact that longer term recipients are a higher proportion of Domestic Purposes Beneficiaries measured at a particular point in time.

⁶⁹ Ministry of Social Development – unpublished briefing to the Welfare Working Group.

⁷⁰ OECD. (2009), *Doing Better for Children*, OECD. Paris; Mitchell, L., Wylie, C. and Carr, M. (2008), *Outcomes of Early Childhood Education: Literature Review – Report prepared for the Ministry of Education*. New Zealand Council for Education Research, Wellington.

Options	Comment
<p>Option 3.1.3: Alignment with current parental leave protection</p> <p><i>Part-time work obligation from when the youngest child is one year old; Unemployment Benefit from when the youngest child turns six years old. Planning for a return to work would be required for those with children under one year old.</i></p>	<p>Aligning sole parent work expectations with the provisions that employed mothers receive would reflect norms around return to work within the wider community.</p>
<p>Option 3.1.4: Unemployment Benefit</p> <p><i>Provide for all sole parents through the Unemployment Benefit with reciprocal obligations, and with employment related support.</i></p>	<p>This would provide a strong signal that early attachment to the labour market is important to becoming independent of the benefit system. This option could involve a restructuring of the sole parent payments so that the sole parent premium component of the existing payment (i.e. the difference between the rate for a single person without children and the rate for a sole parent) is transferrable into work.</p>
<p>Option 3.1.5: Youngest child</p> <p><i>Tie the beginning of work expectations to the age of the first child rather than subsequent children of a parent who enters the benefit system.</i></p>	<p>This option would mean sole parents would be required to be available for and actively seeking work within 12 months of the birth of any additional child while on the benefit, irrespective of the age of their other children. This stronger condition may raise concerns about the impact on children if parents are required to be in work when their children are very young.</p>

3.5 Improving children's outcomes

New Zealand currently has a range of parenting programmes such as Incredible Years, Triple P, Hippy, Parents as First Teachers, and other early childhood initiatives such as Family Start, WellChild, which aim to improve outcomes for children, especially disadvantaged children. These programmes are generally based on outreach approaches which encourage, but do not require, participation by parents, and therefore may not reach the most at-risk families. Evidence suggests that parenting programmes can improve outcomes for children, but little is known about the cost-effectiveness of such programmes.⁷¹

There is consistent and wide-ranging evidence that participation in high-quality early childhood education has cognitive and social benefits for children, especially if they are disadvantaged.⁷² In New Zealand take-up of early childhood education is lower for children from low socio-economic groups.⁷³ Immunisation rates of New Zealand children are lower for Māori and Pacific children and low socio-economic groups and areas.⁷⁴A

⁷¹ Families Commission. (2005), *Review of Parenting Programmes*, Families Commission, Wellington.

⁷² OECD. (2009) *Doing Better for Children*, OECD, Paris; Mitchell, L., Wylie, C. and Carr, M. (2008), *Outcomes of Early Childhood Education: Literature Review – Report prepared for the Ministry of Education*. New Zealand Council for Education Research, Wellington.

⁷³ Ministry of Education and Ministry of Social Development. (2010), *Working Paper on childcare for sole parents and beneficiaries*, Unpublished report for Welfare Working Group.

⁷⁴ Gilbert, R. and Wrigley, K., Opportunistic Immunisation of paediatric inpatients at Rotorua Hospital: audit and discussion, *The New Zealand Medical Journal*, Vol 122, No 1298.

recent New Zealand report found most families reported their financial situation improved as a result of using budgeting services and that this is an essential service for low income families in crisis. Many parents accessing the services were motivated by the desire to improve their children's lives.⁷⁵

Many sole parent families will not require intensive parenting support. At the same time some partnered beneficiaries with children and working parents could also benefit from participation in these programmes. Sole parents are the vast majority of all long-term beneficiaries with children. Long-term benefit receipt, and hence low income, is associated with greater risk of disadvantage for children.⁷⁶

The Social Assistance legislation passed in August 2010 includes a provision that beneficiaries who have had more than three hardship grants may be referred for budgeting advice. A stronger option for beneficiaries unable to manage their income would be to move control of part or all of their benefit to the delivery agent. This is known as income management. As it is important to establish personal responsibility, once individuals have displayed skills and responsibility, it would be vital to give back responsibility to avoid creating a different form of dependency.

The options described below are not mutually exclusive and could be used in combination. These options could be applied to all parents on a benefit who are caring for children.

Table 3.2: Options to improve child wellbeing

Options	Comment
<p>Option 3.2.1: Conditions that promote the wellbeing of children <i>Require every beneficiary with children to meet their parenting obligations. This could include tying the payment of a full benefit to the child's attendance at school and meeting minimum child health standards.</i></p>	<p>A key consideration with any approach that ties benefit receipt to parenting expectations is who it should apply to. Most programmes are targeted at families identified as being at risk or with some disadvantage. Supporting the engagement of fathers may also be worth consideration.</p> <p>Some programmes may be more effective than others, and evaluation of cost-benefit returns may be required.</p> <p>Consideration could be given to financial or non-financial incentives to support these outcomes.</p>
<p>Option 3.2.2: Budgeting activities <i>Requiring at-risk sole parents to engage in budgeting activities including budgeting advice.</i></p>	<p>A mechanism would be required to establish which sole parents are in most need of this support. Careful consideration needs to be given to how sanctioning of non-compliance operates.</p>
<p>Option 3.2.3: Income Management <i>Components of benefits are strictly managed when sole parents demonstrably fail to use the benefit appropriately (for example, failure to provide essentials for children).</i></p>	<p>This option could be used as part of a wider compliance regime which included provisions to promote the wellbeing of the beneficiary's children. There could be value in giving community organisation responsibility to support people with this demonstrated need.</p>

⁷⁵ Families Commission. (2009), *Experiences of New Zealand families accessing budgeting services*, Research Report, No 6/09, Wellington.

⁷⁶ Welfare Working Group. (2010), *Issues Paper*; Esping-Andersen, G. (2007), *Investing in Children and their Life Chances*, Paper presented for the Fundacion Carolina International Workshop, 'Welfare State and Competitvity.' Madrid, April 26-27, 2007.

3.6 Childcare, work expectations and sole parent employment

Directions in reform to childcare to promote sole parent employment outcomes

When sole parents enter the workforce they need to find caring arrangements for their children while they are at work. There are a range of options including using informal care provided by grandparents or other family members, in-home care or centre-based care, or school for school-aged children. The Government currently invests significantly in this area and provides support through Early Childhood Education which subsidises care and early childhood education for all 0 to 5-year-olds, the Childcare and OSCAR (Out of School Care and Recreation) subsidies, in-work tax credits through Working for Families, and school expenditure.

We have been told that many sole parents have difficulty finding suitable childcare that is open when they need it, and that there is an undersupply of childcare, including out-of-school-care. While significant investment is already provided in childcare, the cost, availability and reliability of care are important issues, especially for low-income sole parents when they consider returning to work. A respondent to the online forum commented:

"I have often had to turn down extra hours at my part-time job because I would end up worse off than not working due to the cost of childcare. In addition, if a sole parent works part-time for only a few hours a day as is my situation, when school holidays arrive the only option is a holiday programme. These charge by the day only yet WINZ will only subsidise for the hours worked. For two children this costs me \$500 which takes me the whole term to save - effectively using up most of the extra money I get from working."

Broadly speaking there are three key directions for reform to the childcare area to promote greater workforce participation of sole parents.

The first direction is that any reform to improve the employment outcomes of low income sole parents involves the Government providing active support for sole parents and, as a quid pro quo, expects sole parents to take opportunities to move into paid work when they emerge. Evidence suggests that when there are both work expectations and support for childcare, the success of reform is greater than either work expectations or assisting with childcare on their own.⁷⁷

The second direction for reform is to direct more of current funding for childcare towards low-income sole parents. Currently the support for childcare and early childhood education is universal (or includes middle income earners) and is not well-targeted at low-income working sole parents. There are opportunities to focus some of this expenditure on improving work outcomes for sole parents entering the workforce into low-income employment. The Government has set up a taskforce to review the value gained from government investments in early childhood education. This review will report at the end of March 2011.

The third direction for reform is to provide more support aimed at sole parents who face the most significant issues with childcare. A critical phase is when sole parents move into work, when there may be opportunities to provide additional support for the initial period of employment. Other useful approaches may be to build on existing assistance provided

⁷⁷ OECD. (2006); *OECD Employment Outlook*; Chapter 3

by Work and Income childcare brokers who help parents locate suitable care, and to use tailored initiatives to address specific circumstances in which the system is not working, for example because of a lack of availability of care.

The impact of childcare on child wellbeing

Internationally, there is extensive evidence on the impacts of childcare on child wellbeing. The broad conclusions are as follows:

- Childcare provision has positive effects on children by enabling higher family employment and hence more income.⁷⁸
- Studies generally show a positive relationship between participation in quality early childhood education and cognitive development.
- High quality care for children under the age of three provides modest improvements in cognitive functioning.⁷⁹
- Quality out-of-home care may have positive effects, particularly in early school achievement, on children from disadvantaged backgrounds, or whose parents have poor parenting skills, mental illness or are overly stressed.⁸⁰
- From ages three to five years, the consensus is that high quality care can modestly improve cognitive functioning and lead to positive social relationships, which become important from the age of two.⁸¹
- Long hours of care used by mothers whose child is under the age of one can lead to poorer cognitive and behavioural outcomes. However, these negative impacts can be offset by quality parenting and good quality childcare.⁸²
- If quality out-of-school care offers a range of enrichment activities and experiences, research indicates this can be beneficial to children's health, social, behavioural and educational development.⁸³

Childcare assistance in New Zealand

Childcare assistance in New Zealand is a mix of universal subsidies, provided through the Early Childhood Education (ECE) programme and targeted support through the Childcare and OSCAR (Out of School Care and Recreation) subsidies.⁸⁴ Targeted subsidies are

⁷⁸ OECD. (2009), *Doing Better for Children*, OECD, Paris; Gorgger, J. And Karoly, L. (2007), *The Effects of Work-Conditioned Transfers on Marriage and Child Well-being: A review*, NBER Working Paper No. 13485 October.

⁷⁹ Belsky, J. (2003), *Childcare and its Impact Young Children (0-2)*: Trembaly, R.E., Barr, R.G., and De V. Peters, R. (eds.), *Encyclopedia on Early Childhood Development*, Online, pp 1.6, Centre for Excellence for Early Childhood Development, Montreal, Quebec.

⁸⁰ OECD. (2009), *Doing Better for Children*, OECD, Paris; Bradley, R.H. and Vandell, D.L. (2007), *Child Care and the Well-Being of Children, Archives of Pediatrics and Adolescent Medicine*, Vol. 161, No. 7, pp.669-676.

⁸¹ OECD. (2009), *Doing Better for Children*, OECD, Paris.

⁸² Brooks-Gunn, J., Han. W-J., Waldfogel, J. (2007), *First year maternal employment and child development in the first seven years*, Monographs of the Society for Research in Child Development; Bradley, R.H. and Vandell, D.L., *Child Care and the Well-Being of Children, Archives of Pediatrics and Adolescent Medicine*, Vol. 161, No. 7, pp.669-676.

⁸³ Families Commission. (2007), *When School's Out, Conversations with parents, carers and children about out of school services*, Families Commission, Wellington.

⁸⁴ Maximum subsidies are \$3.77 per child per hour. Smaller subsidies are available to families with higher incomes. The minimum subsidy of \$1.46 per child per hour is available to families with gross annual income of up to \$72,800 for one child and up to \$93,600 for three-child families. For the year to 2010/11 it is forecast that \$1.3 billion will be spent on the early childhood education programme for all New Zealand

available to parents if they are in paid work or approved study or training. The ECE programme subsidises care for all pre-school children and includes 20 hours per week of free early childhood education for all three to five-year-olds not in school. It covers care in a range of licensed services including some home-based care. In recent years additional resources have been focused heavily on increasing qualified teacher ratios in early childhood education through 20 hours free ECE.⁸⁵

Work and Income currently has 50 case managers (childcare co-ordinators) across the country with a specific role to help beneficiaries organise their childcare.

The 2009 New Zealand Childcare Survey identified a number of limitations of current childcare provisions – cost and accessibility of care for sole parents and low take-up of subsidies for out of school care.⁸⁶ While current subsidies lower the cost of childcare substantially, the cost can still be difficult for sole parents in work, the majority of whom are low wage earners. A non-representative sample of pre-school childcare fees suggests that hourly childcare rates can range from around \$5 an hour to around \$10 an hour for casual hours.⁸⁷ After the Childcare Subsidy, the cost can be between \$1.20 and \$6.20 per hour. This is significant for a sole parent earning the minimum wage of \$12.75 (before tax) per hour, for example. If they have more than one child requiring care, fees would take an even higher proportion of their earnings.

Childcare and OSCAR subsidies are available at the same rates to middle income households as well as those on lower earnings. For example, a sole parent with three or more children can earn up to \$80,000 and receive the same amount of support as a parent on the minimum wage of \$26,000 per annum.⁸⁸

Only 9 per cent of five to 13-year-olds are estimated to use formal out-of-school care, while 40 per cent are in informal care not provided by parents.⁸⁹ This may reflect preference for some, but it may also reflect a lack of availability of after-school programmes, and cost. In 2009/10, around 20 per cent of New Zealand's 2000 primary and intermediate schools provided OSCAR programmes.⁹⁰ Recent reports have identified the cost, quality and availability of out-of-school care as an important priority for working

children in pre-school care. Approximately 50 per cent of this cost goes on the 20 hours ECE programme. In contrast only \$190 million has been allocated for Childcare and OSCAR subsidies in 2010/11 to further lower the cost of childcare for low and middle income families. There is also a small tax rebate provided through the tax system and a \$20 per week disregard for the benefit abatement regime for childcare costs.

⁸⁵ Ministry of Education. (2010), *Registered Early Childhood Education Teachers* http://www.educationcounts.govt.nz/indicators/effective_teaching/54190. The proportion of registered teachers increased from 35% in 2002 to 64% in 2009.

⁸⁶ Statistics New Zealand has recently announced that errors were made in its population benchmarks for the 2009 Childcare Survey. The impacts on its summary statistics are not known at this stage but impacts more heavily on numbers rather than rates or percentages. However, a general caution needs to be applied to specific figures quoted from the survey.

⁸⁷ Barnardos charges around \$6.00 an hour for home-based care, for example.

⁸⁸ Ministry of Social Developments. (2010), *Childcare assistance fact sheet*. <http://www.msd.govt.nz/about-msd-and-our-work/newsroom/factsheets/future-focus/childcare-assistance.html>. Changes announced earlier this year reduced these thresholds, cutting out 11,000 higher-earning families from the subsidy from the end of September 2010. The impact of this cut will be felt most by two-parent families with two low incomes; 95% of sole parents will be unaffected.

⁸⁹ Statistics New Zealand. (2009), *2009 Childcare Survey – Commentary*; Statistics New Zealand.

⁹⁰ In 2009, half of the 739 OSCAR-funded programmes were based in schools. Ministry of Social Development, unpublished data.

parents.⁹¹ The low number of schools providing out-of-school care may in part result from the view that school boards of trustees do not have statutory authority under the Education Act 1989 to deliver OSCAR.⁹² Recent changes will make it easier for home-based and small-scale providers to become registered for OSCAR assistance.

Table 3.3: Options to improve access to childcare

Options	Comment
<p>Option 3.3.1: Childcare for low income sole parents (permanent) <i>Provide more childcare assistance for low income sole parents who are in employment. A fiscally neutral package would require some middle and higher earners to lose assistance.</i></p>	<p>Increasing existing subsidies for the lowest earners by lowering the thresholds at which subsidy rates reduce may have a negative impact on the financial incentives of higher income families (especially in two-earner families).</p>
<p>Option 3.3.2: Childcare for low income sole parents (temporary) <i>Provide time-limited subsidies to sole parents who move into work. An example of this approach is Australia's JET childcare fee assistance. It reduces the cost of childcare to 10 cents an hour for up to six months for those entering the workforce, and for up to two years for those in study or training. Another option is to provide a guaranteed weekly payment, say for the first six months of employment, to meet the costs of childcare by another care-giver (e.g. friend, grandparent) if the child becomes sick. Additional financial assistance for childcare could also be delivered as part of the in-work component of Working for Families, which would provide on-going rather than temporary support.</i></p>	<p>This option would focus resources on those for whom childcare costs are a constraint, particularly to move into work or engage in training. A risk is that sole parents may find it difficult to meet childcare costs beyond the initial period. It may also encourage people to enter the benefit system to qualify for the subsidy. Ongoing childcare subsidies are likely to be needed to complement this support. The option to cover childcare costs for a period when the child becomes sick recognises that until their sick leave entitlement is established (after six months employment), having to take time off work to look after children could threaten a sole parent's employment.</p>
<p>Option 3.3.3: Expand out-of-school services <i>Expand the availability of assistance and places for out-of-school care for school-aged children. This may involve requiring schools to provide out-of-school programmes. This could be targeted just at sole parents.</i></p>	<p>Provision of care at schools has cost advantages because programmes can use the existing physical infrastructure, and children can remain on-site for the whole day, avoiding transportation issues. Legislative changes may be required to facilitate higher levels of out-of-school services.</p>
<p>Option 3.3.4: Personalised childcare support <i>Support would be provided to sole parents to locate and arrange childcare as part of case management. Some funding could also be available.</i></p>	<p>Helping sole parents to organise childcare should reduce this as a barrier to work, and increase the uptake of existing childcare assistance. This could include helping Pacific and Māori families to find care that suits their cultural needs.</p>

A significant proportion of parents who are eligible for subsidies are not taking them up.⁹³ Of the parents who didn't use the OSCAR subsidy (83 per cent of those using care), one in five reported that they did not know about the subsidy.⁹⁴

⁹¹ Families Commission. (2007), *When School's Out, Conversations with parents, carers and children about out of school services*, Families Commission, Wellington; OECD (2007) *Babies and Bosses: Reconciling Work and Family Life in OECD Countries: Main Findings and Policy Recommendations*, OECD, Paris.

⁹² As well as subsidies to parents, the OSCAR programme offers assistance funding of up to \$16,000 per year and a one-off development grant of up to \$3,000 to providers.

⁹³ Statistics New Zealand. (2009), *2009 Childcare Survey*.

Across all parents, there can be quite different childcare choices. For example, some Māori, Pacific, migrant and refugee parents express a preference for culturally appropriate childcare services, run by staff of the same ethnic background as the children attending. In addition, surveys suggest that many of these families prefer home-based arrangements to centre-based care. The lack of availability of these services in some areas may partly explain the lower take-up of childcare or ECE in these communities. A range of community-based initiatives has recently been introduced to widen involvement of Māori and Pacific children in ECE, by providing flexible and culturally responsive programmes, including home-based projects.⁹⁵ At the same time, mainstream services should be responsive to the needs of Māori, Pacific, migrant and refugee parents.

Many parents mix informal care by grandparents, relatives and friends with more formal care. For sole parents on low pay there can be significant benefit in informal care arrangements. Informal care arrangements can be more flexible and can reflect family and community expectations about bringing up children. When combined with formal early childhood education, informal arrangements can support childhood development. Informal care can also free up scarce income for other priorities that low income families have.⁹⁶ When general in-work assistance, other than childcare payments, is available, people with informal care arrangements can use the support to address transport or other barriers, and will be more likely to move into employment.

Government taskforce on ECE

The Government has set up a taskforce to review the value gained from Government investments in early childhood education. This review will report at the end of March 2011. In our view, the taskforce should consider a number of broad matters:

- Whether there is scope to reprioritise some early childhood education funding to improve access and lower cost to childcare or early childhood education for low income families. This may include an investigation of whether this could be done by examining current qualifications-based funding and teacher-child ratios, without compromising quality of care.
- Further efforts should be made to engage families who do not participate in early childhood education, particularly disadvantaged beneficiary families.⁹⁷
- Beyond the existing free early childhood education for three to four-year-olds, there should be more emphasis on lowering the cost of childcare for lower income families who are in employment. The impact of the current maximum of six hours per day subsidy needs to be examined in terms of cost and availability of full-day places.
- Whether there is potential to support more informal types of care-giving by family or friends while maintaining adequate standards of care.
- Whether incentives could encourage services to provide care for extended hours, or at the weekends.

⁹⁴ Statistics New Zealand. (2009), *2009 Childcare Survey – Commentary*. For pre-school children, of the 71% of parents using care who had not accessed the subsidy, 15% did not know if they were eligible.

⁹⁵ The initiatives are based in Waitakere and Northland – areas where participation of Māori and Pacific children in early childhood education is low. They follow a successful pilot in Counties-Manukau and aim to engage a further 3500 children in early childhood education.

⁹⁶ Statistics New Zealand (2009), *2009 Childcare Survey*, Statistics New Zealand, Wellington; OECD (2009), *Doing Better for Children*, OECD, Paris.

⁹⁷ Ministry of Education (2010), *Annual Report 2010*. In 2009, 93.9% of all children attended an ECE service prior to starting school: 89.3% of Māori children and 84.4% of Pacific children attended.

The options presented above are not mutually exclusive. Several could be used in combination to provide comprehensive support for low income sole parents. There is a case for more targeted childcare support to help low income sole parents transition into sustained paid work. Sole parents' needs for childcare are diverse, so funding should not be based on a one-size-fits-all approach, but be responsive to the individual needs of the sole parent, their families and whānau.

3.7 Service delivery for sole parents

Employment service delivery in New Zealand is mainly focused on supporting general job seekers, rather than sole parents. Given the significant costs of long periods of unemployment on sole parents and their families, this group should be given a high priority for employment support. Employment services should be provided to people in ways where they will be most effective.

The lessons from insurance provide a framework to ensure that services and supports are focused on lowering the risk of long-term dependence for sole parents. A focus by delivery agencies on the ongoing costs of benefit receipt provides strong levers to ensure that sole parents receive an early, individualised assessment of their training, childcare or other support needs, and timely access to services which are well-matched to these requirements.

The individualised approach for those at risk of long-term benefit receipt also provides a basis for ensuring scarce resources are well-directed to those who have most barriers to employment. Active employment support for sole parents could include active case management, training and development tailored to individual circumstances and abilities. For some, short-term work-specific training may be the most effective way to improve their employment prospects.⁹⁸ Many employers provide on-the job training. The role of the benefit system, as against the student support system, in financially supporting tertiary training is a matter for consideration. For the most disadvantaged, a sequence of support, known as stair-casing, can assist their transition into education, training and employment.

A recent study examining the experience of teen parents highlighted the benefits many of these young people see in obtaining work skills or continuing education.

"...I went to polytechnic and did hospitality...like a food and beverage certificate.. just to get something so I could go and work. I got that, and it just opened my eyes to a whole different world. I got all these awesome friends and my self esteem started building. I was working in town. It was just great. But then as (daughter) got older I realised that I couldn't be doing night shifts when she was at school. My aunty said, 'Why don't you go and train to be a teacher?' I was like 'Okay, I think I want to.' So we investigated that, and here I am. I am in the third year and love it."⁹⁹

Source: Collins, B. (2010), *Resilience in teenage mothers: A follow-up study*, Ministry of Social Development.

Post-placement or in-work support for sole parents is used to aid their transition into work and reduce the risks of taking less secure employment. The In-Work Tax Credit and

⁹⁸ Bloom, D. and Michalopoulos, C. (2001), *How welfare and work policies affect employment and income: a synthesis of research*. MDRC.

⁹⁹ Collins, B.A. (2010), *Resilience in teenage mothers: A follow up study*. Wellington: Ministry of Social Development.

Minimum Family Tax Credit components of Working for Families are forms of in-work support. Sole parents can also access Transition to Work grants of up to \$1500 to cover job search costs, including childcare. While time-limited support may help get sole parents into work and increase their hours, the impact may disappear once the payment ends, as many parents return to a benefit.¹⁰⁰ A more detailed discussion and options for time-limited in-work support are provided in Chapter 7.

Table 3.4: Options to support sole parents into work

Options	Comment
<p>Option 3.4.1: Employ a long-term cost and investment model</p> <p><i>This option involves ensuring services and supports for sole parents are focused on reducing long-term benefit dependence. Two key elements are individualised assessment of support requirements and early engagement with the most appropriate work, training or other support services.</i></p>	<p>This model involves explicitly using the long-term cost of benefit receipt to improve the effectiveness of service delivery. The approach uses the principles of insurance to provide a strong lever to intervening early and efficiently to reduce the long-term costs of benefit dependence by supporting sole parents into employment. For sole parents this translates to an early assessment of training or other support needs. For those who are not immediately expected to work because of caring responsibilities, the focus is on a specific plan to prepare for work and the delivery of appropriate training and other support to achieve this.</p>
<p>Option 3.4.2: Greater support through Work and Income</p> <p><i>Work and Income would have a greater focus on actively supporting sole parents into paid work, with more resources directed to this group, including a greater focus on post-placement support.</i></p>	<p>A more active approach to sole parents would require operational and service changes within Work and Income, with performance measures accounting for sole parent employment. Outside providers would continue to be used.</p>
<p>Option 3.4.3: Greater support through external delivery</p> <p><i>A range of new service and supports would be developed and delivered by providers outside of Work and Income. This may include some of Work and Income's existing functions.</i></p>	<p>Clear outcomes focused on paid work for sole parents would be identified, and outside employment service providers would be contracted to achieve these results. The most effective employment service delivery would gain higher rewards.</p>
<p>Option 3.4.4: Promoting the use of student allowances</p> <p><i>Sole parents encouraged to move to student allowances when in effective, relevant or appropriate education and training.</i></p>	<p>Currently, the student allowance is paid to sole parents at the same rate as the Domestic Purposes Benefit.¹⁰¹ Options could be developed to promote the use of student allowances for those sole parents who will benefit from tertiary education and training.</p>

For sole parents in paid work, finding appropriate childcare can be challenging if one of their children becomes ill. This is particularly the case when a sole parent has recently moved into employment and has not worked long enough to obtain their statutory sick

¹⁰⁰ Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, Paper presented to the National Social Policy Conference, July 9-11, University of New South Wales. Heckman, J. and Jacobs, B. (2010), *Policies to Create and Destroy Human Capital in Europe*, NBER Working Paper No. 15742, National Bureau of Research.

¹⁰¹ Accommodation assistance is more generous for students receiving the Domestic Purposes Benefit.

leave entitlement.¹⁰² We have been told of support being provided to recently employed sole parents that can be used to pay another person to care for the sick child during the period that there is no sick leave entitlement. This innovative solution highlights how responses can be personalised to sole parent's individual circumstances.

3.8 The role of fathers, non-custodial parents and child support

The discussion of policy for sole parent beneficiaries invariably focuses on mothers, who are the vast majority of this group. However, the role of fathers, both in terms of providing ongoing financial support for their children and being engaged in their children's upbringing is an important one. Parenting programmes which also engage single fathers may be effective support to help them stay engaged with their children.

We have heard in workshops and from submissions concern about the issue of child support payments by non-custodial parents, including the wide-scale non-payment of child support and the large debt accrued. We have also been told of the negative incentive it has on encouraging potentially fairer voluntary child support arrangements and parenting involvement by fathers that may be in the better interests of children. The matter of non-custodial support is the subject of a separate current review (see box below).

Review of Child Support

The Government recently released a discussion paper for the reform of the Child Support Scheme. Comment was sought from the public by the end of October 2010 on a range of options. Responses to the submissions are currently being considered.

Because of the relationship between the Child Support Scheme and the benefit system, the Working Group makes the following comments:

- Child support arrangements should operate efficiently and effectively to support the best interests of children, be fair to both parents and fair to taxpayers. At this point it would appear that many parties to the Child Support Scheme do not think that it is working in these ways.
- The responsibility of non-custodial parents to provide ongoing financial support for their children should not be diminished.
- The implications of child support arrangements on the incentives sole parents have to seek employment are a key priority. It is acknowledged there may be difficult trade-offs between these incentives and those of non-custodial parents.

¹⁰² After six months employment, an employee is entitled to five days annual sick leave, which can be used to care for a sick child.

Chapter 4. People on a Sickness Benefit and people on an Invalid's Benefit

4.1 Introduction

A focus on work for people on Sickness Benefit and Invalid's Benefit

In June 2010 there were 58,000 people on a Sickness Benefit and 85,000 on an Invalid's Benefit.¹⁰³ Many have been receiving benefits for a long period of time. In June 2009 there were 65,000 Invalid's Beneficiaries and 24,000 Sickness Beneficiaries aged 28 to 64, who had received a benefit for at least five of the preceding ten years.¹⁰⁴

In the Issues Paper we described how long periods on welfare compound poor health and make it more difficult for people to enter or re-enter the paid workforce. This has costs for individuals, their families and whānau, and for society as a whole.

New Zealanders have told us that they want a society which supports those who do not have the ability to work because of their sickness or disability. Some people need permanent or long-term support and cannot reasonably be expected to be in paid work, including those with very high daily support needs. In addition, there are others who may not have high daily support needs but have other significant barriers to finding and staying in paid work (particularly those with a mental health issue). The benefit system has an important role to play here, not only in providing income support, but in supporting people to participate in their communities.

That said, we have also been told that many sick and disabled people want to work but consistent levels of help, flexible support to stay in work or return to work as soon as possible are not always available.¹⁰⁵ We have been told that some people have experienced significant delays accessing health services and treatments that would facilitate earlier return to work. We have also heard that doctors often feel pressured by their patients to issue repeated medical certificates, and do not always have enough time to do thorough medical assessments. Employers have told us that there is often a gap between what they need from employees and the skills that people on benefits can offer.

Employer attitudes and accessibility of the workplace are important issues for sick and disabled people who want to work. We have also heard that some sick and disabled people feel marginalised and that employers prefer not to take on disabled people. Employers and colleagues need to be accommodating of the needs of sick and disabled employees, both socially and collegially.

“Working has helped my recovery in so many ways [-] it has built my self-esteem, given me financial stability, introduced me to a network of friends, given me something else to focus on besides my mental illness and provided me with opportunities I never thought I was capable of.”

Submission to the Welfare Working Group

¹⁰³ Number of Sickness and Invalid's beneficiaries of working age (18-64 years), and excludes their partners.

¹⁰⁴ Ministry of Social Development Benefit Dynamics Dataset, cited in the Issues Paper.

¹⁰⁵ The importance of work for sick and disabled people is emphasised in the New Zealand Disability Strategy and the United Nations Convention on the Rights of Persons with Disabilities.

The Sickness Benefit and Invalid's Benefit in New Zealand have little focus on work as a potential outcome for people on those benefits. The benefit system does not readily provide for different levels of work capacity or workability.¹⁰⁶ We need a much better understanding of sick and disabled people's work capacity and employment needs than we currently have, if we are to place a greater focus on work and provide personalised support for sick and disabled people to move into work.¹⁰⁷

Diversity of people on Sickness Benefit and Invalid's Benefit

People on the Sickness Benefit and the Invalid's Benefit have a range of conditions. Some people will have physical, sensory, or intellectual disabilities, while others face physical or mental health issues. Individuals will adapt to their circumstances differently. Also, a person's work capacity is not always directly related to the length or severity of their sickness or disability.

Different approaches will be appropriate and effective for people with different sorts of sickness and disability. Prevention and early intervention is likely to be more effective for temporary illness and disabilities that can be rehabilitated. Whereas more on going support and shifting employer attitudes and work place culture may be more effective for people with chronic mental illness and non-preventable, non-curable illness and disability.

While acknowledging the different circumstances of people on Sickness Benefit and Invalid's Benefit, for the purpose of thinking about options for this group, it is helpful to use the following groupings:

- *People with temporary illness* – these people will return to work within a short period of time and may require little beyond income support.
- *People with complex health or disability issues* – these people will have more severe health and disability issues, but with rehabilitation and appropriate support they will be able to return to work. Some people on both Sickness Benefit and Invalid's Benefit will be in this group.
- *People with permanent partial work capacity* – these people will be unlikely to be able to work full-time, but may be able to work part-time with additional and ongoing support. There will be people in both Sickness Benefit and Invalid's Benefit in this position.
- *People who it would be unreasonable to expect to undertake any work* – this group will include people who are terminally ill, have severe impairments impacting on multiple work-related functions that cannot be ameliorated, or unpredictable or episodic illnesses (such as some mental illnesses and other conditions). While it would be unreasonable to expect this group to work for sustained income, it may still be appropriate to expect participation in the community or maintaining their health and wellbeing as much as possible. This is further discussed below.

¹⁰⁶ In this paper we refer to the assessment of impairment as it relates to capacity to undertake various forms of paid work as work capacity for clarity of communication. There has been discussion in the Welfare Working Group about the terminology with some members preferring the term workability.

¹⁰⁷ Fletcher (2009), *Addressing the growth in Sickness and Invalid's Benefit receipt: A report prepared for the New Zealand Treasury*.

Carers in the benefit system

There are two key groups of people within the benefit system who are caring for severely sick or disabled people: people on a Domestic Purposes Benefit – Care of Sick or Infirm, and partners of people on an Invalid’s Benefit. At the end of June 2010, there were 6,700 people on a Domestic Purposes Benefit – Care of Sick or Infirm, and 10,900 partners of people on Invalid’s Benefits. Some Invalid’s Benefit partners are themselves disabled and may not be the primary carer for their spouse. These carers play an important role in supporting and improving the lives of people with sickness and disability. We understand that work is underway to review the support available to carers under the *New Zealand Carers’ Strategy and Five-year Action Plan 2008*. Two key components of the Action Plan are to consider financial support for carers, as well as training and pathways to employment for carers.

4.2 The benefit system for people on Sickness Benefit and Invalid’s Benefit – future directions

Better supporting and increasing the employment of people who are sick or disabled is a concern across many OECD countries. In looking at the evidence, the key components of a well-designed benefit system for people on Sickness Benefit and Invalid’s Benefit are:¹⁰⁸

- an active approach that combines personalised support with appropriate expectations to move into work;
- a strong work focus for people on Sickness Benefit and Invalid’s Benefit who have capacity to work, either now or following active support;
- robust assessment of the capacities and needs of people applying for Sickness Benefit and Invalid’s Benefit, either now or following active support;
- intensive case management for those with complex needs, as well as upfront intervention in rehabilitation and employment-focused activities to support people with risk of long-term benefit dependency;
- a focus on early intervention and prevention;
- strong incentives for delivery agencies to intervene early to support a return to work, and to target people at risk of long-term poor health, disengagement and long-term benefit dependence;
- a focus on appropriate support to participate and contribute for those assessed to be exempt from work expectations in the long term; and
- a system that emphasises the importance of enhancing opportunities for disabled New Zealanders to participate in important life roles including work.

This chapter looks at options for people on Sickness Benefit and Invalid’s Benefit related to:

- the overall system design;
- work expectations;
- employment support; and
- prevention and early intervention.

¹⁰⁸ OECD (2010), *Sickness, Disability and Work. A Synthesis Report*, Paris.

4.3 Overall system design for people on Sickness Benefit and Invalid's Benefit

There are currently two systems in New Zealand that provide income support to sick and disabled people. Each system provides a different level of rehabilitation and vocational support to those it covers. Invalid's and Sickness Benefits are the key benefits for sick and disabled people. Beneficiaries are able to have access to some vocational support through the Ministry of Social Development, and health and rehabilitation services from the public health system.

The ACC scheme provides financial compensation and rehabilitation costs following an injury, in exchange for the loss of the right to sue. Key features of the ACC scheme are as follows:¹⁰⁹

- It is an insurance-based scheme that provides income compensation for earners, at the rate of 80 per cent of lost earnings, up to a cap. ACC also provides a lump sum on permanent impairment.
- The scheme is funded by levies on employers, earners and motor vehicle owners, and by a government appropriation for non-earners. The funding arrangement provides incentives for employers to prevent injuries and support workplace-based rehabilitation.
- It has a strong incentive to reduce the number on weekly compensation long-term and because of this they have a high level of discretion, have a service model with a number of intervention points, and they measure effectiveness robustly.

In the main, ACC uses the same health services as the public health system. ACC generally provides faster access to elective surgery by purchasing these services directly, and it funds some services that the public health system would not, such as physiotherapy, chiropractors, osteopaths and acupuncturists for certain groups. However, all of ACC's acute and general practitioner services are provided on the same basis as the public health system, but ACC pays directly.

ACC also provides social rehabilitation services or disability support services such as home and vehicle modifications, support for severely disabled people and choice in the type of carer a person has (which can include a family member or a friend).

A key question is the extent to which we should maintain two completely different systems or move towards alignment. There are significant opportunities for taking a common approach within the two systems. These include common expectations of return to paid work and independence, common approaches to assessment, common delivery systems, common IT systems and common approaches to rehabilitation. These aspects are discussed later in this chapter. Another aspect where the benefit system could be aligned to ACC is the approach to financing benefits.

¹⁰⁹ Further information about ACC and other social insurance schemes can be found in ACC: Overview for the Welfare Working Group, Lessons from insurance for welfare and Aligning Sickness Benefit/Invalid's Benefit with ACC approaches. All three papers are available on the Welfare Working Group website: <http://ips.ac.nz/WelfareWorkingGroup/Index.html>

There are four broad options for changing the overall design of the benefit system for people on Sickness Benefit and Invalid's Benefit:

- increase the scope of the Unemployment Benefit to include people with temporary, mild and moderate sickness and disability;
- introduce successful aspects of the ACC delivery model to better support people on Sickness Benefit and Invalid's Benefit;
- align support and services for people on Sickness Benefit and Invalid's Benefit with those provided to ACC claimants; and
- extend the non-compensation components of the ACC scheme to include Sickness Benefit and Invalid's Benefit.

Increasing the scope of the Unemployment Benefit to include people with temporary or mild and moderate ill-health and disability

There is scope within the existing system to increase the work focus for people with temporary illness or with mild and moderate support needs.¹¹⁰

With comprehensive assessment of work capacity and appropriate work focus, some people with temporary illness could be included in the Unemployment Benefit, instead of the Sickness Benefit. This shift would put a stronger emphasis on the delivery agent to get more people with work capacity into work, in line with current performance indicators around the Unemployment Benefit. Australia, the Netherlands and Luxembourg have shifted people with temporary illness to their unemployment benefits.¹¹¹

This reform would need to retain a version of the Invalid's Benefit for people who, following an independent assessment, cannot reasonably be expected to work even after significant health and vocational interventions. If reform of this order was to be introduced, the work expectations, supports and services of the Unemployment Benefit for sick and disabled people could be changed to reflect their needs, including better targeting of effective programmes.

Introducing successful aspects of the ACC delivery model

The benefit system differs in a number of ways from the ACC system: how eligibility is determined; the level and nature of payments made to claimants or beneficiaries; the provision of services and support; the drivers behind spending decisions; and how the schemes are funded.

There is a spectrum of options to align the benefit system with the ACC scheme, from applying the lessons of insurance models (including ACC) to the welfare system through to full integration of the sickness and disability population into the ACC scheme.

Aspects of the benefit system could be directly aligned to the ACC scheme. A more active system, better assessment of work capacity, more prevention and early intervention, more comprehensive services and support, and clear work expectations could be added into the existing Sickness Benefit and Invalid's Benefit categories.

¹¹⁰ Treasury (2010), *The New Zealand benefit system: Key problems and options for reform*.

¹¹¹ OECD (2010), *Sickness, Disability and Work. A Synthesis Report*, Paris.

A key aspect of the ACC system is its focus on reducing the life-time costs of benefit receipt. There are incentives in place for ACC to drive down the estimated future cost of its claimants. In addition, ACC provides case management, services and support to claimants and can directly purchase services from providers. It intervenes early where it is cost-effective to do so. As a result, ACC provides a significantly greater level of services and support to its claimants than the benefit system currently provides to sick and disabled beneficiaries.

Aligning the provision of support and services

Further along the spectrum, the whole service delivery model to people on a Sickness or Invalid's Benefit could be aligned with ACC's service delivery model. The eligibility for Sickness Benefit and Invalid's Benefit would remain, but these beneficiaries would have access to ACC types of services and support. This would provide better targeting of treatment and rehabilitation, but it would require a large upfront investment. The investment would shorten the time people spend on Sickness Benefit and Invalid's Benefit, therefore reducing future costs. Given the scale of change, it is likely that a slow transition would be required to allow health and case management providers to step up their capacity.

This option would mean that people who are covered by ACC, a Sickness Benefit or an Invalid's Benefit would be able to access more comprehensive services and support than those people who are not eligible (because of high household income, employment, or retirement). This group who did not have access to more comprehensive services and support would continue to rely on public health system funding. There is currently a difference in the scope and timing of health treatment available to ACC claimants and others, including beneficiaries.

It is an open question whether services and support, including case management and contracting-out of services, would best be provided by Work and Income, ACC, a new government agency akin to ACC, NGOs or the private sector. Options for effective delivery arrangements are outlined in Chapter 8 below.

Extending the non-compensation components of the ACC scheme to include Sickness Benefit and Invalid's Benefit

At the furthest end of the spectrum, we could take people eligible for Sickness Benefit and Invalid's Benefit out of the benefit system and provide them with ACC cover instead. This option would remove the perceived unfairness in the level of rehabilitation support provided to injured people and other sick or disabled people. Both alignment with ACC services and ACC cover for sick and disabled people would significantly improve the services and support for this group.

There would be a range of implications from this approach. It is likely to be costly although there may be some off-setting savings from reducing the duration of income support for some claimants. The option could significantly alter the funding of health services to New Zealanders. If the ACC scheme was extended to include people currently covered by the Sickness Benefit and the Invalid's Benefit there would also be interface issues with the benefit system, as well as people who are sick and in work.

Table 4.1: Options for system design of Sickness Benefit and Invalid's Benefit

Options	Comment
<p>Option 4.1.1: Widen the scope of the Unemployment Benefit <i>Include people who have capacity to work over the short to medium term.</i></p>	<p>The successful aspects of the Unemployment Benefit could be adapted to suit sick and disabled people through better assessment and support.</p>
<p>Option 4.1.2: Incorporate some insurance based investment strategies into the management of Sickness and Invalid's Benefits <i>An investment and delivery model to better support people on the Sickness Benefit and the Invalid's Benefit based on the life-time costs of the claim and evidence on what works.</i></p>	<p>This option retains the existing benefit categories.</p>
<p>Option 4.1.3: Align the provisions of supports and services <i>Align the provision of services to Sickness Benefit and Invalid's Benefit recipients with those provided to ACC claimants.</i></p>	<p>The key difference to the status quo is that sick and disabled people on a benefit will receive the types of support and services under the framework currently provided for ACC claimants. A significant upfront investment would be required with a view to reducing time spent on benefits.</p>
<p>Option 4.1.4: Extend the ACC scheme <i>Extend the non-compensation components of the ACC scheme to people covered by the Sickness Benefit and the Invalid's Benefit.</i></p>	<p>Improves the equity in health service delivery to people who are sick and disabled, regardless of whether they were injured. Significant additional funding would be required.</p>

4.4 Expectations for people on Sickness Benefit and Invalid's Benefit

The system needs to have strong signals about the value of paid work to wellbeing for people with work capacity now or after support. One approach is to include more people on work-focused benefits such as the Unemployment Benefit, with fewer people classified as invalids. People who are currently classified into the Sickness Benefit and the Invalid's Benefit, like all other beneficiaries, should be expected to sign up to a plan to find or prepare for paid work. People should also be expected to undertake rehabilitation if it would improve their work capacity. Expectations for people who cannot reasonably be expected to work are discussed in the box below.

Expectations that reflect the circumstances of individuals

There is currently little expected of people on Sickness Benefit and Invalid's Benefit. There are planning requirements at the discretion Work and Income, but otherwise it is up to the individual whether or not to prepare for or seek work. Obligations will be stepped up for some people on a Sickness Benefit from May 2011, when a part-time work test will be applied to those with partial work capacity, as assessed by their local doctor.

There is considerable variation in work capacity among people on Sickness Benefit and Invalid's Benefit, and this should be reflected in the expectations we place on those people. The part-time work test for some people on a Sickness Benefit is heading in the right direction by setting work expectations in line with a person's capability. However, further personalisation would be possible if better work capacity assessments were in place (as described in the next chapter).

Better work capacity assessments could be used to stream people on Sickness Benefit and Invalid's Benefit into groups, such as the four groups described earlier in this chapter:

people with temporary illness; people with complex health or disability issues; people with permanent partial work capacity; and people who it would be unreasonable to expect to work.

Different expectations could be placed on each group. For example, those who have a temporary illness may have a temporary work-test waiver, but be required to undertake rehabilitation. People with complex health or disability issues could be expected to undertake a mixture of rehabilitation, employment and job-search activities. People with permanent partial work capacity could be expected to meet a part-time work test. People who cannot reasonably be expected to work may be expected to participate in the community. The mix of activities would be determined on an individual basis, so long as it met the broader expectations assigned to each particular group.

Personalisation could be taken one step further. Rather than streaming sick and disabled people into groups, each individual who was assessed as likely to be on benefit for a long period could be set work or participation expectations depending on their work capacity. For example, a person with permanent partial work capacity might be expected to seek 10 hours work per week, while a person with slightly more work capacity might be expected to seek 20 hours of work per week.

The greater the level of personalisation, the more important it would be to have robust work capacity assessments and skilled case managers to set appropriate expectations.

People who cannot reasonably be expected to work

There are a number of people with severe disabilities or illness for whom long-term or permanent support is needed, and for whom work expectations and assessments would be inappropriate and unnecessary. It is right that this group receive additional support and not be expected to engage in work-focused activities. We are also aware that there will be some people in this group who will want to work, including some with terminal illness, severe disabilities or mental illness. We want to ensure they have every opportunity to do so.

We envisage that with improved triaging and assessments less people will, in the future, be exempt from work than in the current Invalid's Benefit. The number of this group within the Invalid's Benefit population is not known, but there are about 20,000 people in New Zealand with high support needs who are not in employment. Given that there would be fewer work expectations for this group, entry criteria would need to be strict. Tight monitoring would be needed to prevent migration from groups with greater work expectations.

Reviews and reassessments

Intensive case management will not be feasible or appropriate for all people on Sickness Benefit and Invalid's Benefit, but some mechanism needs to be in place so that they do not get lost in the system. People's personal, health and disability circumstances change and it is important that these changes are reflected in their benefit expectations and their employment plans. Many countries are focusing more strongly on regular reassessments of the work capacity of current or long-term beneficiaries. This has been a central element of welfare reform in some countries, with a specific focus on supporting people with partial work capacity.¹¹²

¹¹² OECD (2007), *New ways of addressing partial work capacity*. Paris

Better work capacity assessments will allow personalised review and reassessment periods to be put in place, compared to those currently required for the Sickness Benefit and Invalid's Benefit.¹¹³ How personalised should these review and reassessment periods be? Standard periods could be set for each group that people could be streamed into, or review and reassessment dates could depend on individual circumstances.

There may be merit in removing the requirement for reassessments every time someone shifts between work and a benefit. This would make it less risky for some sick and disabled people to move into work.¹¹⁴

Expectations for sick and disabled people

The following tables describe options that progressively place greater conditions on each of the different levels of work capacity we identified earlier in this chapter. A different focus for each group creates appropriate expectations and enables effective targeting of services and support. A number of countries have made sickness and disability benefit receipt conditional on participation in rehabilitation or work search.¹¹⁵

Table 4.2: Options to increase the focus on work for Sickness Benefit and Invalid's Benefit

Options	Comment
<p>Option 4.2.1: Stream individuals based on their work capacity <i>Stream individuals into groups with expectations for each group varying between part-time, full-time or no work expectations. Work search and preparation activities required to meet the expectations will depend on individual circumstances. This option relies on a quality streaming tool.</i></p>	<p>The expectations set under this option will reflect the circumstances of the different groups. For example, people with a temporary illness may not face any work expectation until their illness is reviewed after a set period. People with permanent partial capacity may face a part-time work test. People who it would be unreasonable to expect to undertake any work may have participation rather than work expectations.</p>
<p>Option 4.2.2: Personalised expectations based on work capacity <i>Introduce personalised plans with expectations specific to the circumstances of each individual (relies on quality information).</i></p>	<p>This option relies heavily on quality information provided in work capacity assessments and skilled case managers. Each individual will have personalised expectations (preparing for work, work search or participation).</p>
<p>Option 4.2.3: Standardised reassessment <i>Standardised reassessment and review periods for some Sickness and Invalid's Beneficiaries.</i></p>	<p>This option places review timeframes on beneficiaries according to service stream they are put into (as per Option 4.2.1).</p>
<p>Option 4.2.4: Personalised reassessment <i>This option follows the personalised approach in Option 4.2.2 with review periods being based on individual circumstances.</i></p>	<p>This option follows the personalised approach in Option 4.2.2. It would require robust work capacity assessments and skilled case managers.</p>

¹¹³ People on Sickness Benefit are required to provide medical certificates on application, again after 4 weeks, with provision for new certificates every 13 weeks. From May 2011, people on a Sickness Benefit will require an additional medical certificate after 8 weeks and a compulsory review after 12 months. Reviews for people on an Invalid's Benefit are set at 2 years, 5 years or never. At the end of June 2008, 44% of clients on an Invalid's Benefit never require a review, 40% of reviews were set at 2 years and 15% at 5 years. These distinctions in review dates may or may not reflect either an accurate level of impairment or capacity to work.

¹¹⁴ OECD. (2010), *Sickness, Disability and Work*. Finland, Norway, Canada, Sweden and Denmark have these provisions in place.

¹¹⁵ OECD. (2003), *Transforming Disability into ability: Policies to promote work and income security for disabled people*. Paris.

4.5 Assessing the work capacity of people on Sickness Benefit and Invalid's Benefit

Better collection and assessment of information about the work capacity and needs of people on Sickness Benefit and Invalid's Benefit is needed for setting personalised expectations, and effectively targeting support and services to those who would benefit most.

Better assessment means setting up a process so that those with fewer issues can be assisted up front, while those with complex sickness issues, disabilities and other needs are comprehensively assessed. Examples of these sorts of processes are found in Work and Income's Job Search Service for job seekers, and in ACC. Evidence suggests that assessments should begin as soon as a person applies for a benefit. In many cases beneficiaries are not identified or supported early enough, before their health problems become chronic.¹¹⁶

Better information on the work capacity of people on Sickness Benefit and Invalid's Benefit would serve a number of purposes: to determine whether the person should receive a Sickness, Invalid's or Unemployment Benefit; to set appropriate work expectations; and to determine which services and support would be appropriate and cost effective to reduce long-term benefit dependency. This would help delivery agencies provide personalised services rather than setting up additional categories of benefit.

Medical assessments and comprehensive work capacity assessments

The New Zealand benefit system does not comprehensively assess the work capacity of people receiving the Sickness Benefit and Invalid's Benefit, although changes have been made recently to the medical certificate required to assess eligibility for Sickness Benefit.¹¹⁷

To determine benefit eligibility, most other OECD countries use some form of work capacity assessment that goes beyond a medical assessment provided by a general practitioner.¹¹⁸ A number of other OECD countries have gone much further by introducing comprehensive assessments for their sickness and disability beneficiaries.¹¹⁹

Where countries have made changes to the entry and assessment processes for sickness and disability benefits, inflows into sickness and disability benefits have decreased. Indeed, in the Netherlands and the United Kingdom significant proportions of people on sickness and disability benefits have been re-classified as fit for work. In the Netherlands, re-assessment of the work capacity of people on Sickness Benefit and Invalid's Benefit saw 40 per cent classified fit for work, or classified with less impairment than previously.¹²⁰ In the United Kingdom around 69 per cent were assessed as fit for work.¹²¹

¹¹⁶ OECD. (2010), *Sickness, Disability and Work. A Synthesis Report*, Paris.

¹¹⁷ These new medical certificates will capture more relevant information about the person's capacity for work, ability to undertake work-related activities and the estimated time a person will be unable to work.

¹¹⁸ OECD. (2003), *Transforming Disability into ability: Policies to promote work and income security for disabled people*, cited in Fletcher (2009).

¹¹⁹ These include the United Kingdom and Australia.

¹²⁰ OECD. (2010), *Sickness, Disability and Work*. Between 2005-09, the entire caseload of the Netherlands' beneficiaries under age 45 was reassessed according to new rules. Almost 40% were found to be fit for work or have a lower disability level than before, younger recipients in particular.

¹²¹ Department of Work and Pensions (2009), *Employment Support Allowance: Work capability assessment statistical release* (October 2009), cited in Fletcher (2009) *Addressing the growth in Sickness and Invalid's*

“The current system asks only about “sickness”. A medical diagnosis rarely provides a complete reason why someone is not working. For example, a 55-year-old labourer with a sore back thus goes onto a sickness benefit for back pain. Given that he has problems with his back it is unlikely that he will return to labouring work. If the goal is to get him back to work it might be more useful to focus on what other skills he has other than labouring that might be able to be enhanced. He might be better categorised as lacking in skills rather than being sick.”

Submission to the Welfare Working Group

One policy question is whether comprehensive assessments should apply to all, or be targeted to specific groups.

Who does the assessment?

People with the right skills will be needed to undertake comprehensive assessments. This means that the existing workforce may need further training. Some countries have begun to use independent assessors who are not medical doctors in order to access wider knowledge about the labour market.¹²² Some types of work capacity assessment that do not require significant levels of medical knowledge could be done by Work and Income.

Assessments used elsewhere

United Kingdom – Work Capability Assessments and fit notes

The United Kingdom’s Work Capability Assessment (WCA) focuses on functional health assessments. It is done within 13 weeks of applying for a benefit. It assesses ability to perform a range of physical, mental and cognitive tasks. It determines what group a person is streamed into and therefore the benefit type, level of payment and work expectations that are put in place. The WCA is done by private medical specialists contracted by the Department of Work and Pensions.

General practitioners in the United Kingdom now provide a fit note rather than a sick note. The fit note encourages general practitioners to give useful advice to their patients about the effect of their health condition and how they might be able to work while they recover. General practitioners can also record the functional effects of their patient’s condition, so that individuals and employers can discuss changes to the work environment or job role that might keep a person in work or return them to work.

Australia – Job Seeker Classification Instrument and Job Capacity Assessment

Everyone applying for a benefit in Australia completes a Job Seeker Classification Instrument (JSCI) questionnaire by Centrelink, the benefit payment agency. The questionnaire measures their level of disadvantage in the labour market. It covers areas such as recent work experience, educational qualifications, work capacity, medical conditions that might impact on the hours someone can work, accommodation, transport and personal circumstances. The questionnaire streams people into groups based on their level of disadvantage and the intensity of support needed.

Benefit receipt: A report prepared for the New Zealand Treasury. This 69 per cent figure relates to applicants for an incapacity benefit. It is likely that a lesser percentage of those already on an incapacity benefit would be assessed as fit for work.

¹²² OECD. (2007), *Sickness, disability and work: Breaking the barriers, Volume 2: Australia, Luxembourg, Spain and the United Kingdom*, cited in Fletcher (2009).

Following the questionnaire, a person may be referred to a more in-depth Job Capacity Assessment where significant barriers are identified and referrals to appropriate services are made. Anyone applying for an Australian Disability Pension completes the in-depth Job Capacity Assessment. Job Capacity Assessments are done by health professionals - not doctors - contracted through both government and non-government providers. The current Job Capacity Assessment programme will cease to operate from 1 July 2011, when streamlined assessments for disadvantaged job seekers and people with disabilities will be introduced.

ACC service delivery model

ACC uses an initial triage process that divides claimants into four groups based on their risk of long-term liability and claimant complexity; simple claims, low and high complexity claims, and long-term maintenance claims.

The initial process identifies those with potential complexity, who then receive expert proactive triage by highly skilled case managers.

Table 4.3: Options to improve the assessment of work capacity

Options	Comment
Option 4.3.1: Improve medical assessments <i>Improve the management and monitoring of medical assessments.</i>	Greater use could be made of second opinions, auditing processes and regular audits of random sickness certificates. Consideration could be given to building performance measures.
Option 4.3.2: Introduce “fit notes” into the application process <i>Introduce “fit notes” into the application process for Sickness Benefit and Invalid’s Benefit. This is a note that not only outlines the condition, but also how a return to being fit for work will be achieved.</i>	This option follows the approach taken in the ACC Better@Work Scheme. There is scope to determine how detailed the fit note would be and who does the assessment for it.
Option 4.3.3: Introduce comprehensive assessments of work capacity <i>Introduce comprehensive assessments of a person’s capacity to perform a range of activities or a person’s work capacity, or a combination of both.</i>	Comprehensive assessments are expensive and would need to be targeted to those with the most complex needs. Significant increases in workforce capability would be needed to implement this option on a large scale.

4.6 Employment interventions for people on Sickness Benefit and Invalid’s Benefit

Effective vocational rehabilitation and employment programmes are central to supporting sick and disabled beneficiaries into work, but there is currently little focus on these. There is a range of employment programmes available to sick and disabled beneficiaries, but uptake is low – comprising only 7 per cent of people on an Invalid’s Benefit.¹²³

New approaches are needed, both in the type and delivery of effective rehabilitation and employment programmes. Unfortunately there is little evaluation of programmes for sick and disabled people, either locally or internationally¹²⁴.

¹²³ WWG Issues paper 2010.

¹²⁴ Kautto, M., Bach-Othman, J. (eds), *Disability and employment – lessons from reforms*. Finnish Centre for Pensions, reports 2010:4 Helsinki 2010; OECD 2010.

There are, however, some promising possibilities:

- Case management with intensive services such as employability assessments, individual employment plans, job placements and ongoing monitoring after placements can be effective.¹²⁵ However, the resource-intensiveness of concentrated case management means that it would need to be well targeted to those who would benefit from it most.
- Job Clubs, which provide group job search support, help in CV writing and letter writing, have been found to increase part-time work in New Zealand.¹²⁶
- Supported employment, job search support, job support, interview training, preparing CVs, job placement assistance and work-based education to overcome educational and language barriers have been effective for low-income sole mothers with disabilities, as well as people with cognitive disabilities.¹²⁷

Workbridge

Workbridge provides employment services for disabled people who live with the long-term effects of injury and illness. Workbridge is based in 27 locations nationwide.

Workbridge is contracted by the Ministry of Social Development to:

- provide Vocational Services (Supported Employment) for people with disabilities. Workbridge is contracted to place people annually into open employment lasting at least three months. In the 2009/10 financial year, 3,994 individuals were placed into open employment by Workbridge; and
- administer Support Funds which help disabled people into employment, assist with training costs or help set up a business. In the 2009/10 contract, 2123 individuals accessed Support Funds.

ACC also contracts Workbridge to provide vocational assessment and rehabilitation.

A large share of New Zealanders on a Sickness Benefit or Invalid's Benefit have a psychological or psychiatric condition. There is evidence that the growth in Sickness or Invalid's Benefit numbers is in large part driven by rising numbers of people diagnosed with mental health conditions (as well as musco-skeletal conditions).¹²⁸ This has also been the experience in most other OECD countries.¹²⁹

In 2009/10, District Health Boards received \$1.157 billion for specialist mental health services, along with alcohol and other drug services, to meet the needs of people who are severely affected by mental disorder. A further \$27.85 million was spent on primary mental health services for people with mild to moderate mental health or substance abuse problems.

¹²⁵ Rangarajan, A. et al. (2008), *Programs to Promote Employment of Disabled People: Lessons from the United States*, Mathematica Policy Research Inc.; OECD (2007), *Sickness, Disability and Work: Breaking the Barriers (Vol. 2), Australia, Luxembourg, Spain and the United Kingdom*. OECD, Paris.

¹²⁶ MSD. (2005), *Jobs Jolt Annual Evaluation Report*. Ministry of Social Development, Wellington, New Zealand.

¹²⁷ Kregel, J. and Dean, D. (2002), *Sheltered vs Supported Employment: A Direct Comparison of Long Term Earnings Outcomes for Individuals with Cognitive Disabilities*; Rangarajan et al., (2008) as above; OECD, (2007) as above.

¹²⁸ MSD (2010), *Overview of Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit* (available on the Welfare Working Group website); Wilson, M and McLeod, K (2006) "Understanding the growth in Invalids Benefit Receipt in New Zealand" *Social Policy Journal*, Issue no. 29, cited in the Issues Paper.

¹²⁹ OECD. (2010), *Sickness, Disability and Work. A Synthesis Report*, Paris.

The OECD has launched a specific mental illness research project to identify what works for this group.¹³⁰ There is evidence that mainstream employment reforms and programmes have a limited effect for people with mental illness. Use of vocational rehabilitation is particularly low among individuals with mental health issues.¹³¹

There is little research about the effectiveness of interventions to help people with common mental disorders remain in work or return to work after sickness. However, we do know that the most promising methods include stress management techniques, brief individual therapy, early return to work and frequent contact with managers.¹³² For people with severe mental illness, individual placement support programmes¹³³ are more effective at helping people to find jobs than are pre-employment training schemes.¹³⁴

Drug and alcohol addiction is a significant barrier to work for many beneficiaries. There is a shortage of alcohol and drug treatment services available in New Zealand. Currently specialist addiction services can provide treatment to approximately 0.5 per cent of the population. The National Committee for Addiction Treatment suggests that this needs to at least double so that those most severely affected by addiction gain timely treatment.¹³⁵

International evidence suggests that addiction treatment yields economic benefits to society, but the effectiveness of programmes depends on a number of factors, including the addict, the addiction, the quality of treatment, the length and timing of intervention and follow-up procedures. Some interventions for drug and alcohol dependence improve employment outcomes, especially with co-ordination between treatment providers and employment facilitators.¹³⁶

Older people

The participation of older workers in New Zealand's labour market is higher than in most OECD countries.¹³⁷ Increasingly the norm is for people to work past the retirement age of 65 years. However, older workers who enter the benefit system are likely to stay on benefits for longer, sometimes shifting across benefits and ending up on the Invalid's Benefit. In some cases this effectively becomes a pre-retirement benefit.¹³⁸ More than one in three people aged 50 to 60 years who went on a benefit in 1999 spent at least half of the next 10 years on a benefit.¹³⁹ Older people who go onto a benefit are also less likely to resume work.¹⁴⁰ The challenge is to support older workers to remain in the workforce or return to the workforce.

¹³⁰ Cited previously.

¹³¹ Black, C. (2008); OECD (2010) *Mental Health, Disability and Work. Issues for discussion*.

¹³² Hill et al (2007); Seymour and Grove (2005) cited in UK College of Psychiatrists (2008).

¹³³ These are also referred to as evidence-based supported employment programmes.

¹³⁴ UK College of Psychiatrists (2008), C Black (2008).

¹³⁵ National Committee for Addiction Treatment New Zealand (2008).

¹³⁶ Wickizer, T. M. (2001) *The impact of substance abuse treatment on employment outcomes among AFDC clients in Washington State*; Kirby, G. and Anderson, J. (2000), *Addressing substance abuse problems among TANF recipients: A guide for program administrators. Final Report*.

¹³⁷ Department of Labour (2007), *Older people in work: key trends and patterns 1991-2005*.

¹³⁸ Fletcher, M. (2009), *Addressing the growth in Sickness and Invalid's benefit receipt: A report prepared for the New Zealand Treasury*; Ministry of Social Development (2006), *International Literature review: Approaches and Interventions for Sickness benefit and Invalids benefit clients*.

¹³⁹ Ministry of Social Development Benefit Dynamics Dataset, cited in the Issues Paper.

¹⁴⁰ Ministry of Social Development (2006), *International Literature review: Approaches and Interventions for Sickness Benefit and Invalid's Benefit Clients*.

This table outlines options for improving vocational rehabilitation and employment programmes for sick and disabled people. These options are not mutually exclusive, and combinations of different options would be possible.

Table 4.4: Options to improve employment support for people on Sickness Benefit and Invalid's Benefit

Options	Comment
<p>Option 4.4.1: Provide intensive case management</p> <p><i>Provide intensive case management for those with greatest risk of long-term dependency.</i></p>	Workforce capability issues will need to be considered.
<p>Option 4.4.2: Vocational rehabilitation and employment</p> <p><i>Increase vocational rehabilitation and employment programmes where there is evidence of cost effectiveness.</i></p>	This option is in line with general work-focused investment discussed throughout this paper.
<p>Option 4.4.3: Early intervention approaches</p> <p><i>Improve the effectiveness of current funding by reviewing what works, including by shifting toward low cost, early intervention strategies.</i></p>	Early intervention may be particularly important for people with mental health problems and people with drug and alcohol issues.

4.7 Prevention and early intervention for sick and disabled people

Early intervention and prevention is crucial for keeping sick or disabled people engaged with the workforce, or supporting them back into work. Employers and health professionals play a key role.

Although there is increasing evidence that early interventions are effective in reducing sickness absence,¹⁴¹ there is little focus on early intervention within the benefit system. A comprehensive review on work, health and wellbeing by Waddell and Burton¹⁴² noted that sick and disabled people should remain in paid work when possible, or return to paid work as soon as possible. There is strong evidence that long-term sickness absence or disability depends more on individual and work-related psychosocial factors than it does on medical factors or the physical demands of work.

We have been told that in some situations, certain services are not available unless the person is assessed as having a serious or severe health issue - at which point it is much harder and more costly to deal with.

The long term gains of early services for people on Sickness Benefit and Invalid's Benefit

Part of the issue is the shortage of specialist services to address issues such as mental health and addiction; more flexibility for services to be purchased would alleviate this issue somewhat.

Two of the most common conditions for people on Sickness Benefit and Invalid's Benefit are musculoskeletal and mental illness. The evidence for musculoskeletal disorders suggests that in most cases an early return to paid work (or remaining at work) is beneficial for health and wellbeing. People with musculoskeletal conditions who are

¹⁴¹ Black, C. (2008). Cited previously.

¹⁴² Waddell and Burton (2006). Cited previously.

helped back to work enjoy better health than those who remain away from work.¹⁴³ Early intervention is also an effective way to support people with mental illness back to work.¹⁴⁴

Keeping people healthy in the workplace and intervening early when workers get sick

Prevention of sickness and disability starts in the workplace. There is increasing evidence that early intervention reduces sickness absence, and that health and wellbeing programmes can increase productivity.¹⁴⁵

New Zealand can build on existing programmes that promote employee wellness, but more can be learnt from the UK's Health Work and Wellbeing cross-government initiative. Health Work and Wellbeing promotes links between health and work with initiatives in a range of workplaces.¹⁴⁶

There are few requirements for New Zealand employers to promote staff health, wellbeing or retention; or to contribute to rehabilitation for sick and disabled people.¹⁴⁷ Employers have no direct responsibility for rehabilitation. Sick leave provisions are set at five days within the first six months of continuous employment, with an additional five days following 12 months of employment. This contrasts with the major role that employers play in the ACC scheme, and also with the more extensive role of employers in many other countries.

Evidence suggests that employers need support to promote health and wellbeing in the workplace, and that without adequate financial incentives it will be difficult to enforce greater employer responsibilities.¹⁴⁸ However, an increasing number of employers are already seeing the business advantage they get from being proactive. They see the benefits from reduced absenteeism and increased productivity.

A number of countries are strengthening employer responsibilities. Approaches range from providing information to strict enforcement of legislation prohibiting discrimination against sick and disabled people. Anti-discrimination legislation, however, seems to be associated with higher shares of disability benefit recipients.¹⁴⁹

There is a downside to requiring employers to manage sickness and assume the financial risk of sickness. In countries with social insurance models, such as the Netherlands, where welfare reforms have increased employers' responsibility in managing sickness, there has been a drop in the employment of sick and disabled people. In 2000, approximately 53 per cent of all disabled workers had a full or part-time job, but this figure fell to about 42 per cent in 2005.¹⁵⁰

Early intervention in the health system

The health system has a critical role to play in the early intervention and prevention of many health issues experienced by people on Sickness Benefit and Invalid's Benefit. While

¹⁴³ Royal Australasian College of Physicians (2010).

¹⁴⁴ As above.

¹⁴⁵ Black, C. (2008) cited previously, PriceWaterhouseCoopers (2008) cited previously.

¹⁴⁶ <http://www.dwp.gov.uk/health-work-and-well-being/case-studies/>

¹⁴⁷ WWG Issues paper (2010).

¹⁴⁸ OECD (2010) *Sickness, Disability and Work*, cited previously.

¹⁴⁹ OECD (2010) *Sickness, Disability and Work*, cited previously.

¹⁵⁰ Kautto, M. and Bach-Othman, J. (eds) (2010), *Disability and employment – lessons from reforms Finnish Centre for pensions*, Reports 2010:4.

gains have been made in health services, more needs to be done, especially in early intervention and prevention during childhood and adolescence; also in rehabilitation and support to remain in or return to paid work.¹⁵¹

General practitioners are typically the first point of contact for people with ill-health. How they respond at the initial contact with their patients has a big impact on their patient's attitude to remaining in and returning to paid work. It is therefore important that general practitioners advise on work capacity and rehabilitation, as well as the patient's condition and treatment. For example, general practitioners can help patients to stay in paid work by issuing fit notes telling the patient what they can do, instead of sick notes telling them what they cannot do.

ACC's Better@Work Scheme

The Better@Work Scheme currently being run by ACC offers early intervention, intensive case management and workplace rehabilitation. It aims for an early return to work for employees with injuries. Health professionals and case managers work together to identify suitable duties and support that injured workers need to remain in the workplace. In part, this pilot aims to change general practitioner behaviour so that more workers are deemed fit for selected duties, rather than fully unfit by default. It also provides a financial incentive for general practitioners to change their work certification practices. At the Lake Taupo Primary Health Organisation, Better@Work clients returned to work faster than those not participating in the programme. In late 2009, the service was expanded to four primary health organisations, three in Auckland and one in Hawkes Bay.

The Royal Australasian College of Physicians in their position statement *Realising the health benefits of work* highlighted the importance of improving attitudes and practice for health outcomes.¹⁵² The United Kingdom has several pilot programmes to focus general practitioners on the value of patients staying in work. Strategies include placing employment advisors in general practices to provide employment advice and support to those temporarily off work or on long-term benefits. The United Kingdom Royal College of General Practitioners is running workshops focused on health and work.

Improving early intervention and prevention of sickness and disability

This table outlines options for early intervention and prevention of sickness and disability. These options are not mutually exclusive so combinations of different options would be possible.

¹⁵¹ OECD (2010), *Mental Health, Disability and Work: Issues for Discussion*.

¹⁵² The Royal Australasian College of Physicians and the Australasian faculty of Occupational and Environmental Medicine (2010), *Realising the health benefits of work: a position statement*.

Table 4.5: Options for prevention and early intervention related to sickness and disability

Options	Comment
<p>Option 4.5.1: Provide information about financial benefits <i>Provide information to employers about the financial benefits of promoting wellness in workplaces.</i></p>	<p>There is growing evidence that there are long-term financial benefits for employers to maintain a healthy workforce. It follows lessons from the ACC scheme, where financial considerations lead employers to invest more in prevention measures.</p>
<p>Option 4.5.2: Support health professionals <i>Support health professionals to focus on work capacity and provide them with information about the health benefits of work.</i></p>	<p>This would involve increasing leadership and engagement of professional colleges and clinical leaders to inform health professionals about the links between health and work. This could be formally linked to their continuing professional development requirements.</p>
<p>Option 4.5.3: Increase financial incentives <i>Increase financial incentives for employers to invest more in prevention, and for health professionals to focus on the value of work for their patients.</i></p>	<p>This option could involve time-limited financial incentives to keep employees in the workplace, by increasing statutory sick leave provision. The ACC Better@Work Scheme provides an example of how financial incentives can be used to alter general practitioner behaviour.</p>
<p>Option 4.5.4: Support employers <i>Support employers (and health professionals) to intervene early when sickness and disability arises. This could build on the approach used in the ACC Better@Work pilots.</i></p>	<p>Early intervention when sickness or impairment is critical for a return to work or staying in work.</p>

Chapter 5. Māori and benefits

5.1 Introduction

The large majority of Māori succeed and support themselves and their whānau through paid work. However, Māori are significantly over-represented in the beneficiary population. At the 2006 Census more than one quarter (27 per cent) of working age Māori were on a benefit, compared to just over 12 per cent in the total working age population. Approximately 40 per cent of Māori women in their 20s are on a benefit, reflecting high numbers of sole parent Māori women on Domestic Purposes Benefits.

As at the end of June 2010, 112,868 Māori were on a working age main benefit, representing 31 per cent of all beneficiaries.

Figure 5.1: Working age Māori recipients on a main benefit (including partners)

	Unemployment Benefit	Domestic Purposes Benefit	Sickness Benefits	Invalid's Benefit	Widows	Other	Total
Men	17,163	6,832	9,683	10,560	0	418	44,667
Women	9,309	39,859	7,362	9,957	1,304	394	68,201
Total	24,472	46,691	17,045	20,517	1,304	812	112,868

Source: MSD, data as at end of June 2010

While many Māori beneficiaries spend only a short time on benefits, Māori are more likely than non-Māori to spend long periods on benefits. Of Māori aged 28 – 64 in June 2009, 26 per cent of Māori women and 17 per cent of Māori men had spent at least half of the previous ten years on a benefit.¹⁵³

We know that tertiary qualifications, whether trade or academic, are the key to better employment opportunities, higher earnings and a lower risk of long-term benefit dependence. While an increasing number of Māori are succeeding well in education, Māori still have poorer average educational outcomes at school and fewer go on to tertiary education and training. Compared to the total population around 20 per cent less Māori school leavers attain a Level 2 or higher NCEA qualification, or achieve university entrance qualifications.

Figure 5.2: Māori school leaver attainment, 2009

	Percentage of school leavers with a Level 2 NCEA qualification or higher	Percentage of school leavers with university entrance standard qualification
Māori	47.9	20.1
Total	69.8	43.5

Source: Ministry of Education, Education Counts website

¹⁵³ Issues Paper analysis of Ministry of Social Development Benefit Dynamic Dataset. Comparable figures for non-Māori are 7 per cent women, 5 per cent men.

Educational achievement creates a brighter future not only for individuals, but for their whānau and children.

When I graduated, it wasn't just my achievement. It was the achievement of my whole whānau in that they had been supporting me through this whole journey and finally we had reached a milestone, and we had done it as a whānau. And they could all celebrate that with me ... or for me ... or for themselves. We were all celebrating that someone in our whānau who had come from nothing could achieve something, could overcome all those obstacles and be successful.

Source: Collins, B. (2010), *Resilience in teenage mothers: A follow-up study*, Ministry of Social Development.

5.2 Having a specific strategy and goal to reduce Māori benefit numbers

The options developed elsewhere in the paper and the final recommendation on those options will need to be considered in terms of how they can contribute to better outcomes for all groups, including Māori. Here we look at how we might also make reducing long-term benefit dependency a concerted focus.

Evidence tells us that long-term benefit receipt is strongly associated with poorer health, lower income and poorer employment results, as well as a greater risk of poor outcomes for children.¹⁵⁴ The high concentration of long-term benefit receipt among Māori is seriously worrying for both Māori and New Zealand as a whole.

The Welfare Working Group considers that our goal must be to eliminate the difference between Māori and non-Māori benefit receipt and employment rates – leading to higher income levels and less poverty among Māori.

This is a huge challenge. By today's numbers, if Māori had the same rate of benefit receipt as non-Māori, there would be 64,000 fewer Māori on a benefit. Or from another perspective, there would be 64,000 more Māori in employment, training or education, with better incomes now or in the near future, and with brighter prospects for their lives and those of their whānau and children.

Achieving a goal like this requires a concerted focus and action across many sectors. It requires leadership across the public sector, the community and especially from Māori. Getting there will take time – requiring sustained focus, leadership and action.

An option has been developed to bring ongoing focus and leadership to the challenge of reducing Māori beneficiary numbers. It involves a high level Strategic Memorandum of Understanding between the Minister for Social Development and Employment and Iwi/Māori.

Both Government and Māori need to lead the response. Key features would include:

- clear roles, responsibilities and accountability;
- high level goals and targets;
- agreed actions and measurable results;
- transparent reporting against targets.

¹⁵⁴ WWG Issues Paper (2010).

All options to address long-term benefit dependency discussed throughout this paper will impact on Māori. Those options relate to benefit policy changes as well as getting better results from service delivery. A Strategic Memorandum of Understanding would build on those options and ensure a focus on results for Māori. Service innovation and delivery are both aspects that could be driven from the Memorandum of Understanding.

The Strategic Memorandum of Understanding would reach into areas where action is needed to prevent and address Māori unemployment and benefit receipt. These areas include Māori participation in early childhood education programmes, and Māori achievement at school.

A Strategic Memorandum of Understanding could ensure that opportunities are identified to address Māori benefit dependency. Examples include ensuring that Government's focus on skill development sets clear and demonstrable goals for Māori, and creating iwi-driven economic development opportunities to reduce the number of Māori facing long-term benefit dependence.

Much can be achieved when different stakeholders come together to work on key issues over a sustained period of time. The Mayors Taskforce for Jobs is one such example. Mayors around the country decided that youth inactivity and unemployment was a serious problem, which together they could do something about. The Taskforce started with a bold goal for all young people to be engaged in education, training or work. It developed priorities around that goal. It works with Ministers, government agencies and communities to achieve results which are reported annually.

A cross sectoral approach targeting better outcomes for Māori young people would be a priority for action.

5.3 Improving service delivery for Māori in the status quo

In the introduction to this paper, we discuss the importance of creating a more active benefit system in order to reduce long-term dependency and get better social and economic results.

Using targets to drive results

Work and Income uses targets to effectively focus employment service delivery efforts. At various times in the past Work and Income has also had goals around reducing the numbers of Māori on Unemployment Benefit, with some success.¹⁵⁵

One option is to set targets to reduce long-term benefit dependence, including explicit targets for Māori. Targets and measures create focus, and also enable us to monitor progress and re-direct resources towards priority areas. There is evidence that clear targets can improve results in the provision of employment services.¹⁵⁶ This could sit within a Strategic Memorandum of Understanding as outlined above, but could also be stand alone.

¹⁵⁵ For example, Work and Income had an internal target to achieve a 24.5 percent annual reduction in Māori unemployment from 1 July 2004 to 30 June 2005.

¹⁵⁶ For a recent survey see Nunn A., T. Bickerstaffe and B Mitchell (2009), *International review of performance management systems in Public Employment Services*, Research Report no. 616, Department of Work and Pensions, London.

A place for specialist Māori service delivery

Active service delivery is crucial to the shift from a passive benefit system to an active system. The options for this are discussed in Chapter 8, looking at the mix of government and non-government agencies and the use of contracts with non-government and private sector providers.

It will be vital that all agencies delivering services to Māori, do so in a way that works for Māori – whether they be a mainstream service provider, or a tailored service provider, so that Māori have a choice.

One option is the role of for-Māori-by-Māori service delivery. There are already many examples of such services across health, education and welfare. Typically these services operate at a local or community level, follow kaupapa Māori and employ mostly Māori staff. Some have been established by iwi organisations, many are not-for-profit organisations and some are private businesses. Evidence suggests that many Māori prefer services provided by Māori providers and that Māori providers may be better placed in building rapport with clients. Moreover, a recent review of social services in Masterton found that many pākehā also preferred the Māori-provided services because they offered a more family-based approach.¹⁵⁷

Table 5.1: Options to improve outcomes for Māori

Options	Comment
<p>Option 5.1.1: A Strategic Memorandum of Understanding <i>A Strategic Memorandum of Understanding between the Minister and Iwi/Māori to bring a concerted focus to Māori benefit dependency involving a goal, clear targets and accountability, and to drive effort and innovation.</i></p>	<p>To be effective, a strategic agreement would need to reach beyond the narrow confines of benefit policy and delivery, initiating actions to reduce benefit dependency among Māori. A key feature is that ensuring that Māori leadership drives the solution, rather than being seen as a challenge solely for government.</p>
<p>Option 5.1.2: Using specific outcome targets for Māori <i>Using specific outcome targets for Māori to ensure that focus is directed at improving Māori economic and social outcomes and reducing benefit dependency.</i></p>	<p>Evidence shows that clear targets drive service delivery organisations – whether mainstream or tailored. They can also drive innovation and build momentum for policy change.</p>
<p>Option 5.1.3: Developing specific programmes for Māori <i>Developing specific programmes for Māori including for-Māori-by-Māori, where evidence shows this is the best approach to reducing long-term dependence.</i></p>	<p>Recognising and enabling a mix of services, all of which work effectively for Māori is critical. For some, this will involve for-Māori-by-Māori services. It will draw on lessons from Whānau Ora.</p>
<p>Option 5.1.4: Increased use of not-for-profit organisations to deliver services to Māori <i>Identify opportunities for not-for-profit organisations to develop innovative solutions to address poor employment outcomes for Māori.</i></p>	<p>Innovative and new approaches are required to address some of the underlying causes of poor employment outcomes.</p>

¹⁵⁷ Cram, F., Smith, L., Johnstone, W. (2003), “Mapping the themes of Māori talk about health”, NZMJ, Vol 116 No. 1170, NZ Families Commission (2010), Social Services in Masterton: the views of families and whānau, Wellington.

While there have been few evaluations of whether for-Māori-by-Māori service delivery is more effective than mainstream alternatives, there are sound reasons for believing it might be. For example, it is likely that a Māori service provider will have a better knowledge and understanding of Māori clients. In addition, better results may be achieved because the provider is willing to invest financial and non-financial resources of its own on top of Government funding.

Better delivery of services to Māori almost certainly implies a need to develop greater capacity among new and existing Māori service providers.

Looking to the Whānau Ora approach

The Government's Whānau Ora programme is a major new initiative designed to improve service delivery to Māori, and potentially others. The current Whānau Ora initiative is in early stages, so we are yet to see results.¹⁵⁸ However, the Whānau Ora approach has significant lessons that could be used in a Strategic Memorandum of Understanding understanding between Māori and Government.

¹⁵⁸ Te Puni Kokiri, (2010), Whānau Ora Summary Document, <http://www.tpk.govt.nz/en/in-focus/whanauora/>

Chapter 6. Young people and benefits

6.1 Introduction

Prevention and early engagement is central to reducing long-term benefit dependence among at-risk young people. This means better support and wider options for young people inside and outside the benefit system. Within the benefit system there is a need for earlier engagement with young people. It is important that the benefit system does not undermine or distort the responsibilities that parents have to care for their children. Attention needs to be directed to family environments, intergenerational benefit dependence, schools and community supports. It also needs to focus on measures to prevent teen parenthood.

Young people entering the benefit system early

There are around 21,370 16 to 19 year olds in the benefit system, of whom 3700 are under 18.¹⁵⁹ At-risk young people tend to end up on a benefit at a young age, and tend to stay on a benefit for long periods of time. For example, in 1999 nearly 5 per cent of young people were granted a benefit before their 18th birthday. Typically they were granted a benefit because they were a sole parent (Emergency Maintenance Allowance), disabled (Invalid's Benefit) or because they were unemployed and alienated from their parents (Independent Youth Benefit). On average this group spent half of the next decade receiving a benefit.¹⁶⁰

Research shows strong links between early entry to the benefit system and the length of stay on benefits, especially for those under 18 years.¹⁶¹ Of those most at risk, a small number (around 2400 young people) end up being long-term dependent on welfare.¹⁶² This is magnified for those who have children before the age of 18.¹⁶³ We know that those who are most at risk entered the benefit system through Independent Youth Benefit, Emergency Maintenance Allowance, and Domestic Purposes Benefit and that around 60 per cent of these had previous contact with, or were in the care of Child, Youth and Family.¹⁶⁴

¹⁵⁹ June 2010, MSD benefit data.

¹⁶⁰ Ministry of Social Development (2010), *Who Uses the Benefit System and For How Long?* A paper prepared by the Ministry of Social Development for the Welfare Working Group: <http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working%20papers/CSRE-Who-uses-the-benefit-system-and-for-how-long.pdf>.

¹⁶¹ Welch, D. and Wilson, M. (2010) Lifecourse factors associated with time spent receiving main benefits in young adulthood: Full report on early findings, University of Otago, Dunedin. <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/sole-parenting/lifecourse-factors-associated-with-benefit-receipt-full-report.pdf>

¹⁶² This calculation is based on the research that of all 16 and 17 year olds who entered the benefit system in 1999, 42 per cent were in receipt of benefit at 30 June 2009 in *Who uses the benefit system and for how long? A paper prepared for the Welfare Working Group* (2010) CSRE, Wellington. <http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working%20papers/CSRE-Who-uses-the-benefit-system-and-for-how-long.pdf>

¹⁶³ Boden, J. M., Fergusson, D. M. & Horwood, L. (2008) *Early motherhood and subsequent life outcomes*. *Journal of Child Psychology and Psychiatry*, 49(2), 151-160.

¹⁶⁴ Internal Ministry of Social Development research.

Tackling the underlying causes of youth disadvantage and early use of the benefit system

There is a heightened risk of adverse outcomes and welfare dependence for young people who have been raised in benefit-dependent families. Evidence from the United Kingdom suggests that early intervention with family programmes centred on the child's early years are the most cost effective means of reducing long-term benefit dependence.¹⁶⁵ Without intervention it is likely that the young people in these families will disengage early from school, resulting in a poor education, poor literacy and poor numeracy skills. This makes it difficult to undertake further education and training or find employment. It exposes that person to a higher risk of joblessness in an economic downturn.¹⁶⁶

Compared to other OECD countries, New Zealand has a high proportion of at-risk young people who leave school early, and who do not achieve basic secondary level qualifications. New Zealand has high rates of teen pregnancy and a high proportion of young people who are not participating in education, training or employment. These poor results are particularly concentrated among Māori and Pacific young people.¹⁶⁷

At-risk young people in the education system

Improving educational outcomes for young people who currently leave school with no or low qualifications will be critical to reducing the numbers of young, long-term beneficiaries. For those young people who end up needing a benefit, higher levels of support and increased work expectations will be critical to ensure that benefit receipt does not become long term. However solutions do not just lie with the benefit system. As one submission in response to the Issues Paper noted:

"If we are talking long term sustainability of the benefit system we have to address youth unemployment/employment with a coordinated approach."

Submission to the Welfare Working Group

While the Government has been working to improve the curriculum and educational support to ensure engagement of young people, particularly of Māori in primary school, a lot of work still needs to be done.¹⁶⁸ Longer term changes are addressing the curriculum, increasing levels of professional development for teachers, lifting literacy and numeracy performance, and instituting the Positive Behaviour for Learning programme to deal with disruptive student behaviour. Alongside these changes, international and national evidence supports a focus on improved professional development of teachers can enhance student engagement.¹⁶⁹ These changes will help improve results, particularly for

¹⁶⁵ Beinert, S. et al (2002), Youth at Risk? A National Survey of Risk Factors, Protective Factors and Problem Behaviour among Young People in England, Scotland and Wales (Communities That Care).

¹⁶⁶ Oreopoulos, P. (2005), *Stay in School: New Lessons on the Benefits of Raising the Legal School-Leaving Age* CD Howe Institute Commentary, 223, December 2005; Higgins, J. (2003). Youth Transitions Report Series 2003: Labour Market Programmes for Young People: A Review. Wellington, New Zealand: Ministry of Social Development.

¹⁶⁷ OECD, (2008), *Jobs for Youth: New Zealand*, Paris, p.9

¹⁶⁸ See for example the recent ERO report: Promoting Success for Māori Students: Schools' Progress, ERO (2010), Wellington.

¹⁶⁹ Timperley, H. & Alton-Lee, A. (2008), *Reframing Teacher Professional Learning: An Alternative Policy Approach to Strengthening Valued Outcomes for Diverse Learners*. Review of Research in Education 32 AERA <http://rre.aera.net>; Dinham, S. And Rowe, K. (2007), *Teaching and Learning in Middle Schooling: A review of the literature*, Report to the Ministry of Education, Australian Council of Educational Research, Ministry of Education, Wellington; Gibbs, R, Poskitt, J. (2010) *Student Engagement in the Middle Years of Schooling (years 7-10): A Literature Review*, Report to the Ministry of Education, Wellington.

Māori and Pacific students. Any changes therefore need to occur at multiple levels in the school, not just for teachers in the classroom. These changes will help drive a focus on student engagement, particularly for Māori and Pacific students.¹⁷⁰

In 2007, the Education Review Office highlighted that half of New Zealand’s schools were not meeting the needs of young people making the transition from primary to secondary school.¹⁷¹ More could be done to help students understand the practical application of the curriculum to future careers, and better prepare them for the transition from primary to secondary schooling.¹⁷²

“...a more comprehensive vocational approach to young people under achieving in our education system must be a priority. Alongside vocational skills, programmes which teach appropriate attitudes towards work, general social skills and personal presentation skills are essential for those entering the workforce.”

Submission to the Welfare Working Group

At a secondary level, the Manukau Institute of Technology has responded to the issue that the current schooling system is not working for a group of at-risk young people. The School of Secondary-Tertiary Studies is a consortium of Counties Manukau secondary schools that targets disengaged students entering Year 11. The aim of the programme is to keep at-risk students in school. It engages them in a polytechnic programme that supports their pastoral and education needs, and provides a positive pathway to secondary and tertiary vocational-based qualifications.¹⁷³ However, the ways that students are currently funded within the school system means that they cannot easily move between secondary and tertiary institutions.

Table 6.1: Options to improve participation and attainment of at-risk young people in education and training

Options	Comment
Option 6.1.1: Reform of funding for secondary education <i>Create flexible funding mechanisms for secondary education so that resources clearly follow students.</i>	More responsive funding mechanisms would also require greater transparency about the outcomes achieved to allow informed choices by young people and their families
Option 6.1.2: More focus on work-related education and training. <i>This would include increased work experience and emphasis on work-relevant skills within schools, as well as more emphasis on apprenticeships as a valid alternative to university.</i>	Research suggests that combining work experience and schooling focused on vocational subjects helps engagement and achievement of many at-risk students.
Option 6.1.3: Improve identification, early intervention and pastoral care for at-risk young people in education	Including identifying at-risk students from early ages, reducing truancy and improving behaviour, and greater use of targeted pastoral support for at-risk young people and their families. ¹⁷⁴

¹⁷⁰ Hattie, J. (2002), *What are the attributes of excellent teachers? Teachers make a difference: What is the research evidence?* Wellington: New Zealand Council for Educational Research.

¹⁷¹ Education Review Office (2007).

¹⁷² Vaughan, K. and Gardiner, B. (2007), *Careers Education in New Zealand Schools (2007)*, NZCER, Wellington.

¹⁷³ For Dr Middleton’s presentation to the Welfare Working Group on 3 September 2010 see: <http://ips.ac.nz/WelfareWorkingGroup/Downloads/Working%20papers/Youth%20and%20education.pdf>

¹⁷⁴ There is considerable evidence that well designed youth development programmes can improve education outcomes for at risk young people. For example, see Hadley, A., Kassim Mbwana, M. and Hair, C (2010) What

It is clear that reducing long-term benefit dependence among young people will require an increased emphasis on ensuring that education and training is effective for at-risk young people.¹⁷⁵ Set out above are a range of options that aim to achieve this.

It is evident that practical steps are already happening. The recent announcement of nine Trades Academies across New Zealand will reduce the boundaries between school and tertiary education, and improve the practical links between schools, industry and tertiary institutions. Steps are already happening as one submission pointed out:

“High school based programmes such as pre apprenticeship courses, a Services Academy, and partnerships with the Auckland School of Business and the AUT School of Business all of which are offered by some Auckland High Schools, are great examples of innovation and willingness of our schools to partner with business and bring an educational approach to education.”

Submission to the Welfare Working Group

Across the benefit and social services systems, targeted initiatives need to distinguish between all young people and the most disadvantaged young people – the one-in-10 who are not in work, study or training.¹⁷⁶ These are more likely to be Māori or Pacific young people.¹⁷⁷

6.2 At-risk young people not in employment, education or training

For young people who leave school early or with few qualifications, community-based solutions to support them into other education, training or work offer a promising approach. Solutions for at-risk young people need to cut across the education, training, health and justice systems.¹⁷⁸

Currently there is an expensive scatter of initiatives for disengaged young people. Service delivery across these sectors needs to be examined, focusing on removing duplication and ineffective programmes.¹⁷⁹ This would free up existing spending to be better and more coherently targeted.

A lack of coherent goals for at-risk young people also makes it hard to measure the effectiveness of central and local government services, and inhibits local solutions developed in schools and communities.¹⁸⁰ Local solutions delivered through result-focused contracts need to link to a national action plan. Any national plan should focus not only on school leavers in general, but also target those most at-risk while still in school, who are not easily tracked by existing systems.

Works for Older Youth during the Transition to Adulthood: Lessons from Experimental Evaluations of Programs and Interventions, Child Trends Factsheet.

¹⁷⁵ OECD. (2008), *Jobs for Youth: New Zealand*. Paris.

¹⁷⁶ Based on the 2006 Census the total number of this group of the youth population aged 16-19 year could be around 58,000 people considered to be not in employment, education or training (NEET). For the 15-19 age groups the number could be around 40,000.

¹⁷⁷ Rea, D., & Callister, P., (2008), p.6; Quintini, G. (2008) *Jobs for Youth: New Zealand*. Paris, France: OECD, p.49-50.

¹⁷⁸ Higgins, J. (2010), *Education Employment Linkages: Objective Two - Key Informant Interviews in Regional Communities, EEL Research Report No. 4*, AERU Research Unit of Lincoln University, New Zealand Council for Educational Research, p.14.

¹⁷⁹ See Chapter 3 in footnote above, Higgins (2010) for a discussion of this aspect.

¹⁸⁰ For further discussion on this matter see the recommendations from *Supporting Youth Transitions*, Mayors Taskforce for Jobs (2010).

Evidence suggests that a successful system for young people is grounded in the communities that they live in and belong to. Successful services often evolve from solutions that meet local needs. Solutions designed or delivered centrally need to be able to adapt to local conditions.¹⁸¹ Strong local identity, community ownership and cooperative approaches by local agencies are important factors.¹⁸²

Strengths-based youth development programmes are effective for reducing risk factors and improving positive outcomes for young people. The young people most at risk are those who lack strong positive social attachments, who are disengaged or at risk of becoming disengaged from positive activities, and who need to develop basic skills, attitudes and values.¹⁸³ Evidence supports priority being given to early involvement with young people with multiple risk factors.¹⁸⁴ Youth-focused programmes for teenagers of various ages are important to effectively meet the needs of different age groups.¹⁸⁵ Maintaining the connection is important, as it can be difficult to renew lost attachments after a period of inactivity.¹⁸⁶ Where family support is not readily available, transition support or on-going pastoral care from elsewhere in the community becomes important.¹⁸⁷ In the longer term, strengthening the school and tertiary education sectors and improving the safety net for those who are most at risk will provide the greatest impact.¹⁸⁸

Table 6.2: Option to prevent early use of the benefit system by young people

Option	Comment
<p>Option 6.2.1: Better targeted expenditure <i>Review the existing fragmented programmes and their funding to improve cost effectiveness, based on the evidence about what works, and coordination of programmes.</i></p>	<p>Coherent funding mechanisms could enable more schools, tertiary providers and others to re-engage at-risk young people in education, training or employment. A coherent monitoring and support service could be developed for all young people who leave school at ages 16 to 17 years.</p>

¹⁸¹ Bruce, J., Boyce, K., Campbell, J., Harrington, J., Major, D., & Williams, A. (2009). Youth work that is of value: Towards a model of best practice. *Youth Studies Australia*, 28 (2), pp. 23-31.

¹⁸² Higgins, J. (2003), *Youth Transitions Report Series 2003: Labour Market Programmes for Young People: A Review*, Wellington, New Zealand: Ministry of Social Development. Martin, L. *Real work: A report from the national research project on the state of youth work in Aotearoa* (2006) Christchurch, New Zealand: The National Youth Workers Network.

¹⁸³ Beinert, S et al, (2002), *Youth at Risk? A National Survey of Risk Factors, Protective Factors and Problem Behaviour among Young People in England, Scotland and Wales* (Communities That Care).

¹⁸⁴ As above.

¹⁸⁵ Barwick, H. (2006), *Youth work today: A review of the issues and challenges*, Wellington, New Zealand: Ministry of Youth Development; Singe, D. & White, C. *Rapua Te Huarahi Tika – Searching for Solutions* (2000) Wellington: Ministry of Youth Affairs; Ministry of Social Development, Service Co-ordinators for Teenage Parents and Their Children (2006) Wellington: Ministry of Social Development.

¹⁸⁶ McLaren, K. (2003), *Youth Transitions Report Series 2003: Reconnecting Young People: A Review of the Risks, Remedies and Consequences of Youth Inactivity*. Wellington, New Zealand: Ministry of Social Development.

¹⁸⁷ OECD (2008). Cited previously

¹⁸⁸ Cunningham, W., Cohan, L., Naudeau, S., McGinnis, L. (2008), *Supporting Youth at Risk: A Policy Toolkit for Middle Income Countries*, World Bank.

Messages from the consultation process on issues facing Pacific peoples

In the Pacific community, family and church ties are strong. Aspirations for their children, especially from education are high, but financial pressures within the family can pull young people out of training or further education. We have heard from Pacific leaders that many Pacific youth find it hard to make the transition between school and work, further training or education. These difficulties, which are most acute for young Pacific men, arise from a combination of factors – low expectations of Pacific students by some schools, difficulty engaging with subjects taught in school, confusion within the community about how NCEA qualifications work and limited opportunities to transition from school into trade or other non-academic vocational training. This translates into high levels of Pacific youth unemployment, which has been particularly severe in the current recession.

Providing opportunities for Pacific people to improve their employment skills is of huge importance to the Pacific community. Improvements to the transition between school and further training or education are vital to improve results for young Pacific people, especially men. Innovative community-based approaches, including trade academies and MIT's Tertiary High School, are seen as positive initiatives which give a clear and direct route into further training. The Pacific leaders we spoke to were highly supportive of attempts to improve youth transition services nationwide.¹⁸⁹

The pressures faced by older Pacific people as grandparents caring for children or trying to get employment as older workers have also been raised. The growing problem of poor health among older Pacific people is also a concern. For many Pacific mothers, the cost of childcare is a major barrier to employment. Training services which provide up-skilling opportunities need to cater specifically for older Pacific people, including language needs.

We have heard from leaders in the Pacific community that the church can be used effectively to gather the community together and provide a supportive environment to access information about welfare and other programmes.

6.3 Young people and the benefit system

There are a number of options for young people who currently enter the benefit system early. These include increasing benefit conditions and work expectations, and improving the type of support offered.

Young people under the age of 18 years are the responsibility of their parents – if they are not, someone should be allocated to look after their development and best interests. One option is that people under 18 years must be in education in order to access benefits. Those who have children themselves could be subject to increased requirements relating to parenting and participation in early childhood education.

While numbers of young people under 18 years on benefit are relatively small,¹⁹⁰ we know that these young people stay longer and require a greater level of support.¹⁹¹ Arguably

¹⁸⁹ There are plans to begin a national service to ensure that every 16 or 17 year old ends up in work or further training after leaving school, from next year. "Youth guarantee" places will also increase from 2000 to 2500 next year, and an extra 3000 tertiary places will be funded next year from reductions to industry training places. Source: New Zealand Herald *Plan to chase leavers as school ends* Saturday, October 16, 2010. Accessed 1 November 2010.

¹⁹⁰ At the end of June 2010, there were around 3700 teenagers (aged 16-19 years), with the majority – 1640 receiving the Independent Youth Benefit, 1030 on Invalid's Benefit, and 630 on Emergency Maintenance Allowance. Of those on Independent Youth Benefit, over half were Māori.

¹⁹¹ Welch, D. and Wilson, M. (2010), Ministry of Social Development.

those most at risk are young people on Independent Youth Benefit (IYB). However, what the benefit system should not do is actively undermine parental responsibility for their children’s safety and development. Recent changes to social assistance legislation emphasises that staying in education or training must be a priority for this group. We think that these conditions need to be strengthened, and the range of options around access to benefit should reflect these directions in policy.

There is a link between demographics, the economic cycle, active case management and the assessment process that can control entry into the benefit. In the past when the Ministry of Social Development has actively targeted groups through strong case management and contracted pastoral support, strong gains have been made in reducing the numbers of young people on benefit. Based on the group’s vulnerability, its levels of disadvantage and likelihood of long-term benefit dependency, providing extra resources in helping young people improve their education or get into a stable job should be a priority.

Table 6.3: Options for young people in the benefit system

Options	Comment
Option 6.3.1: Participation in education and training	Introduce a requirement that young people need to be in education or training to qualify for a benefit.
Option 6.3.2: Increase supports inside the benefit system. <i>Increased supports for young people under 18 years old in the benefit system.</i>	Emphasis is on more active case management and personalised support with education or training as first option. When seeking a job, provide support with work experience, work-related training and post-placement support.
Option 6.3.3: Strengthen obligations for pastoral care <i>Strengthened obligations for statutory pastoral care of young people accessing benefits.</i>	Extending statutory coverage of Child, Youth and Family up to age 18 to take responsibility for at-risk young people who exit from state care.
Option 6.3.4: Remove payment to young person <i>Do not pay benefit directly to young people aged 16-17 years, but instead pay to family or carer.</i>	Where a young person is not supported by their family, the person who takes responsibility for the young person (apart from the state) should be paid for taking on this responsibility.

6.4 Teen parents and the benefit system

Young sole parents are particularly at risk of long-term benefit dependency, especially those who enter the benefit system as teenagers. Many have multiple spells on a benefit. While small numbers of teen parents enter the benefit system each year (2,700 in 2009), they stay for long periods on the benefit. One-third of all people currently on Domestic Purposes Benefit are estimated to have become parents as teenagers.¹⁹²

The long stays are likely to reflect their relative lack of work skills and experience, as well as other health or social disadvantages.¹⁹³ Compared with mothers who delayed childbearing, a New Zealand study has found that teen parents were much more likely to

¹⁹² Collins, B.A. (2010), *Teen parents and benefit receipt – paper to the Welfare Working Group*, Ministry of Social Development.

¹⁹³ In the Christchurch Longitudinal Study, compared with those who had not become mothers by age 21, those who became mothers before age 18 had these risk factors – being sexually or physically abused, a history of depression, conduct disorder, parental history of criminal offending, substance abuse.

have no educational qualifications, and to have mental health or substance dependence problems.¹⁹⁴

New Zealand has the second highest teen birth rate among developed countries, behind the United States. Teen births are associated with deprivation. The most deprived areas of New Zealand have a teen birth rate which is 6.5 times higher than the rate in the least deprived areas.¹⁹⁵ In terms of outcomes for children, research shows that children of young parents are more likely to underachieve in education, go on to a benefit and have a low income in young adulthood, over and above existing disadvantage.¹⁹⁶

Overall, teen parenthood is not a desirable outcome for young people. While many children of teenage mothers have good outcomes, early childbearing may be part of a cycle of intergenerational disadvantage. A New Zealand study has found that by the age of 21, children of teen mothers were two-and-a-half times more likely to be teen parents themselves.¹⁹⁷ While they are a small group, there is a strong case to focus resources on teen parents to improve the outcomes for themselves and their children.¹⁹⁸ Very young parents in particular may be the focus of measures to improve their parenting skills and requirements to ensure basic health needs of their children are met. At the same time the benefit system should not act to diminish the responsibility that parents (no matter how young they are) have towards their children. The benefit system should also not put impediments in the way of young parents partnering, as this offers a way to improve their longer-term prospects and those of their children.

In looking towards reform to improve employment and social outcomes for teen sole parents some key elements are:

- early, well-directed, effective, intensive and multi-faceted support for teen parents, recognising many of these young people enter the benefit system with existing problems. Housing assistance and health care may form part of this support;
- clear signals that discourage teenage pregnancy and encourage engagement in education;¹⁹⁹
- expectations for teen parents that education, training and ultimately work are the desired outcomes, with appropriate support to achieve them; and
- support and obligations on teen parents to ensure the wellbeing of their children.

Becoming a parent can provide strong motivation for a young person to improve their life and the lives of their children. Experts argue this presents a window of opportunity for

¹⁹⁴ Boden, J.M., Fergusson, D.M. & Horwood, L. (2008), Early Motherhood and Subsequent life outcomes. *Journal of Child Psychology and Psychiatry*, 49 (2), 151-160; Fletcher, J.MI, and B.L. Wolfe (2007), *The human capital consequences of teenage childbearing: Can we really know what they are?* Paper presented at the Institute for Research on Poverty Seminar Series 2007-2008.

¹⁹⁵ Collins, B.A. (2010), *Teen parents and benefit receipt – paper to the Welfare Working Group*, Ministry of Social Development.

¹⁹⁶ Boden, J.M., Fergusson, D.M. and Horwood, L. (2008), Early Motherhood and Subsequent life outcomes. *Journal of Child Psychology and Psychiatry*, 49 (2), 151-160.

¹⁹⁷ Jaffee, S.R., Caspi, A., Moffit, T.I., Belsky, J. and Silva, P.A. (2001), *Why are children born to teen mothers at risk for adverse outcomes in young adulthood? Results from a 20-year longitudinal study*. *Development and Psychopathology*. 13, 377-397.

¹⁹⁸ Woessmann, L. and Fuchs, T. (2001), *What Accounts for International Differences in Student Performance? A Re-Examination Using PISA Data*; IZA Discussion Paper No. 1287; CESifo Working Paper Series No. 1235.

¹⁹⁹ Collins, B.A. (2010) cited above.

policy makers and service providers. A qualitative study of New Zealand teens recorded this view from one young parent:

“If I didn’t have my children, I don’t think I would have gone through academia. I would have kind of wish-washed my way through life, because that’s just my natural way of doing things. But they gave me a reason and they gave me substance to go in this other direction and be a bit more focused on where I’m going, with them in mind.”

Source: Collins, B.A. (2010). Resilience in teenage mothers: A follow up study. Wellington: Ministry of Social Development

Supportive families and whānau, and a supportive partner are also important to building resilience and a forward-looking focus among young teens after their child is born. For pregnant teenagers, early and comprehensive ante-natal care and access to safe and secure housing have been found to improve their outcomes.²⁰⁰

There are a number of effective ways to prevent teen pregnancies:

- comprehensive sex education, following best practice principles;²⁰¹
- access to effective contraception, including long-acting reversible contraception;
- keeping young women engaged and succeeding in education. The programmes which appear most promising are those that focus on both academic and life skills, with childcare provided;²⁰²
- quality early childhood education. There is good evidence that high quality early childhood education for disadvantaged children improves outcomes in later life, including reducing the likelihood of early pregnancy and parenthood; and²⁰³
- youth development programmes focusing on educational participation, positive social relationships and ambitions.²⁰⁴

The main argument for compulsory participation in services rather than a voluntary approach is that the most at-risk families are the least likely to take up services. For example, evidence suggests that there is high withdrawal by vulnerable families from parenting programmes in New Zealand.²⁰⁵ A level of compulsion means more vulnerable families will take up assistance. Overseas, incentives such as baby equipment have encouraged young mothers to attend post-natal clinics.²⁰⁶

²⁰⁰ Swann, C., Bowe, K., McCormick, G., and Kosmin, M. (2003), *Teenage pregnancy and parenthood: a review of reviews*. London: Health Development Agency.

²⁰¹ Kirby, D. (2007), *Emerging answers 2007: Research findings on programs to reduce teen pregnancy and sexually transmitted diseases*. Washington, DC: National Campaign to Prevent Teen and Unplanned Pregnancy.

²⁰² Harden, A., Brunton, G., Fletcher, A., Oakley, A., Burchett, H., And Backhans, M. (2006), *Young people, pregnancy and social exclusion: A systematic synthesis of research evidence to identify effective, appropriate and promising approaches for prevention and support*. London, EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

²⁰³ As above.

²⁰⁴ Collins, B.A., cited in Welfare Working Group minutes Meeting Seven, 27 September, 2010.

²⁰⁵ The Families Commission, (2005), Review of Parenting Programmes.

²⁰⁶ Kavanagh, J., Trouton, A., Oakley, A. and Powell, C. (2006), *A systematic review of the evidence for incentive schemes to encourage positive health and other social behaviours in young people*. London, EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

In the United States, teen parents are required to live at home or with another adult as a condition of receiving assistance under the TANF (Temporary Assistance for Needy Families) programme. Evidence suggests this can be beneficial for teen parents' educational and financial outcomes, but may not improve the quality of parenting if the family situation is not positive.²⁰⁷

The evidence suggests that parent support and development programmes can have positive impacts, especially as part of a wider strategy to improve parent and child well-being. However, there is uncertainty about the causal links, and whether the programmes are cost effective.²⁰⁸

The options below describe a mix of conditions and supports for teen parents. A number of these options could form a package of measures to address the issues facing teen parents.

Table 6.4: Options for teen parents and their children

Options	Comment
<p>Option 6.4.1: Better/ enhanced support for teen parents and their children <i>Address housing and health needs as part of an overall youth-focused strategy to engage teen parents in education, training or work.</i></p>	<p>Multi-faceted programmes are likely to be the most effective for teen parents with complex needs. Skilled youth workers who relate to young people, possibly from the same cultural background, may be needed.</p>
<p>Option 6.4.2: Teen parenthood prevention <i>Provide more education about the consequences of teenage pregnancy. Require teen parents under 18 years to live at home or with a responsible adult; require teen parents to receive counselling as part of ante-natal health care;</i></p>	<p>There are currently weak signals to discourage teen parenthood. There is a spectrum of options that could be implemented from providing more education about the risks of teenage pregnancy through to requiring teen parents to live at home with a responsible adult.</p>
<p>Option 6.4.3: Requirements aimed at achieving better outcomes for children of teen parents <i>This option could include:</i></p> <ul style="list-style-type: none"> • <i>Require or support teen parents to engage in approved parenting programmes and other measures applied to all other sole parents.</i> • <i>Engagement of teen fathers through counselling and participation in parenting programmes could also form part of this option.</i> • <i>Require teen parents to attend services like Plunket regularly or accept home visits by these services/public health nurses.</i> • <i>Require or motivate teen parents to participate in approved parenting programmes.</i> • <i>Require teen parents to immunise their child, unless there is an informed choice not to.</i> • <i>Encourage/require participation of children of teen parents in early childhood education.</i> 	<p>There are a range of options to support better outcomes for children of teenage parents. These options can range from engagement and encouragement as part of benefit obligation through to benefit requirements.</p>

²⁰⁷ Eshbaugh, E.M. (2008), *Potential Positive and Negative Consequences of Co-residence for Teen Mothers and their children in Adult-supervised Households*, Journal of Child Family Studies, 17:98-108.

²⁰⁸ Eshbaugh, E.M. (2008), cited previously.

Chapter 7. Financial incentives in the benefit system

7.1 Introduction

In this chapter we discuss options to improve the benefit payment system to promote better work outcomes and reduce long-term benefit dependency. The rate of payment for main benefits, Working for Families and interactions with New Zealand Superannuation are outside the Welfare Working Group's terms of reference and are not covered in this chapter.

This chapter should be read alongside the discussions in earlier chapters where we discussed options to provide a greater focus on work for more people. These options included maintaining the status quo, increasing the numbers of people who have work capacity who are on the Unemployment Benefit and increasing the work focus and expectations for more people on a benefit.

There are a number of main benefits that provide beneficiaries with regular payments based on their eligibility for those benefits. These main benefits are then supplemented with second and third tier payments.

These payments are set up so that most beneficiaries have an incentive to move into either full-time or part-time paid work, depending on their benefit type and their circumstances.

However, there are features of the benefit system that discourage some beneficiaries from working. This chapter considers options for improving on these features and also looks at other ways that the benefit payment system could help support beneficiaries into work and reduce dependency:

- Improving the benefit payment system for people to work less than 40 hours because of job availability or work capacity.
- Providing additional support for people as they move into paid work.
- Promoting the temporary use of benefits.
- Improving second and third tier payments.

Some of the discussion is of a technical nature. The following box is a guide to some of the key terms used in this chapter. Further information about the benefit system can be found in the Issues Paper and other background papers available on the Welfare Working Group website.

Key terms and concepts

In order to be able to understand this chapter a variety of terms and concepts are central to the options. These include:

Main benefit – These are ongoing payments and comprise Unemployment Benefit, Sickness Benefit, Invalid’s Benefit, Domestic Purposes Benefit, Emergency Maintenance Allowance, Widow’s Benefit, Emergency and Hardship Benefits, and Independent Youth Benefit. Main benefits form the first tier of income support.

Second tier payments – These payments provide ongoing assistance for specific ongoing costs and include Accommodation Supplement, Disability Allowance, Child Disability Allowance, and Childcare Assistance.

Third tier payments – These one-off or temporary payments provide assistance for hardship and include Temporary Additional Support, Special Needs Grants, Advance Payment of Benefit, and Recoverable Assistance Payment.

Benefit abatement – Where a person’s benefit is reduced because of income that person receives, usually from paid work.

Passported benefits – Passported benefits are paid to people when they are not working and may be continued when they move into work. These payments are usually provided for the initial period in work, for example 13, 26 or 52 weeks.

Financial incentive to take up paid work – The financial incentive to take up paid work is the amount of additional income that a person receives from working compared to not working (which depends on the wage rate available to them). It is often measured using a *replacement rate*, which is the ratio of the person’s income while on benefit to their income while in work.

Effective marginal tax rates – Effective marginal tax rates are the share (percentage) of income that is lost in the abatement of benefits, tax credits and the payment of income tax.

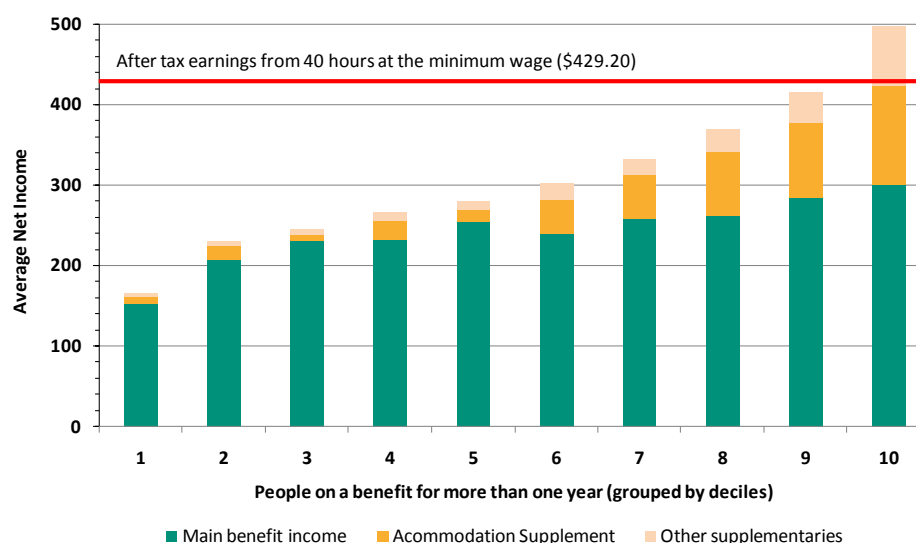
Elasticity of labour supply – The elasticity of labour supply is broadly speaking the degree to which the individual changes their hours of work when their earned or benefit income is increased.

Most beneficiaries currently have a financial incentive to work for 40 hours per week. The following graph shows the average benefit income by decile of those who have been on benefit for at least one year and compares this with after tax earnings from 40 hours work at the minimum wage.²⁰⁹ More detailed analysis²¹⁰ shows that over 93 per cent of people are more than \$120 better off in 40 hours of work at the minimum wage, and that fewer than 1,000 people receiving a main benefit are worse off in 40 hours of paid work. These are mostly couples in their fifties with no dependent children on an Invalid’s Benefit.

²⁰⁹ Based on an analysis of all people on the four major benefits as at June 2010. This analysis of replacement ratios estimates the additional return from working at the minimum wage, given the abatement of benefits, tax credits and income tax. The estimates do not include Special Needs grants, Child Support payments, or work related costs for transport or childcare.

²¹⁰ Ministry of Social Development data, as at June 2010. This further analysis of replacement ratios is more comprehensive as it includes additional information such as the value of in-work assistance, which is not included in the graph. This data only includes Unemployment, Sickness, Domestic Purposes and Invalid’s Benefits.

Figure 7.1: Net weekly income from benefits compared to net income from 40 hours work at the minimum wage, March 2010²¹¹



Source: Ministry of Social Development and IRD website. The estimated income includes a deduction for earners ACC levy, and the benefit income excludes income-related rents administered by Housing New Zealand.

7.2 Improving the benefit payment system for people working part-time to work more hours

Not all beneficiaries are able to undertake 40 hours of paid work, particularly sole parent, sick and disabled beneficiaries, because of either job availability or because of their capacity to work 30 or 40 hours. The benefit system needs to be set up in a way to encourage these beneficiaries to work to their capacity, and for support for those who do work a significant number of hours to be paid through the tax system rather than the benefit system.

The benefit system has been designed to provide targeted support to households on low income and who have little or no other income. Therefore, as people increase their earned income from work, the benefit income is withdrawn or abated.

- For people on an Unemployment or Sickness Benefit, their first \$80 of earnings do not reduce their benefit payment. Each dollar earned above \$80 reduces their benefit by 70 cents.
- For people on a Domestic Purposes Benefit or Invalid’s Benefit their first \$120 of their earnings do not reduce their benefit payment; each dollar earned between \$120 and \$220 reduces their benefit payment by 30 cents; and each dollar earned above \$220 reduces their benefit payment by 70 cents.²¹²

²¹¹ The data is based on all people on a main benefit for more than a year, divided into deciles based on net benefit income.

²¹² This description of the abatement regimes for Domestic Purposes and Invalid’s Benefits assumes that they qualify for the following income disregards: People on a Domestic Purposes Benefit – Sole Parent have a \$20.00 per week income exemption on top of the regular abatement free zone when they have to pay childcare costs while they are working. People on an Invalid’s Benefit have a \$20.00 gross a week exemption for earned income on top of the usual abatement free zone.

These abatement regimes need to be considered alongside tax rates when considering a beneficiary's effective marginal tax rate. This is summarised in Figure 7.2 below. The figure shows how the effective marginal tax rate varies for different benefit types to encourage different levels of work. Abatement of second tier assistance only comes into play once the person is no longer on a benefit.²¹³

Figure 7.2: Benefit abatement for the four major benefits (weekly amounts)

How much of each dollar earned is reduced by tax and benefit abatement				
Benefit	No abatement	First abatement	Second abatement	Benefit cut off
Unemployment and Sickness Benefit	10.5c (Earnings up to \$80)	80.5c (Earnings over \$80)	n/a	30 hours of work
Invalid's Benefit	10.5c (Earnings up to \$120)	40.5c (Earnings between \$120 and \$220)	87.5c (Earnings over \$220)	15 hours of work (then move to Sickness Benefit)
Domestic Purposes Benefit – Sole Parent	10.5c (Earnings up to \$120)	40.5c (Earnings between \$120 and \$220)	87.5c (Earnings over \$220)	Option to leave benefit and take up tax credits at 20 hours

Note: Tax rates as of 1 October 2010.

We have heard in submissions that there is a concern that there is little marginal incentive for people to work more hours once their benefit begins to be abated. There is no simple solution to increasing the financial incentives for people to earn more because there are trade-offs in a further flattening in the abatement regime:

- It will increase the incentive for people currently outside of the benefit system to reduce their hours of work in order to qualify for benefit income (the attractiveness of combining paid work with benefit increases compared with being outside of the benefit system).
- It will increase fiscal costs as people with higher incomes become eligible for an abated benefit and if people currently outside of the benefit system reduce their hours in order to qualify for benefit income.

Promoting more hours of paid work for people working part-time

Compared with part-time employment, full-time jobs tend to offer better stability, training and higher hourly wages.²¹⁴

The current abatement of main benefits provides the strongest financial incentive for people to earn less than \$80 or \$120 per week, depending on their benefit type, and

²¹³ The incentives in second tier payments are designed to complement the incentives in main benefits. Accommodation Supplement and Disability Allowance are abated at higher levels of income than first tier benefits. (Accommodation Supplement and Disability Allowance are not abated at all for beneficiaries.) The Working for Families Tax Credits improve the financial incentives for families with dependent children on benefit. They are not abated for beneficiaries. Abatement occurs from \$36,827 at 20 cents for every extra dollar earned.

²¹⁴ Barnes, M. and Dixon, S. (2010), *Employer-funded education and training: who receives it?* Department of Labour; Draca, M. and Green, C. (2004), *The incidence and intensity of employer funded training: Australian evidence on the impact of flexible work.* Scottish Journal of Political Economy, Vol.51, No.5, pp.609–625.

considerably weaker incentives to work additional hours. Working for Families tax credits have been designed to encourage higher amounts of paid work for parents,²¹⁵ particularly sole parents, but it also increases the incentive for second earners to reduce their hours.²¹⁶ In other words, it encourages people to work a limited number of hours, but does not promote more significant levels of paid work.

Options in Table 7.1 below are designed to support people to work a greater number of hours where possible. The abatement regime could be set up to encourage between 10 and 20 hours of work by:

- reducing the abatement free zone; and
- reducing the abatement rate for income earned above the abatement free zone.

This option could be designed to be fiscally neutral and not reduce financial incentives on those people currently outside of the benefit system.

Transferring people from the benefit system to the tax system

There are advantages in people being in being an “employee” rather than a “beneficiary”.²¹⁷ Moving a person who earns a regular, substantive income out of the benefit system, would reinforce the expectation that the benefit system is a temporary means of support during periods of difficulty.

Under the current benefit payment system, people who are unable to work full-time²¹⁸ are unlikely to be able to earn enough to move off their benefit. The current benefit payment system encourages sole parents to be in the benefit system until they reach 20 hours of work per week. Sole parents who work 20 or more hours per week are financially better off not on a benefit and instead receive the Minimum Family Tax Credit and the In-Work Tax Credit, which are only available when the sole parent is not on a benefit. Some sole parents choose to remain on a benefit even when they would receive the same or more through tax credits because second and third tier payments are easier to access for beneficiaries, and because of the ease of returning to a full rate of benefit if the job does not work out.²¹⁹

Option 7.1.2 below is to move all beneficiaries with significant weekly hours of paid work from the benefit system into the tax system. This could be combined with an in-work tax credit to improve the financial incentives to move out of the benefit system. A key policy decision here is what constitutes “significant weekly hours of paid work”.

Financial incentives for people who it would be unreasonable to expect to work

In Chapters 3 and 4, we outlined some groups of people who it would be unreasonable to expect to work, such as sole parents with children aged under one year and people with a

²¹⁵ 20 hours per week for a sole parent or 30 hours per week combined for a couple with dependent children.

²¹⁶ Centre for Social Research and Evaluation, and Inland Revenue (2010), *Changing Families’ Financial Support and Incentives for Working: Annex Report 2*, Wellington.

²¹⁷ The importance of framing and labelling has been gaining increasing prominence in economics. The way that people view themselves changes their behaviour and how they respond to decisions that they have to make. See for example, Khaneman, D. (2002), *Maps of Bounded Rationality: A perspective on Intuitive judgement and choice*, prize lecture, December.

²¹⁸ Twenty hours for sole parent beneficiaries.

²¹⁹ At the end of June 2010 about 6,500 people on the Domestic Purposes Benefit were recorded as earning more than \$180 per week at that point in time, while they were on the benefit. Around 2,000 of these beneficiaries had earnings over \$300 at that point in time.

terminal illness or very severe disability. Any benefit abatement for this group acts as a barrier to them to work given their circumstances. And there is little value in administering abatement for this group, given the small number of this group who would realistically work.

A risk of reducing the abatement for beneficiaries with no work expectations is that it becomes more advantageous to be put in this category. Tightly defined criteria and strong assessment processes could reduce this risk. Alternatively, there could be a set limit to the number of people who can be in this group.

Currently, Work and Income is able to disregard any earned income of severely disabled people. “Severe disability” is determined in reference to operational guidelines as there is no standard medical assessment.

Table 7.1: Options to improve the incentives for people to take up more hours of work

Options	Comment
<p>Option 7.1.1: Transfer people from the benefit system to the tax system <i>Migrate people from the benefit system to the tax system by moving the abated benefit to an in-work tax credit.</i></p>	<p>This option is in line with the in-work components of the Working for Families Tax Credits where people who work a reasonable amount can leave the benefit system and the benefit delivery agencies. Issues of administrative difficulty and potentially cost would need to be addressed.</p>
<p>Option 7.1.2: Increase the financial incentives for people working part-time to work more hours <i>Increase the financial incentives for people working part-time to work more hours by enabling them to keep more of their additional pay (offset by higher abatement at lower levels of earning).</i></p>	<p>The motivators for work are strongest when they are mutually reinforcing.</p>
<p>Option 7.1.3: People with no work expectations <i>Relax abatement for beneficiaries who it would be unreasonable to expect to work. This option would apply to a small number of beneficiaries with specific conditions, such as sole parents with children aged under one year and people with a terminal illness or severe disability.</i></p>	<p>To control the number of beneficiaries who qualify for non abatement, it would be necessary to implement tightly defined criteria and strong assessment processes to reduce this risk; or a set limit to the number of people who can be in this group.</p>

7.3 Providing additional support for people as they move into paid work

When people have been on a benefit for a long time there can be a range of personal issues that need to be addressed when moving into paid work. These costs can include general work-related costs (such as transport or clothing), specific costs associated with childcare or disability, and paying off debts accumulated while they are on a benefit. In addition, there can be advantages in promoting a shift towards employment, to enable beneficiaries to see the significant benefits that are associated with work.

This chapter discusses options to provide additional support for people as they move into work. Currently people lose their benefit income as soon as they start work, and so can face significant costs at a time when they have no income. An alternative approach is to provide time-limited additional support for people when they move into work. Work and Income administers the Transition to Work and modification grants and Workbridge administers Support Funds (see Chapter 4) which could be expanded on. This would create

a better incentive for people to move into employment. People would maintain their benefits for an initial period in work.

In the Table 7.2 below we discuss options to provide additional financial support for beneficiaries to transition into work. This additional support could be provided to the individual, the provider of employment services, targeted to sole parents, or targeted to sick and disabled people.

Any additional support would need to be funded on the basis that it would make a difference in terms of moving more people into paid work.

Some key policy decisions would need to be made around the system design, including:

- How long should the allowance be available for?
- How much should the allowance be and how should it be funded?
- Should these payments be set at a flat rate or should they depend on the actual costs of beneficiaries moving into work, up to a cap?
- How should the allowance be targeted to ensure the maximum reduction in long-term benefit dependence?
- How should the system be designed to manage risks around people and employers gaming the system to receive the benefit?
- Should these payments be set at a flat rate or should they depend on the actual costs of beneficiaries moving into work, up to a cap?

Table 7.2: Options to support beneficiaries into paid work

Options	Comment
<p>Option 7.2.1: In-work payments to beneficiaries <i>Provide long-term beneficiaries with an allowance for the initial period of employment.</i></p>	<p>This option empowers the beneficiary using the allowance as they see fit to support their move into paid work. There is a potential for playing the system - working for short periods frequently to receive multiple allowances. This could be mitigated by setting an annual or lifetime cap.</p>
<p>Option 7.2.2: Provider delivered in-work support <i>Building on current programmes, have a more significant pool of funds that could be used to support work outcomes of long-term beneficiaries. This could include support for wage subsidies, training, clothes, and temporary support for debt.</i></p>	<p>Support would be focused where and when it is needed most, with the delivery agent having the final decision on how these funds should be spent. This option builds on and consolidates the existing wage subsidies, Transition to Work Grant as well as funding specific to supporting sick and disabled people to transition into work.</p>
<p>Option 7.2.3: Transition allowance for sole parents <i>Sole parent beneficiaries moving into work would be provided with the cost of transport, childcare and other direct costs of the initial period of employment, up to a cap. This is also discussed in Chapter 3.</i></p>	<p>This option focuses support on the main barriers to work for sole parents.</p>
<p>Option 7.2.4: Transition allowance for sick and disabled people <i>Sick and disabled beneficiaries moving into work would be provided with support to cover direct costs of the initial period of employment, up to a cap (including workplace modification).</i></p>	<p>This option focuses support on the main barriers to work for disabled people. It consolidates existing funding available for disabled people to transition into work, including modification grants and Support Funds.</p>

7.4 Signals to discourage the permanent use of the benefit system

One way to reduce long-term benefit dependence is to promote the temporary use of benefits.

A service delivery model that intensifies interventions the longer people are on a benefit is one way to emphasise the expectation that benefit use should be temporary. People often leave benefit prior to assessment for employment programmes, as job search expectations are intensified.²²⁰ In a related approach, there could be increased income management for long-term beneficiaries.

In some countries, the benefit rate a person gets changes as they stay on benefit for longer. In Sweden, benefit rates are reduced and job search expectations are increased as a person remains on benefit for longer. In Italy, Korea, Turkey and the United States, people lose their entire benefit after 12 months of unemployment or less.²²¹

The table below provides a spectrum of options that range from more intensive case management, greater management of benefit payments, and two options to time-limit benefit payments. There are risks in time-limiting payments to people who may have little or no capacity or access to paid work. The implementation of time limits must reflect work expectations and allow for down-turns in the economy.

Table 7.3: Options to discourage the permanent use of the benefit system

Options	Comment
<p>Option 7.3.1: Increasing conditions with benefit duration</p> <p><i>Increasing conditions with benefit duration to send signals about the temporary use of benefit. This could include ensuring people are active while on a benefit, including a limited “work for the benefit” (for example, two days per week or 16 hours after two years continuous duration).</i></p>	<p>This option would be supported by sanctions for when a beneficiary does not meet their expectations.</p>
<p>Option 7.3.2: Income management for long-term beneficiaries</p> <p><i>A component of benefit payment may be strictly managed when people with work capacity are on a benefit almost permanently and they demonstrably fail to use the benefit appropriately (for example, failure to provide essentials for children).</i></p>	<p>This option sends clear signals about the temporary use of benefits, and helps people to better manage their income by limiting what benefit income can be spent on or where it can be spent.</p>
<p>Option 7.3.3: Step down in benefit payments over time</p> <p><i>This could involve reducing payments for people if they remain on benefit for a long period (for example, more than one year).</i></p>	<p>This option sends strong signals about the temporary use of benefits while maintaining a base level of income for beneficiaries. This option could cause some people to struggle financially once their benefit is reduced.</p>
<p>Option 7.3.4: Strict time limit</p> <p><i>Each person without an exemption from work expectations is funded for a certain period (for example, up to a limit of five continuous years on a benefit). Reliance on hardship assistance beyond this period.</i></p>	<p>This option sends strong signals about the temporary use of benefits. There are significant risks, particularly if it applied to parents with dependent children, and sick and disabled people.</p>

²²⁰ OECD. (2005), *OECD Employment Outlook*, chapter 4.

²²¹ OECD. (2009), *OECD Employment Outlook*, chapter 1.

7.5 Improving second and third tier payments

The focus so far in this chapter has been on main benefits. This chapter discusses options for addressing specific issues around the second and third tier payments. As mentioned above:

- second tier payments provide assistance for specific ongoing costs and include Accommodation Supplement, Disability Allowance, Child Disability Allowance, and Childcare Assistance; and
- third tier payments provide assistance for hardship and include Temporary Additional Support, Special Needs Grants, Advance Payment of Benefit, and Recoverable Assistance Payment. Some of the third tier payments are recoverable from future benefit payments and earnings.

Reducing the complexity of second and third tier payments

A number of issues arise out of the targeted nature of second and third tier payments, which are designed to provide support for specific needs which vary across individuals.

One issue is that targeted payments are very intrusive to beneficiaries. The more specific payments are, the more information an individual needs to provide to demonstrate their need. These information requirements are resource-intensive to administer, diverting resources from the delivery agent which could potentially be spent on supporting beneficiaries into work.

A further issue is that there is now a plethora of second and third tier payments for beneficiaries to navigate and for the delivery agent to administer.

Supplementary assistance for housing costs is particularly complex, with state housing being provided by the Housing New Zealand Corporation and the Accommodation Supplement provided by Work and Income. These programmes target slightly different but overlapping groups, with state housing targeting those with urgent housing need and Accommodation Supplement providing financial assistance for people on low incomes. In total these provide housing support for 800,000 people. Rent subsidies (income-related rents) through state housing cost approximately \$560 million per year and Accommodation Supplement costs around \$1.2 billion per year.²²²

A further complicating fact is that more than 98 per cent of people claiming Temporary Additional Support use it to cover housing costs not covered by their Accommodation Supplement. Thus some people who have reached the maximum legislated payment for the Accommodation Supplement are able to use Temporary Additional Support to supplement their housing costs, sometimes for extended periods of time.²²³

Accommodation Supplement, when combined with Temporary Additional Support, is very similar to income-related rents, in providing assistance for housing for those in hardship and having an abatement rate that undermines other incentives.

One way of addressing these issues of complexity would be to take the funding currently spent on second and third tier payments and integrate it into the main benefits. This does not involve a cut in payments; it is about reorganising current funding for a better, simpler system of payments. This option would significantly simplify the benefit system but it also

²²² Fletcher, M. (2010), *Financial Assistance for accommodation costs – analysis of current policies and possible directions of reform*, Treasury.

²²³ Ministry of Social Development.

highlights the trade-off involved in simplification. This option is unlikely to be distributed in a way that leaves everyone as well off as they currently are, with specific payments for their specific needs. It would be very expensive to raise main benefit rates enough to ensure that current recipients of second and third tier payments are not worse off.

Another way of simplifying the benefit system would be to put the funding for second and third tier payments into a single supplementary payment that varies by region, to reflect the different cost of living across regions. A variation of this option would be to apportion some of the funding for second and third tier payments into payments for children. A further variation would be to retain Temporary Additional Support to provide residual support for people in hardship.

Reducing dependence on third tier payments

Third tier payments are aimed at targeting people with the greatest need but not always successfully. These supplementary payments require substantial administration, as applications usually involve multiple form filling, repeated requests to reveal personal information and proof to demonstrate need.

The third tier of payments are intended to be temporary or one-off payments to help people on low incomes deal with lump sum costs or temporary high-cost periods that other people typically cover with savings or insurance. The third tier of benefits payments cost over \$273 million in the 2009-2010 financial year, with an additional \$177 million in interest free loans ('benefit advances'). This does not include the cost of administering the scheme. At the end of April 2010, 57,000 beneficiaries were receiving Temporary Additional Support, 410,000 had received interest-free advances in the previous year, and 528,000 Special Needs Grants had been awarded.²²⁴

While these grants and loans can help people on low incomes to avoid marginal lenders, they discourage saving, budgeting and planning which are key for financial independence.

- An asset test on these payments penalises the effort to save and build financial resilience.
- They are an easy source of extra money that does not need to be repaid. A person needing \$100 to cover a cost would need to work for about eight hours at the minimum wage but this money could instead be obtained by going through an application process.

One alternative is to give greater discretion to case managers, but limit the amount beneficiaries can access. Each Work and Income region or office could have a fund and local case managers or service centres would allocate the money at their discretion. The intention would be to use case managers' detailed knowledge of clients to determine the distribution of funds.

The main disadvantages of this approach are that it does not empower those on benefit, there is greater possibility for money to be misallocated, and it places greater emphasis on local Work and Income offices to manage their hardship funds.

The focus could instead be shifted to empower beneficiaries by building their own financial independence through specialist savings and insurance schemes.

²²⁴ Treasury (2010): <http://www.treasury.govt.nz/budget/2010/estimates> and Ministry of Social Development.

Fostering financial resilience is not a new idea. For example, supermarket Christmas clubs encourage saving for a particular event. In the United Kingdom, some savings schemes offer rewards such as a dividend share in a bank's surplus, or better insurance terms. The highest profile asset-building policies have been the United Kingdom's Child Trust Fund and the Savings Gateway. The Child Trust Fund aims to ensure that all children who turn 18 have a guaranteed financial investment. The Savings Gateway is intended to encourage adults on low incomes to save, by offering a clear and strong incentive in the form of matched savings provided by the government.²²⁵

Table 7.4: Options for supplementary assistance

Options	Comment
<p>Option 7.4.1: Second and third tier benefits and main benefits <i>Roll the funding currently spent on second and third tier payments into main benefits. A variation of this option would be to only roll the third tier of payments into main benefits.</i></p>	<p>This option would significantly simplify the overall benefit payment system, thereby reducing the intrusiveness into beneficiaries' lives and the administrative burden.</p> <p>This option would increase the income of some beneficiaries but reduce the income of others. This option would also remove provisions for assisting people in hardship.</p>
<p>Option 7.4.2: New capped hardship fund <i>Roll the funding currently spent on third tier payments into a new capped hardship fund administered regionally.</i></p>	<p>This option addresses hardship in a different way and utilises local knowledge of need and deals with unexpected variations in costs. However this option could lead to some inconsistency and increased pressure on delivery staff and does not build beneficiaries' financial independence.</p>
<p>Option 7.4.3: Regional supplement <i>Roll the funding currently spent on second and third tier payments into a new regional supplement. This regional supplement would be an ongoing payment to beneficiaries. The value of the regional supplement would vary by region. Variations of this option includes diverting some of these funds into tax credits for children and retaining Temporary Additional Support.</i></p>	<p>This option simplifies the benefit payment system but retains some targeting to reflect some cost differences between beneficiaries.</p> <p>By retaining Temporary Additional Support, the needs of beneficiaries in hardship would still be met.</p>
<p>Option 7.4.4: Integrate accommodation payments <i>Integrate Accommodation Supplement and income-related rents with Temporary Additional Support.</i></p>	<p>This option would significantly simplify assistance for accommodation costs and reflects the fact that housing costs are a significant factor for Temporary Additional Support payments.</p>
<p>Option 7.4.5: Expand NGO and not-for-profit provision of budgeting, banking and insurance services <i>This option encourages beneficiaries to build financial independence through provision of specialist savings and insurance schemes delivered by NGOs and not-for-profit organisations (with funding drawn from current supplementary assistance).</i></p>	<p>This option would support, rather than replace, the community's capacity to help those in hardship to build their own resilience.</p>

²²⁵ HM Treasury, (2001), *Savings and Assets for All*, London; HM Treasury (2001) *Delivering Savings and Assets*, London; Sodha, S., and Lister, R. (2006), *The Savings Gateway from Principle to Practice*, IPPR, London.

In New Zealand, the KiwiSaver scheme encourages those with relatively low incomes to save for retirement, but allows those savings to cover the cost of buying a house. A number of New Zealand NGOs offer banking as part of a budget and planning service to help people who would not normally be able to open a bank account. For example, the Downtown Community Ministry runs the Street People Project that offers banking services to people who are homeless.²²⁶ While they do not lend money, they do offer rewards for people who manage to save.

This approach focuses on helping people develop financial independence through improved budgeting skills and building financial assets. It aims to encourage more people to achieve greater independence by mitigating the risks of poverty for themselves.²²⁷

²²⁶ For more information see <http://www.dcm.org.nz/>

²²⁷ Churchill, C. (ed) (2006), *Protecting the Poor: A Microinsurance Compendium*, ILO, Geneva.

Chapter 8. Efficient and effective service delivery

8.1 Introduction

In this paper we have presented a range of options to reduce long-term benefit dependence. A key theme explored throughout this paper is the importance of sending strong signals about intervening early to reduce the costs of long-term benefit dependence.

Employment services are delivered through Work and Income, with around 45 per cent of its spend at Budget 2010 used to purchase specialist services from non-government agencies.²²⁸

The Work and Income model

The Work and Income model administers benefit payments to all working age beneficiaries and provides employment services. Much of its core employment services are delivered in-house, focusing mainly on Unemployment Benefit recipients. This includes:

- case co-ordination for most beneficiaries and some case management to those in more complex situations;
- the Job Search Service, primarily targeted to job seekers applying for or on an Unemployment Benefit;
- collecting and listing job vacancies; and
- administering financial assistance for people to undertake training and move into work, including Transition to Work grants and wage subsidies.

One of the advantages of the Work and Income model, and the rationale for its establishment, was the ability to use the benefit interaction as an opportunity to leverage an employment focus. This is demonstrated by Work and Income's triage at first contact for Unemployment Benefit.

Work and Income contracts out many of its specialist employment services and training programmes. For example, Workbridge is contracted to provide employment support to disabled people and administer the job support, training and self-employment funding available to disabled people. Work and Income also puts beneficiaries onto foundation training courses (Training Opportunities), development courses (Limited Service Volunteers and Outward Bound), and work experience which are provided by others.

Work and Income also uses external organisations to help determine eligibility for some benefits. For example, an independent assessment provider is sometimes used to determine eligibility for Independent Youth Benefit.

Some programmes are a mix of in-house and contracted services. For example, in the Straight to Work programme, Work and Income work with employers to identify and place job seekers into training related to their job vacancies. The training will be provided either by the employer or by an external provider.

²²⁸ Ministry of Social Development: Work and Income total budget for 2010/11 \$740 million of which \$337 million is used to purchase contracted services.

If any reform is going to work it will need effective and efficient delivery of employment services. As research into delivery of health and social services shows, quality delivery includes efficacy, effectiveness, cost effectiveness, and accountability to all stakeholders.²²⁹ This will be particularly important if people with different needs to those on the Unemployment Benefit are to be provided with greater levels of support and engagement to help them into work.

In this chapter we outline a broad range of options to encourage innovation, increase the capability of those delivering services and expand contestability to support new groups of people into work. We begin with structural issues, including a discussion of what the social welfare system can learn from private insurance. We follow with a discussion of more specific processes. Finally we discuss outcomes with particular reference to: clients with special needs, especially ex-prisoners and people who use drugs and alcohol; engaging better with employers; and minimising fraud and abuse.

Moving from a demand-driven model to a forward looking intervention model

Government organisations are typically funded by appropriations based on policy decisions, forecasts of expenditure, and tax revenue. The issue with this approach for funding social assistance is that it underestimates the financial commitment the Government has made when agreeing to pay the benefit. For instance, when agreeing to pay an Invalid's Benefit, the Government has committed to make payments while that person continues to qualify for that benefit. This commitment is far greater than the single year cost of paying the benefit.

There is considerable short-term movement off benefit, so the need is for effort to focus on those at risk of long-term benefit dependency. Short-term targets risk encouraging delivery agencies to focus on people easiest to move off benefit, who require less intensive support, rather than those with greatest disadvantage who are likely to require greater resources.

An alternative is an insurance approach. In its purest form, insurance is an agreement between an insurer and the insured to provide, in exchange for a set premium, agreed benefits to the insured if specified but uncertain events affecting the life or property of the insured occur. In New Zealand such schemes include income replacement, health and disability insurance, life, property, fire and general insurance, professional indemnity and public liability insurance. The conditions of such schemes are defined directly by insurers in the context of competitive markets, and include conditions of eligibility, such as exclusions for pre-existing health conditions from medical insurance policies. The Insurance Council of New Zealand estimated that general insurers wrote in the order of \$1,100 million of income replacement, health and disability insurance in 2009.²³⁰

The insurance approach uses full funding when managing its commitments to people who are insured. In essence, the organisation takes all reasonable steps to meet these commitments by working out what it will need to pay out and when. The levels of premium are set to cover these costs. The advantages of a full funding approach are:

- an accurate assessment of the current and future need for financial support;
- the organisation accurately understands the commitments it has made and takes all reasonable steps to ensure those commitments can be met;

²²⁹ Donabedian A. (1990), *The seven pillars of quality* Archives of Pathology and Laboratory Medicine.

²³⁰ Martin Jenkins *Lessons from Insurance for Welfare* 2010.

- it incentivises an appropriate level of intervention, with most resources going to those who can most benefit from them;
- it ensures the cost and performance of organisations is transparent; and
- levies, including discounts, can be used to incentivise clients to reduce their own risk.

The ACC model

In Chapter 4 there is a description of the effectiveness of the ACC insurance model in driving better performance.

ACC is a semi-independent government body that administers the Accident Compensation Act (2001). This involves: collecting levies to fund compensation payments, rehabilitation and employment services; paying compensation to claimants; and providing case management and services to claimants, primarily to rehabilitate them. ACC has considerable discretion as to the level of investment in treatment, vocational and social rehabilitation services. It contracts out a lot of these functions. The ACC model differs from Work and Income in that it is funded primarily by levies so it has a strong incentive to keep the future liability of its claimants down. As a result, ACC:

- invests in interventions to prevent accidents from occurring;
- has a strong focus on work, with the majority of clients supported in work. Most cases are co-ordinated with small amounts of resource and more complex clients receive specialist case management; and
- uses a lot of contestable service delivery, including the option for accredited employers to opt out of most of the coverage and take on the obligations themselves.

8.2 Structural reform of the delivery of the welfare system

In this chapter we review two specific areas for reform of the delivery system.

- First, how should delivery agencies be organised to have a greater focus on the long-term cost of decisions, rather than annual costs? Should the delivery agent be financed through levies or provided with multi-year funding? How can it be held accountable for decision that will have long term impacts?
- Second, how much service delivery should be undertaken by Government and how can we best draw on the capability and innovation in non-government organisations and the private sector? How should this external service delivery be managed?

A greater focus on the long-term costs of decisions, rather than annual costs

We have emphasised the importance of learning from the insurance approach to better design service delivery in the welfare system. One of the key components of an insurance approach is transparent finance and therefore it has strong incentives to contain costs; it accounts for the full long-term liability of claims and coverage and is funded to use all of the instruments available to minimise costs; and there is strong accountability to ensure it responds to the costs and funding arrangements.²³¹

A key lesson from the insurance industry is that if the incentives and accountability arrangements are in place, then delivery interventions become more cost-effective, with

²³¹ Martin Jenkins *Lessons from Insurance for Welfare* 2010.

systematic triaging based on assessments and referral to services that best suit different client groups.

Financing

Currently the welfare system is financed from general taxation. The options for reform in financing range from general taxation (the current system) to a levy (similar to the ACC scheme) to a voluntary membership subscription. There are some key issues here:

- Does financing the welfare system through general taxation lead to poor control of the cost of the system and lack of accountability to taxpayers and those who use the system?
- Does funding the welfare system through a levy improve performance enough to justify the costs and complexity of another method of revenue raising?

Funding

Currently, funding for the delivery of employment services is a set amount determined annually by Cabinet. By contrast, funding for benefit payments is driven by demand. If benefit numbers increase during the year they are funded unless an objection is raised by Ministers. There are some key issues here:

- Can performance measures based on the life-time costs of a demand-driven model result in the improved outcomes of a model that fully funds life-time costs?
- Does a demand-driven approach undermine incentives for the delivery agent to use the full range of instruments to reduce the long-term costs of the scheme?
- Are the incentives required to drive better behaviour in full-funding of life-time costs of the scheme worth the significant transitional costs of moving to full-funding?
- Can some of the advantages of identifying future liability be achieved without changing to full-funding?

Maintaining credible multi-year accountability

Accountability for the welfare system is currently determined in the usual ways for public service delivery agencies, with delivery agencies accountable for achieving targets set by agreement. There are a variety of options to enhance credible multi-year accountability. Within the current framework, service delivery options range from accountability arrangements with departments to the use of independent actuarial accounting as a central performance measure. Alternatively, well designed contracting out and better incentives can produce a robust accountability on contracted agencies to delivery services efficiently and effectively.

Options

The main options that we present in the table below are to place a greater focus on life-time costs in the current model, and to design a new model focused on the life-time costs.

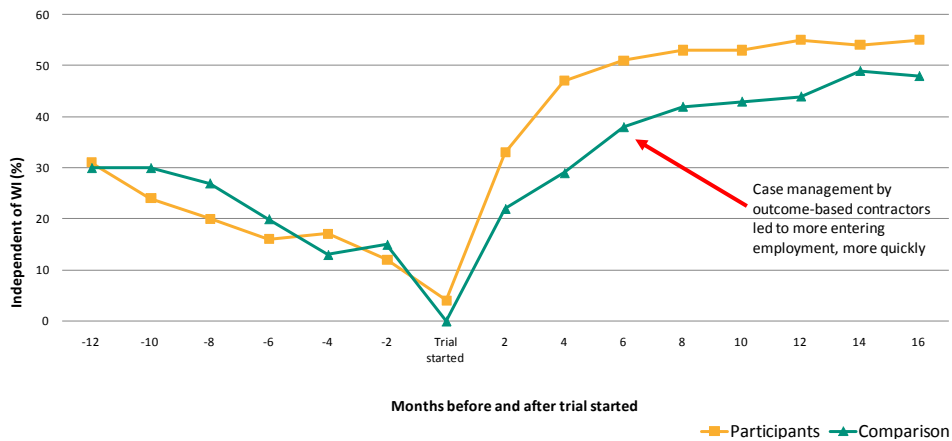
Table 8.1: Options to focus delivery more on the long-term costs

Options	Comment
<p>Option 8.1.1: Current model with life-time cost focus <i>Retain the current model, but the life-time cost is independently assessed and reported; the future liability would be used as a key measure of performance; and there would be a greater access to multi-year funding and consequences if the future liability changes.</i></p>	<p>This model would increase the incentives on the delivery agent to place a greater focus on the long-term costs of benefit receipt and to use a greater range of instruments to reduce these costs. This option changes funding arrangements, but leaves financing arrangements unchanged.</p>
<p>Option 8.1.2: New model based on the future liability <i>A new model of welfare based on the future liability of benefit receipt. In this approach, new institutional arrangements would finance welfare directly; would be accountable for the long-term costs of benefit receipt to the people financing the system; and they would have access to the full range of instruments and funding to address long-term costs.</i></p>	<p>There may be significant transitional costs to the model, but it would further increase the incentives on the delivery agent to place a greater focus on the long-term costs of benefit receipt and to use a greater range of instruments to reduce these costs. This option involves changes to both funding and financing arrangements.</p>

Who delivers the employment services?

For delivery organisations, the most important element is having a clearly specified outcome. A recent survey of evaluations suggests performance-based contracting in Australia and the Netherlands improved short-term job prospects for participants by five per cent to 10 per cent.²³² For Australia this led to the halving of the cost of services like job search and an overall reduction in costs by a quarter.²³³ In New Zealand, the pilots in 2002 linked payment to success at finding and sustaining employment for people who had been on the unemployment benefit for at least six months.²³⁴

Figure 8.1: Results from outcome based funding



Source: Ministry of Social Development (2004), *Outcome Based Funding (OBF) Pilots Evaluation Report*

²³² Joseph Rowntree Foundation (2008), *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*.

²³³ Department of Employment and Workplace Relations (2002), *Job Network Evaluation: Stage three: effectiveness report*, p126 and p4 respectively.

²³⁴ Ramasamy, S. and de Boer, M. (2004), *Outcomes Based Funding (OBF) Pilots Final Evaluation Report*, CSRE, Ministry of Social Development.

The people being supported have complex needs; even well specified and well delivered contracts may have unintended consequences. Independent assessment and evaluation is important for providing Government with the information it needs to ensure outcomes are delivered, and that the overall consequences are as intended. The Joseph Rowntree Foundation emphasises the importance of “independent research, challenge, and scrutiny” to minimise the opportunity for contracted agencies to avoid accountability. A good example is the 2009 National Audit Office report, which found the benefit of changing the management of incapacity benefit came from bringing forward the medical assessment, rather than from the relatively expensive service contracts.²³⁵

Another important component of ensuring that service delivery is based on the evidence about what works, is moving resources away from less effective approaches to more effective approaches. There must be a clear and transparent link between evaluated results and the allocation of resources. The Australian employment services use the star ratings model. In this model, provider results are evaluated for effectiveness and efficiency, and providers with the strongest results are allocated more business, while those with the poorest outcomes receive less.²³⁶

Crucial to achieving cost-effective service delivery is contracting and performance management. Well-designed contracts have clearly defined outcomes and financial rewards when these outcomes are achieved. Such contracting can overcome other organisational incentive problems, some of which are discussed in further detail below. For example, where rewards are aligned to achieving reductions in the future liability there are strong incentives to place people in work who are otherwise likely to spend long periods on a benefit.

The Australian model

The main functions of Centrelink, Australia’s benefit delivery agent, are administering benefit payments and manage the contracting out of most case management services. Except for basic assessments for those motivated to find work, the job capacity assessment is contracted out. All services, including case management, are contestable with the highly public star rating system used to assess effectiveness of service delivery. Robust, independent job capacity assessments are used to target services efficiently and effectively. The government agency must have expertise to contract for outcomes and in this model payment and service delivery agencies are separated.

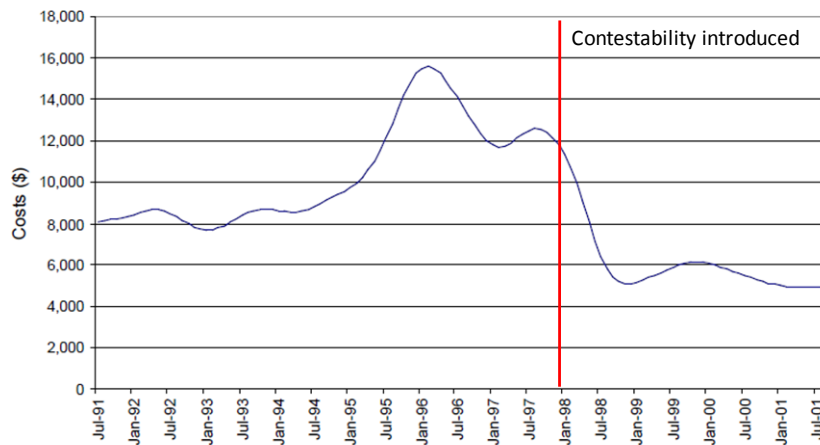
There can be benefits from introducing contestability in employment services. When the Australian service became contestable, it was able to find more people jobs for half the cost of the previous system (see graph below). The cost of providing service packages in the Dutch ‘reintegration market’ fell by 2007 from €4,700 to no more than €3,000 for each client going through the programme.²³⁷

²³⁵ National Audit Office (2010), *Support to incapacity benefits claimants through Pathways to Work*. London.

²³⁶ For background to Star Ratings in the Australian model see: <http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Pages/JSASTarratings.aspx>

²³⁷ Joseph Rowntree Foundation (2008), *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*.

Figure 8.2: Australia: Impact on costs per employment outcome of introducing contestable provision for employment services



Source: Slightly adapted from Department of Employment and Workplace Relations (2002) Job Network Evaluation: Stage three: effectiveness report, p126

Alternative models – United Kingdom model

In the United Kingdom, government contracts with consortia of private and NGO organisations to manage the future liability. These consortia then sub-contract for work outcomes. The government provides a brand and manages the contracts with consortia. Simple and clear incentives use private sector contract expertise. Whānau Ora could be incorporated as one consortium. Strong evaluation is vital to ensure cost effective delivery. The government sector is still needed for those clients with whom agencies do not engage.

In the table below we present options around who delivers employment services, which services are delivered, who receives them, and under what arrangements. These options range from Government provision through to a system primarily managed and run outside of Government. There are some key issues here:

- Work and Income have effective processes to deal with those who have few barriers to getting back into work. Bearing this in mind, what mix of service delivery approaches, ranging from full public service provision to full non-government provision, will achieve the best results in ways which are cost-effective, foster innovation, recognise capacity and capability constraints, and capture opportunities?
- Can the risks around contracting non-government and private sector provision be addressed through carefully designed contracting and incentive arrangements to ensure a focus on the desired results?

Table 8.2: Options to improve performance and lift innovation in service delivery

Options	Comment
<p>Option 8.2.1: Enhanced status quo <i>Improve the delivery of employment services by Work and Income with contracting out on a regional office basis.</i></p>	<p>The model draws on the capability outside of Government to provide more effective support for beneficiaries.</p>
<p>Option 8.2.2: Greater accountability for outcomes <i>Increasing transparency and strengthening incentives for the agency to deliver cost-effective outcomes, including the use of innovation, skills and capability outside of Government.</i></p>	<p>The current model could be expanded and be managed more centrally to more systematically drive performance and accountability in contracting out outcomes.</p>
<p>Option 8.2.3: A contestability model <i>Employment and other services are provided through a network of providers who are paid on an outcomes basis. Government manages the model, the tendering process and designs the policy settings for service delivery and delivers services for people who do not need specialist support.</i></p>	<p>A model of full contestability could improve innovation, accountability and capability. However, there would be a strong need for carefully designed contracting and incentive arrangements to ensure a focus on the desired outcomes. The consortium approach allows for contestability of contracting.</p>
<p>Option 8.2.4: A fully contracted out contestability model <i>As option 8.2.3, but contracting for services is undertaken by a separate agent outside of Government (as is done in the United Kingdom).</i></p>	<p>The contracting process may be more efficient and innovative and encourage greater accountability where it is done at arms length to the Government.</p>

8.3 Engaging with employers

A common theme that we have heard from submissions and workshops from beneficiaries as well as those further removed from the benefit system, is that beneficiaries are having difficulties finding and sustaining paid work in the current economic conditions. In other parts of this report we discuss:

- the importance of maintaining a focus on returning to work as the economy enters the next growth cycle;
- the importance of intervening to addressing social and personal issues to prepare people for the economy of tomorrow;
- providing support to jobseekers to find and sustain employment, particularly those people who have been out of work a long time; and
- how employers could be engaged to better support people at risk of long-term benefit receipt on Sickness Benefit and Invalid’s Benefit.

In this chapter we discuss how employers can be better engaged to promote the employment outcomes of beneficiaries. In many cases beneficiaries are able to engage with employers with little or no support. In other cases there can be a significant gap between what the employer expects and what the beneficiary is able to provide without a significant level of support.

We have heard from Federated Farmers that farmers are frustrated by a lack of skilled and motivated workers.

“Farmers are finding that welfare beneficiaries are often lacking in skills and motivation and many have criminal records and social problems that ... mean it is risky to employ beneficiaries and farmers are having to resort to migrant labour to fill vacancies. In order to ‘de-risk’ the employment of beneficiaries we need to improve their skills and their motivation.”

Submission to Welfare Working Group Federated Farmers of New Zealand

Another major employer, most of whose staff is young and unskilled, said they struggle to fill vacancies because of the perceptions that their jobs are low paid and hard work and therefore not ‘good’ or ‘real’ jobs.

“Getting a job [with us] is not really seen as a sign of success. But in reality [we] offer a valuable, internationally respected, comprehensive training programme for [our] staff, particularly for those for whom this is the first job.”

Currently, industry partnerships are the way for industries, employers and government to work together to minimise skill and labour shortages, and maximise job and career opportunities. This has worked well for people on Unemployment Benefit but a greater work focus for other beneficiaries means more employers will need to be engaged, and the gap between employers’ needs and beneficiaries’ skills narrowed. The evidence on what is effective in supporting beneficiaries into work is clear – interventions need to have a focus on employers and their needs. In terms of options to support and engage with employers of the spectrum includes:

- better design and targeting of generic services and supports to meet employers needs;
- direct engagement with employers to locate vacancies and to support beneficiaries into those vacancies;
- engagement with employers over the medium term about what their workforce needs are, with training support and other interventions to help beneficiaries into those positions; and
- an active role in maintaining the employment relationship between employers and beneficiaries either through active support or more formal relationships between the employment provider, the beneficiary and the employer.

The following table outlines options to improve engagement with employers and support beneficiaries into work.

Table 8.3: Options to engage better with employers' needs

Options	Comment
<p>Option 8.3.1: General employment programmes <i>Ensuring that all general employment programmes are more directly tied to employers' needs. Under this option the degree to which the generic services are meeting employers' needs would be reviewed and changes made to better meet the needs of employers.</i></p>	<p>Work and Income provide a range of generic services (job search, training and other advice). It would be valuable to review these services to see whether they are meeting the needs of all beneficiaries and employers to promote sustained outcomes.</p>
<p>Option 8.3.2: Engage with employers to locate vacancies <i>A range of new incentives could be targeted at the collection and filling of vacancies by employment service delivery agencies. This could include incentive payments, and additional focus on filled and unfilled vacancies.</i></p>	<p>Work and Income currently collect vacancies and refer clients on to these positions. There are opportunities to expand the incentives for delivery agencies to collect vacancies suited to the needs of the client group.</p>
<p>Option 8.3.3: Expansion of Industry Partnerships model <i>Develop further training options based on employers' workforce and support needs. Engage with employers over their workforce needs, and support training and other interventions to move beneficiaries into positions.</i></p>	<p>The Industry Partnerships model and the Straight2 Work programme provide a solid foundation for more organisations to develop tailored workforce support for employers.</p>
<p>Option 8.3.4: In-work support <i>Increase the scale and scope of current programmes that provide an active role in establishing and maintaining the employment relationship between employers and beneficiaries.</i></p>	<p>This option would place a greater emphasis on actively managing the risk to employers of hiring people with little work experience, few qualifications and potentially a range of other barriers. A model based around labour market intermediaries offers some promising opportunities.</p>

8.4 Fraud and abuse

Benefit fraud, abuse and error by beneficiaries sit on a continuum, with correct entitlement at one end and deliberate, planned and premeditated fraud at the other.

The majority of people on a benefit meet their income assistance obligations. However a proportion also make genuine errors in their dealings with Work and Income. All people on a benefit are required to inform Work and Income of changes in their personal circumstances that may affect their entitlements. Small amounts of earnings or new relationships are areas where genuine mistakes occur.

Benefit abuse happens when a client fails to meet their obligations. This may include unreasonably changing personal circumstances to maximise benefit income, or failing to actively look for employment.

We have had a range of informal discussions with members of the public (as well as more formal workshops) since the release of the Issues Paper. In one informal exchange about the need to move into paid work a beneficiary said: *"Na, me and my mates [there were four of them] got it sweet on the benny [an income support benefit]."*

Fraud sits at the hard end of the continuum, where the person on a benefit sets out to commit deliberate, planned and premeditated theft. This could involve identity fraud or

beneficiaries repeatedly filling out false declarations about their relationship status or income from work. Some cases of fraud are elaborate, occurring over many years, and involving significant amounts of money.

In 2009/10 the Ministry of Social Development discovered 36,200 overpayments that resulted from fraud and abuse as a result of investigations and data-matching activities. The value of these overpayments represented around 0.5 per cent of all payments. The majority of these benefit abuse and fraud cases resulted in an overpayment of less than \$10,000. Domestic Purposes Benefit and relationship issues account for a significant proportion of the value of all fraud and abuse cases.²³⁸

The Ministry of Social Development uses a range of measures to address fraud including an intelligence-led approach with 80 frontline investigators who deal with high-risk cases and target low level fraud. There is potential for malicious reporting and the Ministry operates within strict guidelines when conducting investigations. Prevention is also used as a tool to intervene actively with clients and through an outreach programme with employers. Data-matching with a range of other Government agencies is also used, and there are processes in place to deal with detection of identity fraud.

There is anecdotal evidence of a community perception that benefit fraud is a victimless crime, with people turning a blind eye to it. This view fails to recognise that there is a cost to the taxpayer and the community. Fostering higher levels of personal responsibility is the key to addressing benefit abuse and fraud. This might involve promoting social or community norms about integrity in the use of the benefit system, effective monitoring and rapid punishment of offenders, ensuring there are simple, clear rules and reduced incentives for abuse and fraud around relationships.

Table 8.4: Options to address fraud and abuse

Options	Comment
<p>Option 8.4.1: Public campaigns <i>Deliver strong public messages about integrity in the use of the benefit system through public campaigns.</i></p>	A coherent approach to tackling fraud abuse that includes all three options is a promising area to examine.
<p>Option 8.4.2: Enforcement <i>Tougher penalties and stricter monitoring and enforcement.</i></p>	
<p>Option 8.4.3: Relationship fraud <i>Clarifying rules relating to relationship fraud and address the systematic drivers of relationship fraud.</i></p>	

8.5 Transition to a new welfare system

In the final report we will be recommending a practical plan to reduce welfare dependence in New Zealand. We will also be presenting options for how this practical plan could be implemented. One option for any reform to the welfare system is to transition completely to a new welfare system immediately. That would mean that the new approach to welfare would apply to both existing clients and clients entering the system.

²³⁸ Ministry of Social Development (2101) briefing prepared for the Welfare Working Group: Report on benefit fraud and abuse.

An alternative approach to immediately transitioning to a new welfare system is to allow some or all of existing clients to maintain their current status either permanently or temporarily. In this approach there are no immediate losers from any reform package. An alternative approach is to maintain existing provisions for a period.

Rigorous monitoring, evaluation and research is critical to successful implementation and an ongoing focus on results. Any changes need to be based on a good evidence base, and it is also important that implementation and ongoing operation of the welfare system be accompanied by sufficient investment in building an evidence base. To be able to influence policy design or delivery, this evidence base needs to be state-of-the-art, and it also needs to be timely. There may be some merit in ensuring that all monitoring and evaluation projects are listed in a transparent annual plan, and that all results are published.

This paper has discussed the importance of an active approach and the degree to which it will result in better outcomes, including reduced spending on welfare in the long run. At times we have discussed how effective packages to support people into work enable remaining resources to be better targeted at those clients who remain on a benefit. One transitional arrangement that could be considered is to have a staged implementation approach that, based on evaluation results, explicitly recognises the savings from lower benefit receipt.

Table 8.5: Options for a transition to a new welfare system

Options	Comment
<p>Option 8.5.1: Uniform transition <i>The new approach to welfare applies to both existing clients and clients who are new to the system.</i></p>	<p>This option would be transparent, equitable between existing and new clients, with no unintended consequences of current clients remaining attached to benefit to maintain entitlements. The benefits and costs of reform are apparent more quickly. This option makes it harder to manage transition risks.</p>
<p>Option 8.5.2: Grandparent or sunset clauses <i>Allow some or all existing clients to maintain their current status either permanently (grand-parenting) or temporarily (sunset clause).</i></p>	<p>This option would ensure that existing clients are not disadvantaged by reform and that major reform can be implemented. It would enable a focus on more active management of new clients who may be more responsive to reform packages. The speed of reduction in long-term benefit dependence will be slower.</p>
<p>Option 8.5.3: Staged reform <i>A staged implementation approach that explicitly recognises the savings from lower benefit receipt. This would allow the time to develop new delivery agents.</i></p>	<p>The advantage of this approach is that an initial reform is made in reducing benefit dependence. If this reform brings a return by reducing the number of long-term beneficiaries then it results in further reform. If this reform is not effective then the spending is time limited.</p>

Chapter 9. Summary and further consultation

9.1 Overview

In this paper we present a range of issues that will need to be addressed to reduce long-term benefit dependence and a range of feasible options to address those issues.

A strong welfare system needs to send stronger signals about the value of paid work for wellbeing and the importance of intervening early to avoid the costs of long-term benefit dependency. A work-focused welfare system prioritises securing and remaining in employment, while still providing income to meet needs. The evidence suggests that the following elements are required:

- economic, labour market, education and health settings aligned to reduce long-term benefit dependency;
- an approach that intervenes early to reduce the costs associated with long-term benefit dependency (including before entry to the benefit system);
- a focus on paid work, which is complemented with active support and a clearly communicated reciprocal obligation – with greater focus on personal responsibility – so that people take opportunities as they emerge;²³⁹
- early intervention points that are focused on paid work (including programmes to reduce the numbers of people entering the benefit system);
- well designed and robust gateways onto benefits;
- clear and comprehensive expectations to look for and accept reasonable offers of paid work, and address barriers to paid work, which are backed up by sanctions (and community expectations about participation in paid work);
- responsive and affordable childcare for children of beneficiaries who are transitioning into work;
- personalised support to address barriers to obtaining jobs for those at risk of long-term dependency. These include (but are not limited to) job search, wage subsidies for people most at risk, vocational rehabilitation, and alcohol and drug rehabilitation;
- benefit and tax systems that have financial incentives for people to enter and remain in paid work; and
- service delivery that has a strong focus on outcomes, innovation and transparent accountability arrangements.

In the Executive Summary we provide a list of major issues in the welfare system that are driving long-term benefit dependence (that are within the scope of our review) and options to address them. It is not possible to provide a summary of the many options, but what is clear is that there are a variety of policy choices that can be made in the design of the welfare system.

²³⁹ In the Issues Paper we provide a comprehensive review of the evidence of the importance of paid work. We do not repeat this discussion here.

Each of the choices between options require trade-offs that involve judgements about design. In this review we do not consider that the status quo option is necessarily the best option and indeed in many parts of the welfare system it appears that judgements that are inherent in its design are outdated and have resulted in people being locked into the benefit system.

9.2 Tell us what you think

The Welfare Working Group has been asked to make recommendations to government about how to reduce long-term benefit receipt. There are options tables presented in the executive summary that frame the options for change. We would like to get your feedback on the options presented in this paper by 24 December 2010 so that we can provide the Government with recommendations by the end of February 2011. You can respond by completing the response on line at: <http://ips.ac.nz/WelfareWorkingGroup/Index.html>

Alternatively you can email or send submissions via post to us at:

welfareworkinggroup@vuw.ac.nz

Welfare Working Group, PO Box 600, Wellington 6140, New Zealand.

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