

THE NEW ZEALAND BENEFIT SYSTEM

Key problems and options for reform

Treasury Report to the Welfare Working Group

September 2010

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EXECUTIVE SUMMARY

One of the key principles of the Social Security Act is that *work in paid employment offers the best opportunity for people to achieve social and economic well-being*. While the Act recognises that for some people employment will not be possible, it generally provides a strong basis for a comprehensive and coherent set of benefit reforms that have a primary focus on reducing the number of New Zealanders that are dependent on the benefit system.

There are a range of factors that will determine the future level of benefit receipt. These include the design of specific benefit policies and institutional settings, as well as external factors such as the performance of the labour market and policies in other relevant sectors – for example education. Treasury agrees, in general, with the Welfare Working Group’s assessment of where the key issues are with respect to these various policies and settings. The report identifies three general areas that any proposed options for reforms should focus on:

- a) Moving beneficiaries off ‘non-work focused’ benefits;
- b) Beneficiaries who have a long duration in the system and/or have children; and
- c) Supplementary benefits – in particular the high EMTRs and a lack of targeting.

These areas have been selected by analysing where the greatest potential exist within the current benefit system to make changes that have positive outcomes for all New Zealanders – especially those in most need. Some of the issues that have lead to this selection include the intergenerational and health effects associated with benefit dependency, the high rates of child poverty in ‘work-less’ households, and the long-term fiscal burden and work-incentives associated with each benefit type. The following table summarises the specific problems with the current policy and institutional settings that have contributed to these issues. An initial set of options to address them are also presented, drawing from experience of recent benefit reforms overseas and lessons from the insurance and ACC industries.

	Key problems	Options for reform
Gateways	<ul style="list-style-type: none"> • ‘Medical’ work-capacity assessments for SB/IBs • Limited assessment of work-capacity and work-barriers facing DPBs 	<ul style="list-style-type: none"> • Reclassify SB/IB/DPBs, with a comprehensive work assessment, and link new categories to specific obligations, services and incentives
Obligations and Sanctions	<ul style="list-style-type: none"> • Insufficient work-obligations for sole parents • Low take up of voluntary work and training programmes 	<ul style="list-style-type: none"> • Investigate possible enhancements to sole parent obligations – work-tests for DPBs with younger children
Case-management and services	<ul style="list-style-type: none"> • Ineffective and poorly targeted training interventions for DPBs • Lack of services and support provided to SB/IBs 	<ul style="list-style-type: none"> • Targeted training interventions, based on likely skill acquisition • Improve balance of case-load between UBs and ‘non-work focussed’ benefits
Incentives	<ul style="list-style-type: none"> • Poor work-incentives for SBs who have part-time work capacity • Insufficient targeting of childcare • Relatively limited subsidies for SBs 	<ul style="list-style-type: none"> • Review employment subsidies – and relative focus on UBs • Better targeting of childcare • Review work-incentives of supps
Institutional settings	<ul style="list-style-type: none"> • Politically driven focus on UBs • Limited accountability for LT liability 	<ul style="list-style-type: none"> • Multiple agencies, working to an outcome-based funding model

Any decision on a final set of reforms should aim to ensure the policy choices and institutional settings are mutually re-enforcing, and strike a cost-effective balance between reducing the long-term benefit numbers and remaining focused on avoiding increases in the flow into the system.

1. PURPOSE

This report presents an assessment of what Treasury considers should be the main areas of focus for future benefit reform.¹ From this assessment, a preliminary set of reform options have been developed. Further analysis of these options is required, but we hope they provide a useful initial input into the Welfare Working Group process.

2. WHAT ARE THE OBJECTIVES OF THE BENEFIT SYSTEM?

New Zealand's current benefit system is governed by the Social Security Act 1964. The key objectives, outlined in section 1A of this Act,² are to:

- (a) enable the provision of financial and other support as appropriate:
 - (ii) to help people to support themselves and their dependants while not in paid employment;
 - (iii) to help people to find or retain paid employment; and
 - (iv) to help people for whom work may not currently be appropriate because of sickness, injury, disability, or caring responsibilities, to support themselves and their dependants;
- (b) to enable in certain circumstances the provision of financial support to people to help alleviate hardship

These objectives are followed in the Act by a number of overarching principles, which re-emphasise that while ongoing support may be needed for some people where work is not an option, 'work in paid employment offers the best opportunity for people to achieve social and economic well-being', and that **'the priority for people of working age should be to find and retain work'**.³

The two overarching objectives of the Act have been described by the Ministry of Social Development (MSD) as 'facilitating employment' and 'poverty alleviation'.⁴ However, the benefit system also needs to address other priorities such as minimising fiscal costs and administrative complexity.⁵ Notwithstanding the importance of these broader objectives, the Act provides an excellent basis to develop a set of reforms that improve outcomes for all New Zealanders – especially those in greatest need.

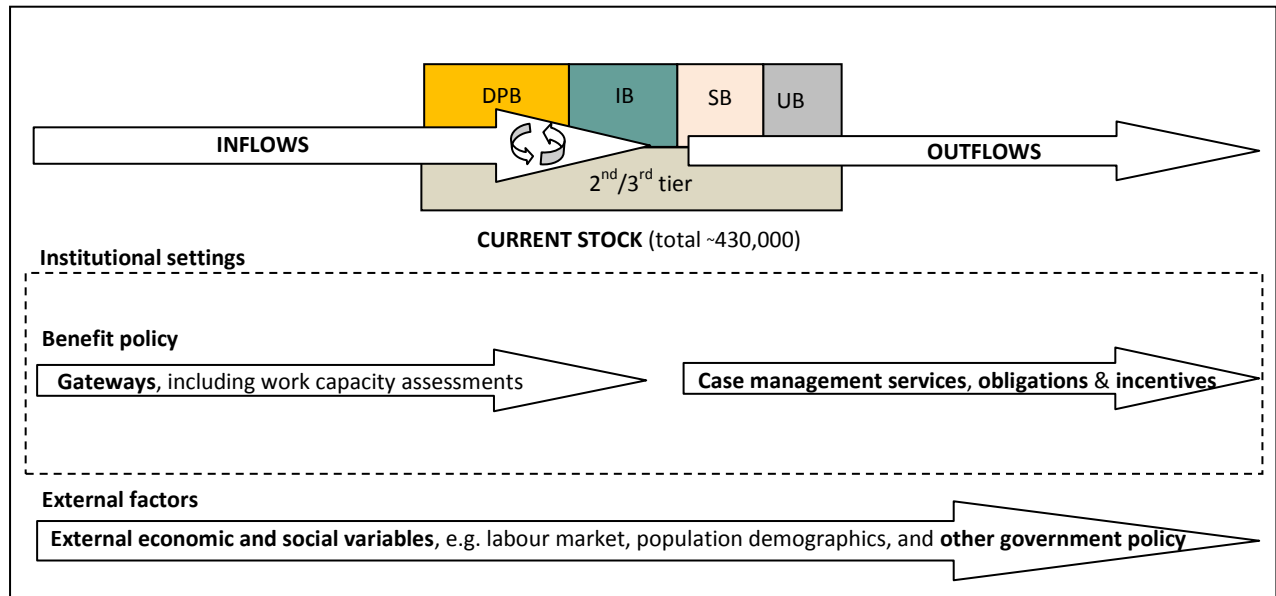
3. HOW CAN THE SYSTEM BETTER MEET THESE OBJECTIVES?

Reducing the number of beneficiaries that are reliant on welfare provision will, in many cases, lead to improved outcomes - both in terms of individual wellbeing and poverty relief, but also improved fiscal, social and economic performance. Beneficiary numbers have increased markedly over the last 30 years (see Figure 6a), and are forecast to increase further if changes are not made to the system. There are a range of factors that will determine future benefit receipt, which can be broadly categorised under the following headings:

- 1) The design of benefit policy;
 - a. *gateways* into benefits, such as eligibility criteria and work capacity assessments
 - b. *obligations and sanctions* that beneficiaries face while in the system
 - c. *case management and services* provided to beneficiaries
 - d. *incentives* on beneficiaries and other agents in the system
- 2) The institutional settings, such as accountability regimes, performance targets, and contracting and contestability in service delivery;
- 3) External economic and social variables; and
- 4) Other related government policies.

External economic and social variables, such as labour market performance and population demographics, affect both inflows and outflows to the benefit system. The specific policy design and the settings of the institutions that implement this policy, tend to be focused on either the flows of beneficiaries (into or within the system) or on reducing the stock of beneficiaries.

Figure 1 – factors that influence the future level of benefit receipt⁶



THE DESIGN OF THE BENEFIT POLICY

Gateways: There are a range of policies that specifically affect flows into particular benefit types. For example, eligibility criteria such as an individual's work capacity and income level will largely determine which benefits they can receive.⁷ **An accurate initial work capacity assessment**, or income test, can ensure the right benefit rate, case management, incentives and services are provided.⁸ Stand down periods and the signalling of future obligations⁹ – for example, mandatory visits and seminars at Work and Income offices also affect flows into each benefit.

Obligations and sanctions: Many beneficiaries are required to sign an agreement or plan that outlines specific developmental areas and employment opportunities,¹⁰ which they must follow while on benefit. They may also be obliged to undertake regular work-testing, and **accept employment if it is available**. If these obligations are not met various sanctions can be imposed, such as reducing their benefit rate.

Case management and services: Once in the system, beneficiaries are provided with a range of client-focused programmes and support. For example, they may be required, or can volunteer, to attend **various training programmes**.¹¹ Further, health interventions such as counselling and psychiatric services are provided. The services that are available to beneficiaries, and case management approaches, are largely determined by the type of benefit the individual receives.

Incentives within the system: In addition to specific services, there are a number of different incentives that beneficiaries face to assist them into work. One of the main financial incentives is allowing individuals to participate in paid-employment, while keeping a portion of their benefit. Also, **indirect financial incentives, such as targeted childcare support, can also reduce important barriers to work**.¹² And finally, the incentives and obligations that the system places on employers, and other agents such as work-capacity testers, will have an effect on the future stock of beneficiaries.

INSTITUTIONAL SETTINGS

While improving these elements of policy design can lead to better outcomes, it is also essential to evaluate the effectiveness of the institutional settings. The right policy poorly implemented will not work. On the other hand, a ***political focus on specific areas of the benefit system at the expense of other areas can constrain the performance of institutions.*** Related to this is the level of accountability and associated performance targets that they operate under. Further, the degree of competition and contestability can have a bearing on their performance. The relative administrative burden of each benefit type has been identified as an important driver of institutional effort¹³ - in particular where performance targets and accountability for these benefits are weak.

EXTERNAL SOCIAL AND ECONOMIC FACTORS

The design of benefit policies and institutional settings certainly have an effect on benefit numbers. However, external factors will also play a part, such as ***the performance of the economy and the labour market, and changes in the characteristics of the population.*** Increasing labour market competition and a growing proportion of aged/sick population are two possible causes of increasing benefit numbers.¹⁴ The extent to which they determine flows and stocks within the system is difficult to measure, but in the case of population ageing is not as large as may be expected.¹⁵

OTHER RELATED GOVERNMENT POLICIES

Finally, ***other government policies, such as the education, health and ACC system, and labour market regulation, will affect future benefit receipt.*** People with low or no qualifications are significantly over-represented in the benefit system, and improving education outcomes is likely to result in reduced flows of people on to benefits.¹⁶ Health and ACC policy in New Zealand have also been identified as having an impact on benefit numbers, for example de-institutionalisation of disability care in the 1980s-90s.¹⁷ While other government policies are essential to reduce some of the inflows to the system, they are not addressed in detail in this report given the WWG scope.¹⁸

4. WHERE SHOULD WE FOCUS EFFORTS?

AN ANALYTICAL FRAMEWORK TO IDENTIFY WHERE POTENTIAL OPPORTUNITIES ARE GREATEST

There are a number of opportunities to reform the benefit system in ways that improve outcomes for all New Zealanders – in particular those in greatest need. As noted in the previous section, reducing the number of people dependent on the benefit system is likely to improve overall health in the population, reduce poverty rates, lower fiscal costs, and increase economic performance.

An analytical framework that identifies where these opportunities are greatest, enables policy makers to ***focus interventions in areas where the most potential exists to improve outcomes for individuals and society.*** Identifying the opportunities allows for an assessment of the potential to improve outcomes, but does not provide a cost-benefit analysis of the interventions required to realise this potential. As noted in the last section of the report, further analysis is required on the various options that have been developed from this assessment. It is particularly important to make sure that current policies that are relatively cost-effective are not replaced by new interventions that have not been thoroughly tested.

The following section of the report assesses the various opportunities that exist to improve outcomes through reforms of the benefit system.

Fiscal savings

The annual fiscal costs of each benefit type are a function of the benefit rates that are paid and the number of beneficiaries on each benefit. The benefits with limited or no work obligations, referred to in this paper as ‘non-work focused’ benefits¹⁹ (Domestic Purposes Benefit (DPB), Sickness Benefit (SB) and Invalids Benefit (IB)), and the various second and third tier assistance account for the majority of the current annual fiscal costs of the benefit system.²⁰

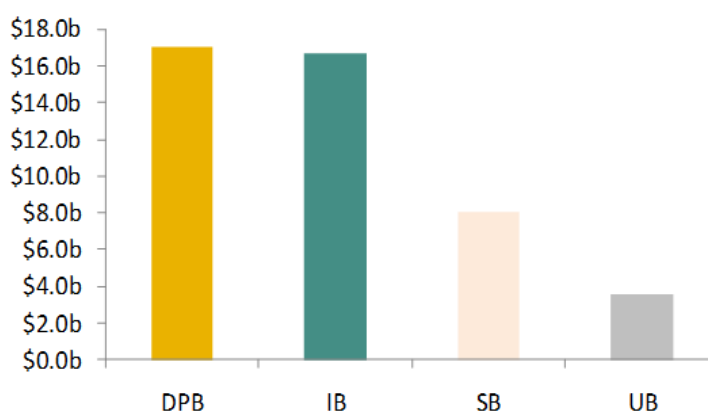
Table 1 – annual cost of each benefit type (09/10)

Benefit type	2009/10 (est. actual* \$000s gross)
Domestic Purposes Benefit	1,694,360
Invalids Benefit	1,302,459
Accommodation Support	1,157,683
Unemployment Benefit	938,662
Sickness Benefit	713,516
Income Related Rents	527,851
Disability Allowance	411,711
Hardship Assistance (Special Benefit, TAS and SNG)	272,963

Source: 2010 BEFU. *2009/10 actuals will be available at 2010 HYEPU

The long-term liability associated with these ‘non-work focused’ benefits is also higher, reflecting both the higher payment they receive but, more importantly, the longer duration of recipients on these benefits. For example, DPB recipients make up 30 percent of beneficiaries who spent 5 years or more out of the last 10 on a benefit.²¹ Figure 2 illustrates that the **total future fiscal liability of the current UB population is less than 10% of the cost of the current DPB, SB and IB population - \$3.2b compared to \$41.9b.**²²

Figure 2 - Future long-term liability of current benefit stock



While these figures provide a useful indication of the fiscal liability of the *current* benefit population (and where effort should be focused to reduce this), the ongoing costs of the system are driven by both the current stock and future inflows into the system. Focusing on those benefits with high future liabilities is important, but needs to be balanced with recognition that the current ‘short stay’ beneficiaries may end up becoming a long-term liability if successful interventions are removed. Notwithstanding this, it is necessary to recognise that the ‘non-work focused’ benefit payments comprise a large proportion of the cost of the system, but **administration expenditure is primarily focused on Unemployment Beneficiaries.** For example, the Ministry of Social Development’s output performance measures and standards for helping people into work are focused on UB and work ready DPB and SB.²³ A minority of DPB and SB clients fall into this category, as evidenced by the small numbers of beneficiaries participating in Work and Income interventions.²⁴

Improved labour force participation

Overall, the benefit system reduces the incentives on beneficiaries to participate in the labour market. As noted above, most beneficiaries are on 'non-work focused' benefits, which, compared to the Unemployment Benefit, provide few incentives and little support to engage in paid work. As the WWG Issues Paper notes, **as a person moves from UB to SB or IB [and DPB] the work obligations get weaker and case management gets more passive.**²⁵

The greater numbers of people on SB, IB and DPB suggest that potential to increase labour force participation could be larger for these groups than for UB. However, for SB/IB the potential participation may be affected by differences in productivity for people with disabilities,²⁶ and for DPB the participation may be contingent on provision of broader support policies (e.g. childcare) and may not be appropriate for those caring for particularly young or disabled children.

The second and third-tier benefits also create perverse incentives to participate in employment (poor incentives in SB are discussed in the next section of the report). As highlighted below, the **effective marginal tax rate** that a DPB recipient would face in the first nine hours of work they participate in **is 100%**. This high rate is due to Temporary Additional Support (TAS) – as Figure 3b illustrates – which is paid to beneficiaries who have an income shortfall due to housing costs or disability support.

Figure 3a: Weekly earnings on DPB – with 2nd/3rd tier²⁷

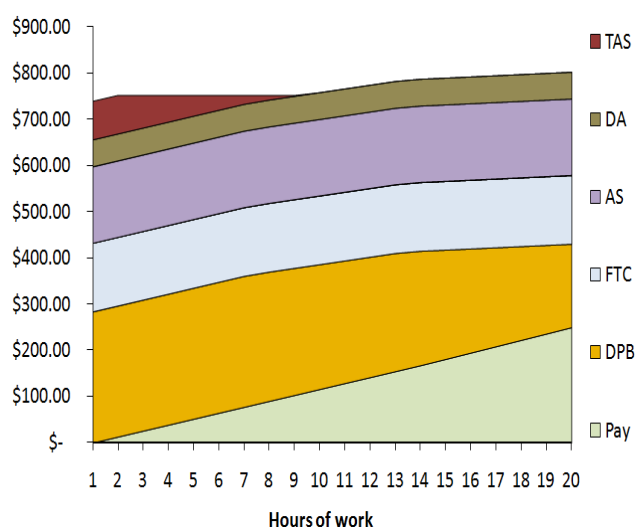
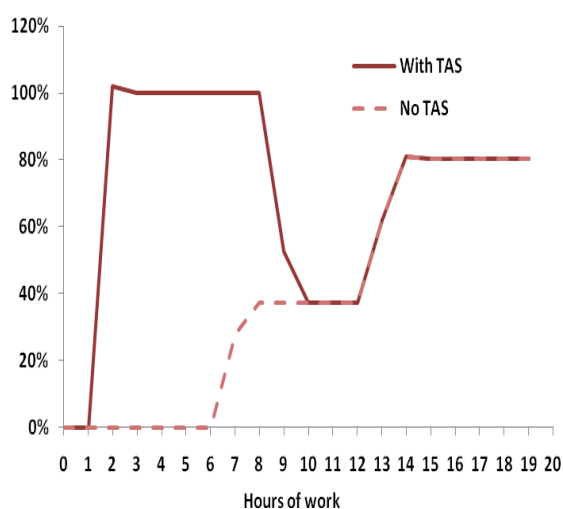


Figure 3b: EMTR on DPB - with/without TAS



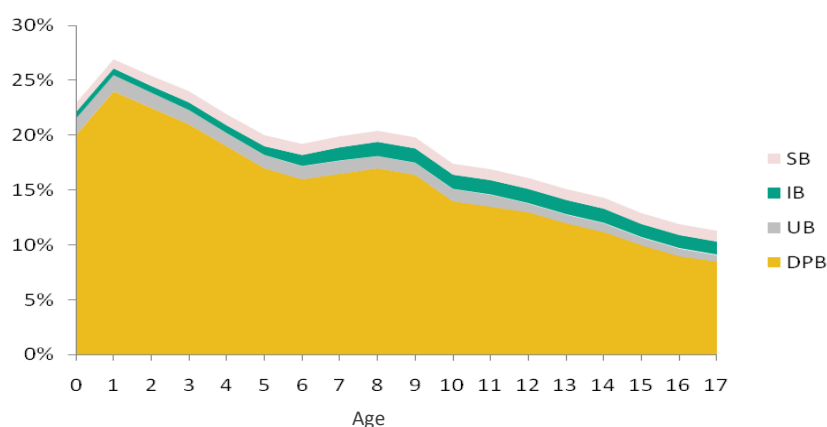
Reduced poverty risk

Being out of paid work is associated with an increased risk of poverty.²⁸ Analysis of the Families and Children's study in the United Kingdom showed that a year after moving into work, 70 percent of families had moved out of income poverty.²⁹ While moving into work is important, other UK studies emphasise the importance of long-term work with progression to guard against the risk of re-entering poverty while in work or through work exit.³⁰

Children are particularly at risk of poverty. At the end of 2009 around one in five New Zealand children were living in benefit dependent families.³¹ For these children, the rates of poverty are significantly higher – with a recent MSD report on hardship finding that **child poverty rates are almost 75 percent for 'work-less households' compared to 11 percent where at least one adult is working-full time.**³² Poverty rates are also much higher among Māori and Pacifica children.³³ Given

the overwhelming proportion of children in DPB homes relative to the other main benefit categories (illustrated by Figure 4), reducing child poverty will require particular targeting this benefit group.

Figure 4 – Proportion of children (0-17 years) reliant on a benefit recipient (2009)³⁴



Poverty risk is also associated with sickness and disability. A child growing up in poverty is three times more likely to be sick than a child growing up in a higher-income household and Māori and Pacifica children are most at risk.³⁵ OECD data for Australia also suggests that people with disability have incomes more than one-third lower than for those without disability.³⁶

Improved intergenerational outcomes

As noted above, and by the Children’s Commissioner at the WWG Forum, living in a benefit dependent home has serious impacts on child wellbeing.³⁷ While there is the immediate impact of poverty, there is also the risk of future benefit dependency for the children. **Long-term benefit receipt, in particular, is associated with inter-generational welfare dependency.**³⁸ MSD data has shown that key risk factors that increase benefit duration *for children* are: having contact with the benefit system at birth; living with a primary beneficiary who is female; Māori; aged under 20; or in receipt of the DPB or IB.³⁹

Greater individual and social well-being

Long-term benefit receipt is correlated with poor social outcomes including low educational attainment and occupational status, poorer mental health, and higher rates of substance abuse and smoking.⁴⁰ As noted in the previous section, longer benefit receipt is largely associated with benefit type, with receipt being longest for those on the IB and DPB. It is also associated with a number of personal characteristics including being female, becoming dependent on a benefit at a young age, or older age and having young children.⁴¹ Young people in particular have greater adverse effects of being on benefits because of their greater loss in lifetime income.⁴² And broader notions of wellbeing, such as reported happiness, are also closely correlated to being in paid employment.⁴³

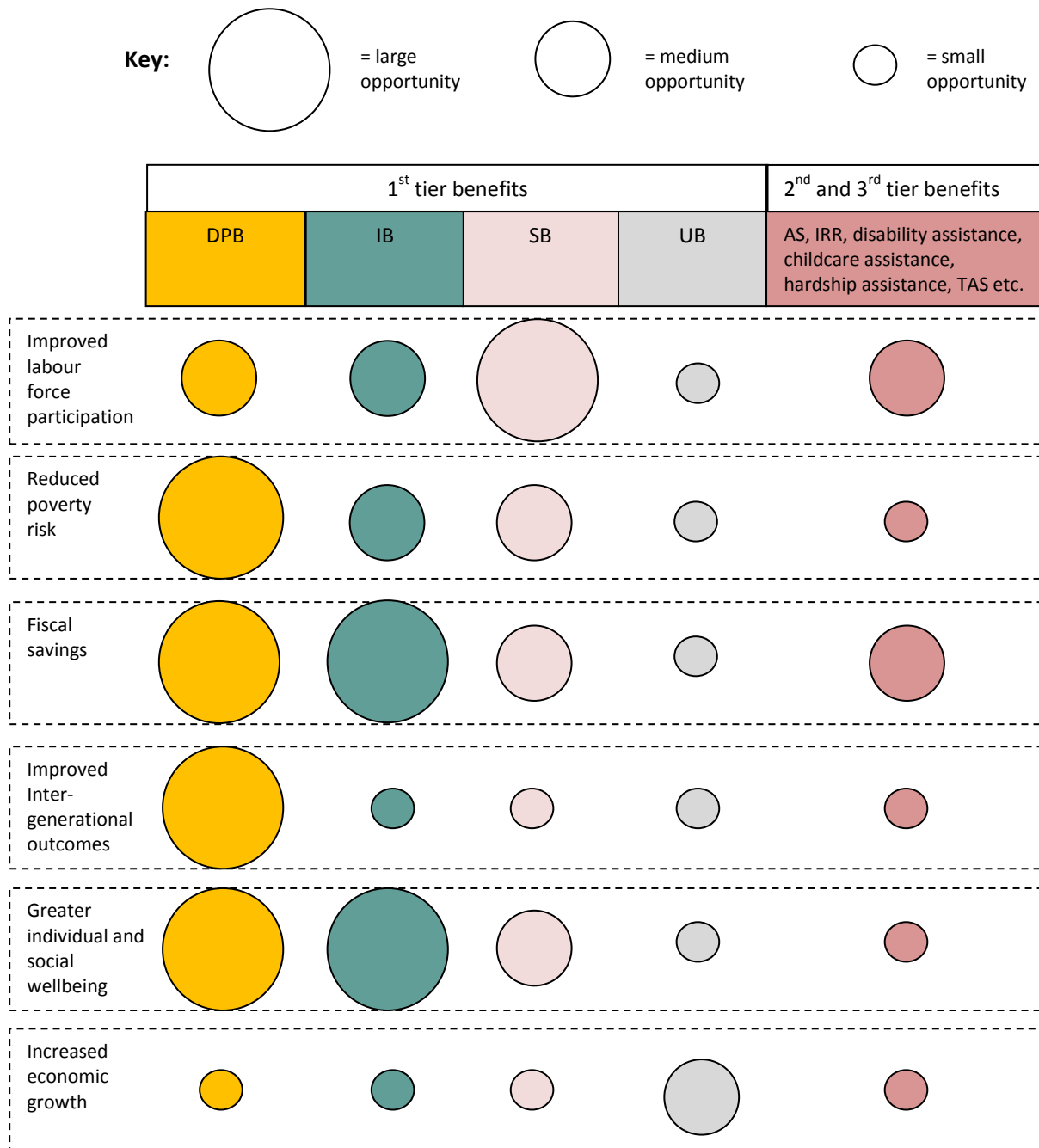
Increased economic growth

Evidence from OECD countries has found **mixed effects of social welfare spending on economic growth** and there is no evidence on how particular benefits affect economic growth.⁴⁴ Work by the OECD does, however, suggest that unemployment assistance reduces underemployment and advances labour market efficiency by enabling workers to find a job that makes best use of their capabilities.⁴⁵ Treasury work on the relative impact of tax and spending policies suggests that overall social welfare has a small negative impact on economic growth.⁴⁶

Overall potential to improve outcomes

Taking into account all these factors, Figure 5 illustrates an assessment of the level of opportunities that exists within each benefit type for improving outcomes. Further discussion on the rationale behind the selection of each circle size is provided in Annex 1.

Figure 5 – potential opportunities that exist to improve outcomes for all New Zealanders



GENERAL AREAS WHERE EFFORT SHOULD BE FOCUSED

The WWG has identified a number of issues that are out-of-scope for their work, including Working for Families and the adequacy of each benefit payment. Given these constraints, and using the analytical framework presented in the previous section, three main areas of focus for reforms have been identified. These are introduced briefly, and then discussed in more detail in the next section.

A: Focus efforts on moving beneficiaries off ‘non-work focused’ benefits

Given the relatively large opportunities that exist to improve outcomes for ‘non-work focused’ benefits compared to the UB, attention on reducing the numbers on these benefits is sensible. Notwithstanding this rationale, as noted in the previous section any shift in focus needs to be balanced against a continued effort to avoid short-term UBs becoming long-term recipients.

The relative focus on each benefit types does, however, appear to have been out of balance over the last 30 years, as illustrated in Figure 6a, with a growing number of beneficiaries on ‘non-work focused’ benefits, while the UB has fluctuated with economic cycles and major policy reforms (note that the Widows Benefit (WB) has gradually reduced in numbers). These trends have resulted in a current benefit population with **nearly 80 percent of main beneficiaries on ‘non-work focused’ benefits** (see Figure 6b). The growing trend of ‘non-work focused’ benefits is similar to most developed countries. However, increases in IB and SB in New Zealand over the last few decades are among the fastest in the OECD.⁴⁷

Figure 6a: growth of % WAP on all main benefits

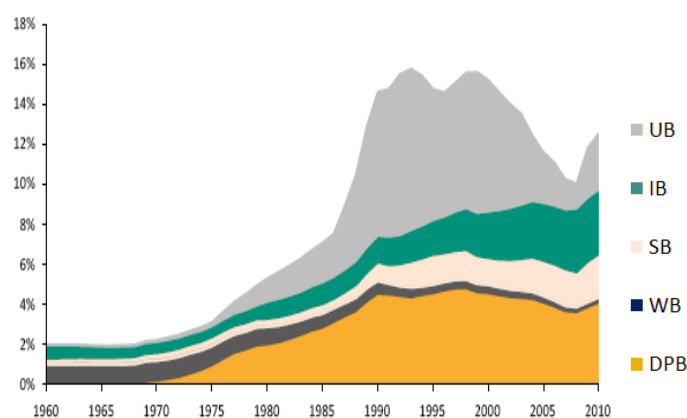
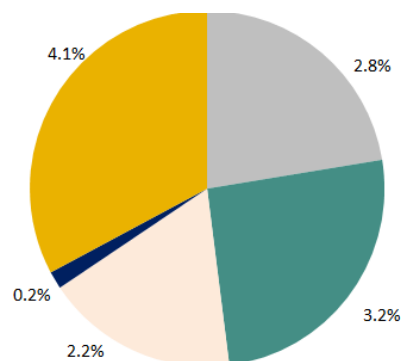


Figure 6b: current % of WAP on all main benefits



B: Focus on beneficiaries who have a long duration in the system and/or have children

While reducing the numbers of ‘non-work focused’ beneficiaries will *in general* help to realise many of the opportunities identified in the analytical framework, it is important to recognise that there will be greater opportunities to improve outcomes for specific groups within each benefit type. Those with expected long-term benefit duration and those with children in the household were identified in the previous section as having particularly bad outcomes – such as poor health, high poverty rates, and large fiscal cost.

Long-term benefit receipt is far more common amongst DPB and IB. However, a small number of UB recipients stay on the benefit system for more than 5 years, and should also be targeted.⁴⁸ Teenagers and older people are particularly at risk of long durations (see Figure 7a).

As Figure 7b illustrates, given the large proportion of beneficiaries that spend more than 5 years on benefit, there are substantial opportunities in targeting this group. Moreover, it probably understates the number of long-term beneficiaries as a high proportion of teenagers stay long periods on benefit (as shown in Figure 6a), but the 2009 cohort that was used to generate this graph only included 28-64 year-olds. Despite this limitation, and assuming the cohorts of the preceding 10 years were of similar size and had a similar duration, **beneficiaries that have 5+ years duration accounted for nearly 70 percent of the fiscal cost of the benefit system over the last 10 years.**⁴⁹

Figure 7a: % likely to be on benefit for 5 of next 10 years⁵⁰

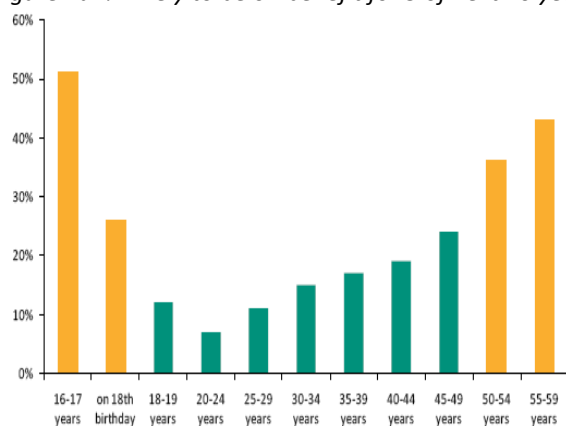
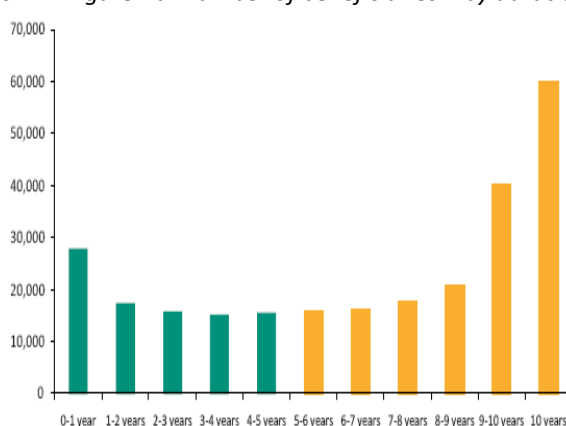


Figure 7b: Number of beneficiaries – by duration⁵¹



In addition to focusing on long-term benefit receipt, the opportunities that exist for **reducing child poverty and improving social mobility within particular benefits should be a key focus of reforms.** As noted in the previous section, child poverty is of particular concern in New Zealand - with relatively high levels compared to many OECD countries.⁵² While more than 75 percent of these children in poverty come from ‘workless households’, given the child-focused nature of the DPB (see Figure 4) the benefit type requires specific targeting. Māori and Pacific Islanders, in particular, are over-represented in this group (41 and 17 percent respectively), with Māori making up more than half of a group that are identified by MSD as being most at risk of long-term DPB dependency.⁵³

C: Focus on supplementary benefits – in particular the high EMTRs and a lack of targeting

A focus on the main benefit types is justified, given the large opportunities that exist to improve outcomes for recipients. Further, reducing numbers on main benefits will result in fewer numbers on supplementary support. Notwithstanding this potential, specific improvements can be made. As illustrated in Figure 3a and b, supplementary benefits can have particularly bad incentive effects. In the case of TAS, the number of beneficiaries receiving this form of assistance has increased from around 15,000 in 2007 to more than 60,000 in 2010. Part of the reason for this increase has been the cessation of Special Benefits. However, recent reports also point to the growing number of beneficiaries that are using TAS because their accommodation support is inadequate.⁵⁴

Financial support to meet housing costs make up a large proportion of the costs of second tier benefits. While most of these recipients are on a main benefit, there have been a growing number of non-beneficiaries receiving support – for example, 21,878 received AS in June 2003, compared with 58,073 in June 2010.⁵⁵ With respect to Income Related Rents, around 12,000 state house tenants are not on working age benefits or NZS with a further 8,000 whose status is unknown, many of these tenants will still be receiving some assistance through IRRS as only around 5,000 state house tenants pay market rent with no IRR. Given the adequacy issues referred to above, **better targeting of housing support** may improve outcomes, although the risk of higher EMTRs need to be addressed.

SPECIFIC PROBLEMS WITH THE CURRENT POLICY AND INSTITUTIONAL SETTINGS

The two previous sections of this report have outlined where the opportunities for reform are greatest and based on this presented three general areas where effort should be focused. The following section draws on problems with the current policy and institutional settings to highlight where improvements could be made in these areas to realise the opportunities that exist.

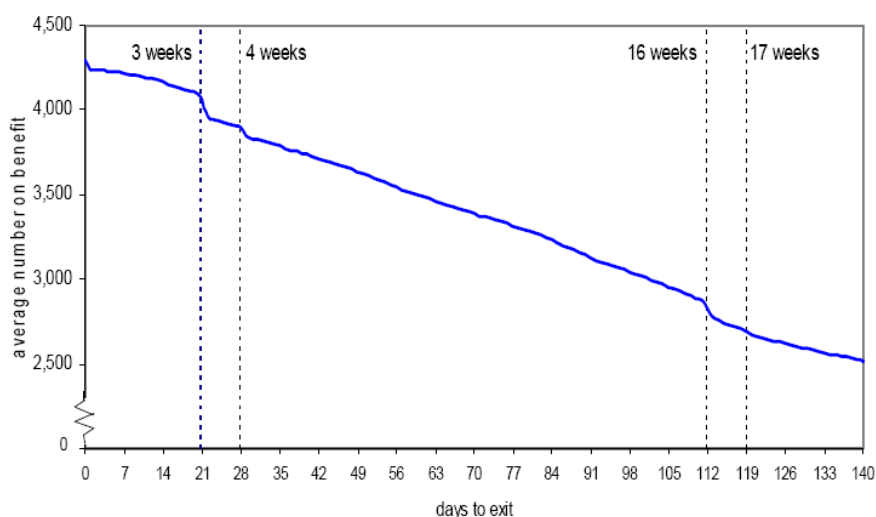
Gateways

Evidence of the low priority that the benefit system places on ‘non-work focused’ benefits, is the lack of a comprehensive work-capacity assessment – common in many OECD countries – which can be used to move people into more ‘work-focused’ benefits. A concern raised in a recent OECD report on the effectiveness of incapacity benefit policy was that **‘countries [such as NZ] use medically-driven models to determine disability benefit entitlement that are clearly unreliable** - the result is that significant numbers of people with partial work capacity are being deemed unable to work’.⁵⁶ Reasons for this unreliability include a lack of capability or incentives on behalf of doctors to understand and identify work capacity⁵⁷ (see incentives section for more discussion).

Many OECD countries have undertaken radical reforms of the incapacity components of their benefit systems over the last 10-15 years. Some of the most effective changes that have been made include the development of mandatory work capacity assessments - often contracted out to third parties. In the case of Australia, these assessments often ask specific questions on what types of assistance were needed to re-enter employment.⁵⁸ For the UK, these assessments were coupled with a re-classification of the disability benefit population, to try and better target the assessments to those who are able to work. The result was that 69 percent of previous disability beneficiaries were classified as ‘fit for work’, and moved onto the unemployment benefit.⁵⁹

The potential for moving some SBs into work is highlighted by the fact that in the currently limited ‘medical’ assessment of work capacity, **over 9,000 people on SB have been identified as being able to do some part-time work or light duties now**.⁶⁰ Further evidence of the work capacity that exists in the current SB population is provided by the following graph. It illustrates the tendency for some SBs to move off the benefit shortly before they face a medical reassessment⁶¹ (and have therefore remained on the benefit for an unknown period of time with some capacity to work).

Figure 8: drop-off of numbers of SBs shortly before medical reassessment



DPB recipients are classified into three broad groups, the vast majority of whom fall into the DPB – Sole Parent category. In preparing to implement the part-time work test, Work and Income are applying a likelihood of long-term benefit receipt assessment⁶² to the 43,000 DPB recipients whose youngest child is over 6, but other than this there will be no further classification that recognises a sole parent's individual situation and what work expectations are reasonable for them.

The recent changes to the UK system show an example of how sole parent work expectations can be recognised in gateway benefit classifications. From October 2010, sole parents with children aged 7 or older will no longer be entitled to Income Support (the equivalent of the DPB) on the basis of sole parenthood alone.⁶³ Most of these sole parents will be entitled to the Jobseeker allowance instead (the equivalent of the UB). Sole parents with health issues preventing them from work will be expected to apply for incapacity benefits. Exemptions will allow some sole parents with children over 7 to remain on Income Support, for example where their dependent child has complex needs and requires full time care.⁶⁴

Obligations and sanctions

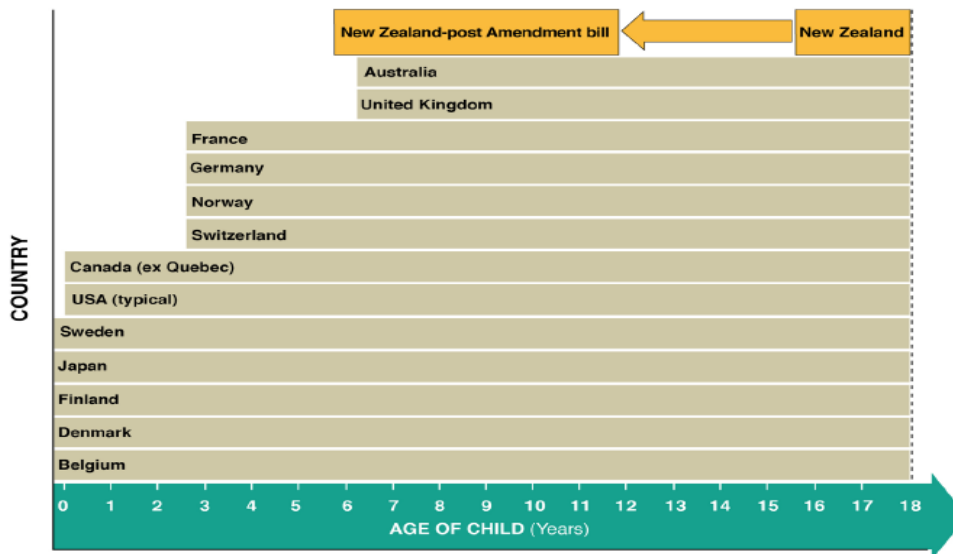
Currently, DPB beneficiaries are encouraged (and may be required) to develop Personal Development and Employment Plans with their case manager. The plans 'must be acceptable' to the beneficiary, and reflect their goals and personal situation. The guidance for case managers emphasises that DPB clients '**cannot be pressured into taking up or accepting employment**'.⁶⁵

This form of engagement is comparable to the voluntary engagement system New Deal for Lone Parents (NDLP), used in the UK. The NDLP works for those sole parents motivated to participate, with participants having a 20 to 25 percent higher rate of benefit exit than non-participants.⁶⁶ Take-up of the NDLP is low, however, with two thirds of eligible sole parent beneficiaries not having participated. In New Zealand, the low number of employment interventions delivered by Work and Income to DPB recipients suggests that a **low take-up of voluntary engagement** is observable here as well. A 2008 Ministry of Social Development study of employment interventions shows that in 2007 only, 17,124 DPB recipients engaged in employment interventions compared to 93,052 UBs.⁶⁷

The UK has recently moved from engaging with lone parent beneficiaries primarily through voluntary programmes such as the NDLP to an obligations-based system (referred to as Lone Parent Obligations, or LPO). These obligations include enhanced work-testing for DPBs, and are expected to reduce lone parent unemployment by nearly 30%.⁶⁸ In the US, reforms during the early 2000s that focused on sole parents reduced this benefit population by nearly 50%⁶⁹ – although evaluations have found that many of the jobs were low wage and poverty rates remained high.⁷⁰

In New Zealand, the Social Assistance (New Work Tests, Incentives and Obligations) Amendment Act introduced a part-time work test for sole parents whose youngest child is over 6, but prior to this DPB recipients have not had any official work obligations or expectations applied since 2003.⁷¹ While these obligations go some way to enhancing the expectations on DPBs, as illustrated in Figure 9, **relative to other OECD countries the work obligations on sole parents in New Zealand remains limited.**

Figure 9: Work expectations for sole parents (by age of youngest child)



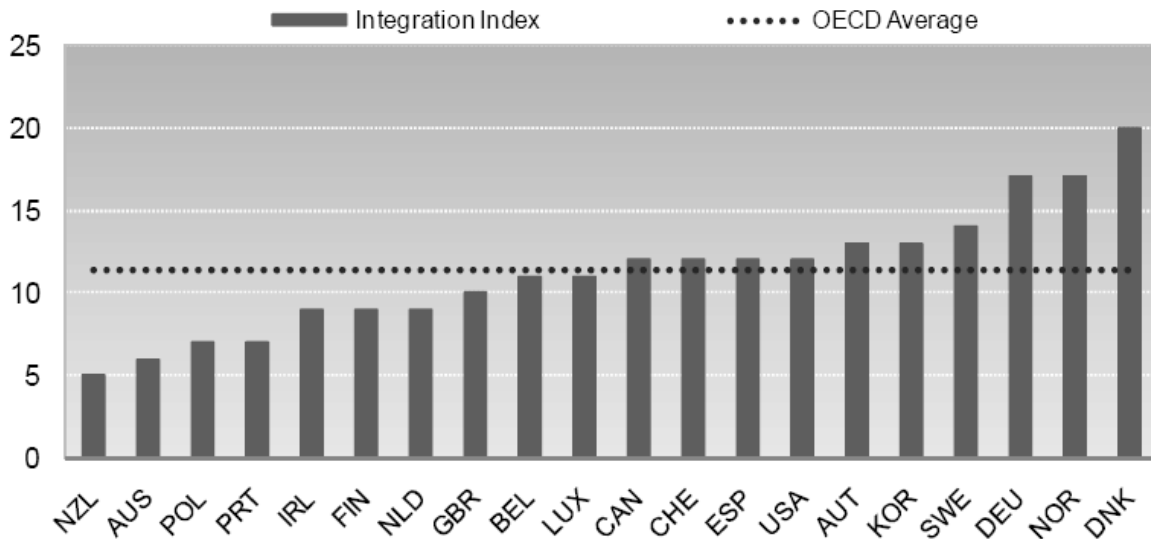
While obligations provide a useful incentive for beneficiaries to participate in employment initiatives, sanctions can also be used to enforce non-compliance and improve participation. As part of *Future Focus* graduated sanctions for beneficiaries with work obligations were introduced.⁷² For example, the first failure of an obligation will result in a 50 percent reduction in benefit until the person re-complies. The effectiveness of sanctions has been highlighted in a recent Dutch study, which found that ***‘the stick of benefit sanctions is much more effective than the carrot of reemployment bonuses’***.⁷³ Notwithstanding this finding, it is likely that the effectiveness of particular interventions will be determined by each beneficiary’s individual circumstances – with some responding better to targeted training obligations and others to harsher sanctions.

Case management and Services

With respect to SB and IB clients, while some changes were made in 2007 to provide better services, as part of *Working New Zealand*, an independent review carried out in 2009 by the Office of the Auditor General (OAG) found that the Ministry of Social Development had not effectively implemented a number of the proposed changes⁷⁴ – consistent with what the OECD describe as a troubling trend in countries for ‘poorly administered’ employment supports for people with health problems’.⁷⁵ The lack of priority given to ‘non-work focused’ benefits was also referred to in the WWG Issues paper, and can be reflected in part by the relative numbers of each benefit type that the case-workers are required to manage.⁷⁶

One particular area where improvements could be made is in terms of the support for ‘non-work focused’ receive for vocational rehabilitation and training. The OECD has identified that ***vocational rehabilitation as having a substantial influence in decreasing the number of disability beneficiaries***.⁷⁷ While the PATHS initiative, and the engagement of Workbridge, is focused on these sorts of rehabilitating beneficiaries, New Zealand ranks most poorly of all OECD countries on an index that includes these types of interventions (note that employment programmes and work incentives also factor – discussed in next section).

Figure 10: Level of policy integration in incapacity benefits⁷⁸



For DPB clients, most **Work and Income interventions used appear to have little effect; training interventions are a particular weakness.**⁷⁹ Fifty-one percent of DPB recipients participating in an intervention took the Training Incentive Allowance, which MSD found to have no effect on the time a beneficiary was likely to spend off benefit – in fact the study found there was a chance TIA slightly increased the average time spent on benefit. MSD did note there was a chance that TIA may have an unobserved long-term impact (after seven years) on time spent off benefit.⁸⁰ The next most used training intervention for DPB recipients was the Training Opportunities Programme, which was also likely to make no difference on participants’ time spent on benefit. This percentage (8 percent) was the same number for DPB recipients referred to any intervention that was likely to have helped them off DPB sooner than they would have otherwise.

Evaluation of the US and UK reforms point to the **importance of targeting training interventions.** In the case of the US, studies have found that programs that require individuals to participate initially either in an education or training activity or in a job search activity can meet the balanced goals of reducing welfare expenditures while increasing participants’ income, but need to target participants well.⁸¹ However, the studies found that **programmes that involve mandatory general educational prior to job search do not appear to increase participants’ income or reduce government expenditure.** A comparison of six US programmes that emphasised mandatory general education as an initial response to unemployment showed mostly negative financial results for both government and participants. In contrast, programmes that involved job-search activities first, combined with short-term, relevant education tended to result in both increased income for participants and reduced expenditure for government.⁸² A “life cycle” approach from human development literature identifies similar issues. James Heckman, along with other authors, suggests that while it is productive to invest in developing the cognitive skills of disadvantaged younger children, the benefits of general training programmes for disadvantaged adults are doubtful, while the costs are high.⁸³ Heckman goes as far as to say “for severely disadvantaged adults with low levels of capabilities, subsidizing work and welfare may be a better response for alleviating poverty than investment in their skills.”⁸⁴

The cost of these interventions are also important to consider – as noted for the UK, where ‘the potential savings of reform to sole parent benefits do not appear to take into account the potential

cost of additional training or services sole parents might need to become employable’ –and they ‘caution that such services could be expensive, and the need for them could be high’.⁸⁵

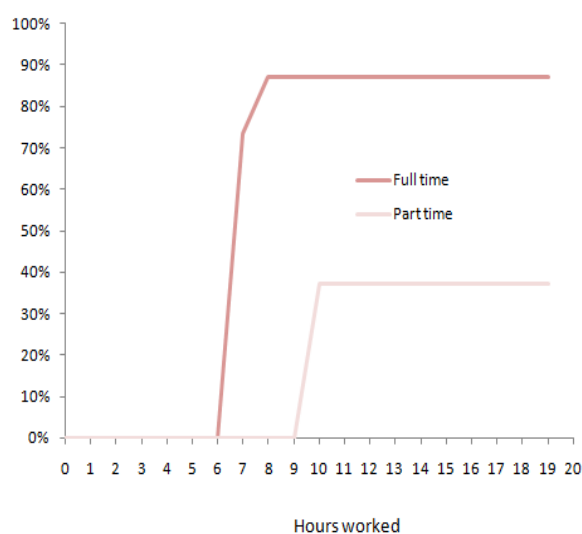
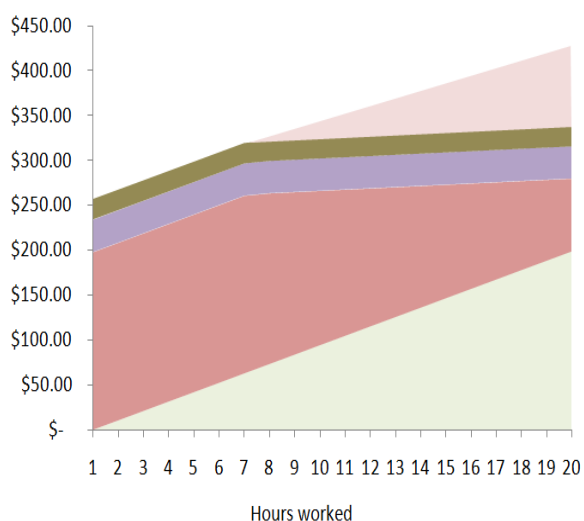
Incentives

One of the main financial incentives that beneficiaries are provided with to engage in employment is the abatement rate they experience when they progressively earn more. The problem of high marginal tax rates resulting from the choice of abatement rate for some benefits types have been highlighted by a number of commentators, including Susan St John and Christopher Prinz in the case of New Zealand,⁸⁶ and the OECD has drawn attention to a similar problem in Australia and the UK.⁸⁷

The abatement rate for each benefit type is different to signal the expectation that exists – for example on DPB there is an expectation that part-time work is an option for some recipients, and therefore a more generous abatement rate is applied compared to UB, where full time work is expected. For current SBs, a full-time abatement rate applies which results in EMTRs close to 90% for beneficiaries who chose to increase work from 10 to 20 hours per week. Using the same part-time work test that DPBs have would reduce these EMTRs (see Figure 11a and b). However it results in higher EMTRs beyond 20 hours, and may trap some SBs in part-time work when full-time work is possible. Notwithstanding this concern, there may be some SBs that have some limited, but permanent, incapacity to work around 20 hours – and would suit an ongoing part-time abatement.

Figure 11a: Weekly earnings on SB (Full/Part-time abatement)⁸⁸

Figure 11b: EMTR on SB (Full/Part-time)



Indirect incentives on beneficiaries are also important, for example the **availability and affordability of childcare is essential for moving sole parents off a benefit** and into work. While the affordability situation has been improved with Working for Families Childcare subsidies for approved childcare centres, Out of School Care and Recreation (OSCAR) subsidies available through Work and Income, and 20 free hours of Early Childhood Education, cost is still a barrier for many families.⁸⁹ Many families also prefer to use informal childcare arrangements (largely consisting of friends or family caring for children) – for which financial assistance is not available – as they are easier to arrange, more flexible and cheaper than formal care. The Childcare Taster Pilots in the UK learned similar lessons, finding that even generous subsidies did not make care affordable for every family, and provision outside normal workday hours (when shift work is most likely to be available) was limited or non-existent.⁹⁰

Employment programmes that provide wage subsidies have been found to improve the engagement of employers with the benefit system. Studies by Marc de Boer et al at MSD have found that these wage subsidies were particularly useful for reducing the numbers of long-term UB recipients.⁹¹ Evaluations of the US reforms have also found these types of programmes can reduce long-term benefit dependency.⁹² Finally, the OECD point to the **importance of employment programmes being accessible to all benefit groupings** – as there tends to be a predominant focus on new or soon-to-be benefit recipients.⁹³

In addition to direct financial incentives for employers, a common theme from the literature is that **employers need to be more actively engaged in monitoring workers, and incentivised to better manage sickness.**⁹⁴ Many European countries require employers to monitor workers sick leave and provide a larger amount of leave. Evidence from the OECD has found extending this wage-payment period has proven quite effective in a number of countries.⁹⁵ Further, in many cases employers contribute to the benefit payment that employees receive, via a Social Insurance scheme (see Annex 2 for further discussion on these schemes).

Institutional settings

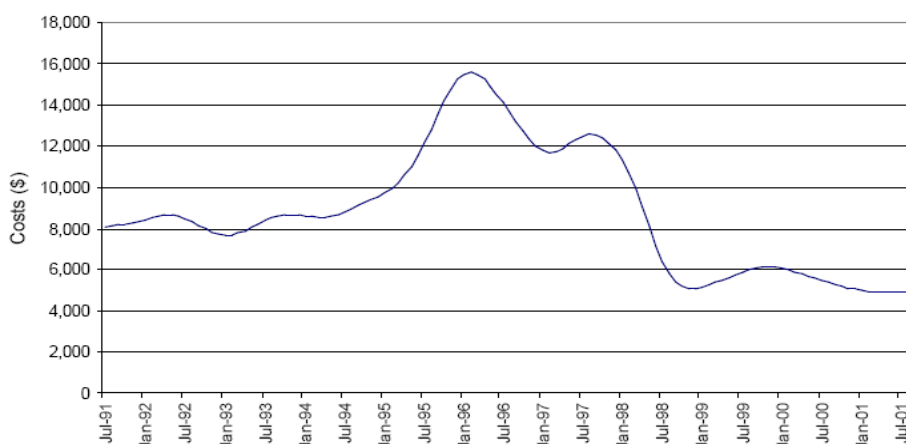
A number of specific policy design problems have been identified with the current system. While it will be important that any reform options address these problems, it is also essential that the incentives faced by the institutions that operate these levers are considered. Having the policy and institutional settings not aligned will undermine any potential improvements that may be made to the system.

International experience points to the **importance of designing a benefit system with incentives on institutions to manage its social and financial performance.**⁹⁶ This includes the accountability for the long-term fiscal costs, but also the related impacts on individual and social well-being. In terms of the fiscal costs, in New Zealand the long-term liability associated with the system is not reported and no agency is held accountable. This can lead to a lack in focus on some of the drivers of this long-term liability, such as the ‘non-work focused’ benefits.

The focus that the current institutional setting places on UB numbers is highlighted by an MSD study, which found that clients with incapacities were perhaps being ‘promoted to test their eligibility for SB and IB’.⁹⁷ This is potentially due in part to a political focus on UB, but also possibly because as the OECD points out – the **‘granting of a disability benefit reduces the administrative burden for public servants, compared with an unemployment beneficiary’.**⁹⁸ While it will be important that greater attention is given to these ‘non-work focused’ benefits, a balance will be needed between addressing the stock of some of these long-term beneficiaries and continuing to reduce the short-term flow of UB beneficiaries into the system.

The choice of institutions will also affect the incentives that exist. For example, New Zealand has a limited amount of contracting with external parties for the delivery of some of its services, and in cases where contracting has been used, more evaluation of its effectiveness is necessary. **Many countries, such as Australia and the United Kingdom, have engaged with the private sector and NGOs to deliver some aspects of the system** – such as work capacity testing. In the case of the UK, 100 percent of these services are privately contracted.⁹⁹ Australia started contracting job brokering services started in 1998, with the Job Networks initiative. The 2002 evaluation of the initiative found ‘a substantial reduction in the cost of achieving an employment outcome following participation in labour market assistance’.¹⁰⁰ As Figure 12 illustrates, the cost per employment outcome reduced from \$12,000 to under \$6,000, a year after the introduction.

Figure 12: Costs per employment outcome of labour market assistance, 1991 to 2001



A similar focus on contracting has been part of the more recent reforms in Australia, with 80 percent of the Job Capacity Assessments being contracted to government agencies and the remaining 20 percent provided by a mix of private sector and not-for profit organisations, most of whom are also employment service providers. Less than one percent were carried out by registered medical practitioners.¹⁰¹

A key finding by a recent OECD work on effective interventions for incapacity beneficiaries was that **outcome-based funding has the potential for producing better results** than outdated output- or input-based block funding.¹⁰² Linking this form of funding with specific performance plans and accountability regimes may improve the focus of institutions in New Zealand. However, as noted in the OECD report, it will be important that moral hazard is avoided, when agencies select only those most likely to produce the outcomes that are being sought.

5. WHAT REFORM OPTIONS SHOULD BE CONSIDERED?

The previous section identified a number of specific problems with the current policy and institutional settings. As noted, these problems relate to three general areas where the analytical framework indicated reforms should be targeted:

- a) Focus efforts on moving beneficiaries off 'non-work focused' benefits;
- b) Focus on beneficiaries who have a long duration in the system and/or have children; and
- c) Focus on supplementary benefits – in particular the high EMTRs and a lack of targeting.

These areas were selected as they represent the greatest opportunity to realise improved outcomes for individuals and society. A comprehensive set of reforms are needed to address the problems identified in the previous section, and the options presented in this section focus on the first two areas identified above. While the incentive effects and targeting issues associated with some of the supplementary benefits are important to consider, an assessment of the problems with these policies requires a broader look at other related government policies – such as housing.¹⁰³ The impact that these wider policies have on the benefit system is, however, important to address – for example, the role of the education and health system in reducing benefit inflows, and the effect of labour market regulation, such as the minimum wage. Further analysis is required on what types of interventions in these sectors can be implemented to improve outcomes in the benefit system.

Notwithstanding the need for a broader look at government policy, the focus of this report is specific reforms to the main benefit policies and institutional settings. Before deciding on some possible improvements that could be made, it is useful to draw on the lessons from experience within the Social Insurance and accident compensation (ACC) settings, as the face many of the problems identified in the previous section of the report.

LESSONS FROM SOCIAL INSURANCE SCHEMES AND ACC

Social Insurance (SI) schemes are common place in many OECD countries. New Zealand and Australia are the only OECD countries that do not operate some form of SI model as part of their welfare system.¹⁰⁴ New Zealand's model of ACC is also a form of social insurance and is a useful working example of how SI can be applied to the New Zealand context.¹⁰⁵ This section outlines some of the lessons we can learn from the insurance industry and some examples of how our ACC scheme has improved outcomes in recent years. Annex 2 goes into more detail of what a New Zealand SI scheme might look like.

Through different funding mechanisms and changing the incentives of the parties involved, the insurance industry has been able to mitigate many of the problems and large costs associated with traditional benefit systems. Some lessons and specific examples of potential improvements include:

Enhance case management and services

SI schemes have developed efficient methods of case management and service delivery. Their aim has been to target those most at risk of becoming long-term claimants to control their costs and long-term liabilities. Some initiatives include:

- Introducing initial claims assessment of potential long-term impact. For example, ACC's new Service Delivery Model in 2008 introduced a triage process that identifies clients at risk of delayed recovery when they enter the system.
- Competition to scheme delivery or contracting services. ACC's Better@Work scheme is a recent example of where contracting service delivery to District Health Boards has been initially effective at shortening the return to work for many ACC claimants.¹⁰⁶
- Different funding arrangements for service providers. For example, outputs-based funding, where the service provider is paid on success in moving a recipient back into employment, could replace traditional funding methods.
- Lowering case loads for claims managers. For example, in ACC the average number of clients per case manager has fallen and is generally lower than their equivalents at Work and Income.

Enhance incentives for employers

Employers currently have no stake in New Zealand's benefit system. ACC's funding model means employers share the cost of injured employees so therefore face incentives to improve work place practices to prevent injury occurring. Incentives could also better involve employers in our benefit system. Financial or other incentives could encourage employers to:

- Create a better work environment and prevent employees becoming sickness or invalids beneficiaries.
- Give their employees greater flexibility with their return to work. For example, allow part time work or reduced responsibilities to facilitate return to work.
- Take on current beneficiaries. For example, subsidies to employers who take on beneficiaries.

Align employee incentives with policy objectives

Our current benefit system has no incentives for the unemployed to actively seek a return to paid work. Practices that the insurance industry uses to incentivise claimants include introducing caps, time limits, and stand down periods for new and existing beneficiaries.

Focus objectives on managing long-term liabilities

A change in focus to manage long-term liabilities will sharpen the incentives to target those most at risk of becoming long-term beneficiaries. For example, in 2009 ACC introduced the Recover Independence Service, which provides specialist support to those who have been receiving weekly compensation for 2.5 years or more. A similar service tailored to beneficiaries could support the work done by Work and Income's case managers. This could help to manage long-term claimants and hence better control the government's long-term fiscal liability.

GENERAL APPROACH FOR FUTURE BENEFIT REFORMS

This report has identified a number of specific problems with the current design of benefit policy and the institutional settings. An extensive reform strategy is required. Importantly, this strategy needs to involve changes to the policy and institutional settings, as well as adjustments in other related policies such as education, health and the labour market regulations. This overall package must consist of a set of mutually reinforcing reforms - with the most effective policy levers chosen, aligned with clear incentives and accountability on the institutions who implement them. Finally, the strategy needs to be flexible, in order to adapt to changing economic and social conditions, to ensure an appropriate balanced focus on the different benefit types.

The analytical approach taken in this paper has been to identify the specific areas of the benefit system where the opportunity to improve outcomes is greatest. The following options have been developed from this approach, and draw on New Zealand and international experience in terms of what has been effective. However, a detailed cost-benefit analysis of the various options has not been undertaken. When deciding on a future reform package, it will be essential to make sure that the relative cost-effectiveness of any proposed interventions are thoroughly assessed.

IMPROVEMENTS TO SICKNESS AND INVALIDS BENEFIT

As outlined in the previous section, there are a number of problems with way the current benefit system deals with SB/IBs. These include the use of a medically-driven model to determine disability benefit entitlement and little engagement with employers. The *Working New Zealand (2008)* and *Future Focus (2010)* reforms address some of the concerns associated with the inadequacy of work-capacity assessments, including making improvements to the medical certificate, introducing specialist advisors and a part-time work-test, and aiming to develop more individualised services to support IB/SBs into work. However, further reforms are needed.

Gateways

Using a ***comprehensive work-capacity assessment*** (possibly contracted out) ***reclassify all SBs and IBs*** to determine whether they have:

- a. *no capacity to work for long-term* – in this case they would remain on IB and have no work obligations – although voluntary type work could be promoted
- b. *some capacity but only limited for long-term* – in this case they would be on a new 'SB', with part-time work obligations and training/support
- c. *some capacity and should be in work in short-term* – in this case they would be transferred to UB jobseeker, and given a limited waiver for job seeker obligations

On the basis of the recent UK reforms, the reclassification of all SBs and IBs could result in more than 80,000 New Zealand beneficiaries moving to the Unemployment Benefit. This new classification would also make limits unnecessary (which NZ is unique in not having), as the new group of SBs have been identified as having long-term incapacity.

Obligations and Sanctions

Continue with the part-time work test for the new SB population – but as noted in the incentives section, this needs to be considered alongside a new part-time abatement regime.

Case management and services

Engage case managers to act as coordinators and facilitators for the treatment, rehabilitation and other interventions that will improve claimants' health and minimise their dependence on income support.

Better targeting of training services – building on the UK and US experience, look to specific 'on the job' training for SBs with long duration, and education training for those with previous qualifications and limited duration on benefit.

Improve the balance between the number of UBs vs 'non-work focused' beneficiaries that case managers are responsible for – and draw on the ACC findings with respect to the optimal numbers of beneficiaries that each case manager should have.

Incentives

Review the current employment programmes – drawing from experience from the reduction in long-term UB numbers in New Zealand, and evidence from the UK and US, look to develop a targeted set of wage subsidies for SBs.

Change the settings of the part time work test to only focus on the 'new' SBs – but look to **revise the current abatement regime to match the DPB part-time work test.**

Explore possible ways of **encouraging more employer participation**, drawing on experience from the ACC and Social Insurance models. For example, the possibility of increasing sick leave entitlements (with recognition of the flow-on impacts to the labour market and employers - including the risk of moral hazard).

IMPROVEMENTS TO DOMESTIC PURPOSES BENEFIT

The previous section identifies that sole parents on the DPB, especially those who enter the system at an early age, are among the most likely to remain on a benefit long-term. Sole parents portraying multiple risk factors are in need of multi-dimensional support, training and help into work, but are currently on a 'non-work focused' benefit. A minority portraying few of the long-term risk factors receive employment interventions, only 8 percent of which have been shown to reduce time spent on benefit.¹⁰⁷ As noted earlier, Work and Income does apply a likelihood of long-term benefit receipt score to some DPB recipients, identifying whether they are low, medium or high risk of remaining on benefit for two years, but even then, individual circumstances and reasons for seeking a benefit are not explicitly identified.

The classification and case management of DPB sole parents is beginning to change with the Social Assistance (New Work Tests, Incentives and Obligations) Amendment Act, but the system requires a more comprehensive reassessment of the policy settings (both internal and external) that will reduce the likelihood of long-term reliance on the DPB. We suggest the following options for reform should be explored further:

Gateways

The three broad ‘non-work focused’ categories of DPB that currently exist are not conducive to providing needs-specific support. Classifications that should be considered are:

- Sole parents who have skills and experience and only require Jobseeker-type employment services; (as with the UK - these should be moved to the UB)
- Sole parents with few risk factors, but specific circumstances (such as older women returning to the workforce, newly single solo parents with a long period of non-attachment);
- Sole parents with no work experience and multiple risk factors that require a tailored multi-disciplinary response (such as complementary training, mental health services and advice services);
- Sole parents and carers who are looking after young children with disabilities or other dependents and will not be available for employment services; and
- Sole parents and carers who are looking after very young children should not have work obligations (but once the children grow older these could be introduced, and therefore these parents should be kept in closer contact to the system than the previous group)

Obligations and Sanctions

Investigate possible enhancements to the sole parent obligations – including the lowering of the age that the youngest child needs to be before work-testing is required.

Drawing on experience from the Netherlands, ***further develop the graduated sanctions regime.***

Case management and services

Many sole parent beneficiaries will need services to support them into employment. Specifically, ***targeted education and skills training are important*** – drawing on experience from the UK and the US.

Improve the balance between the number of UBs vs. ‘non-work focused’ beneficiaries that case managers are responsible for – and draw on the ACC findings with respect to the optimal numbers of beneficiaries that each case manager should have.

DPB recipients also need to be connected to broader services where relevant, but which have a return to work as the ultimate aim where possible. Sole parents who have recently become single may need advice on how to adjust to their new circumstances. Women who have left an abusive relationship may need counselling. Sole parents with multiple risk factors and no or low skills are at high risk of having persistent mental health issues that could improve with treatment.

Incentives

Financial incentives are provided to DPB recipient to move into work, but could be made clearer and simpler to understand – in particular **reviewing the impact that supplementary benefits have on work incentives** would be beneficial.

Current funding for childcare is considerable, but there may be scope to better target this spending, with generous subsidies still going to employed middle class couples. Both New Zealand and international evidence shows low income parents can find even heavily subsidised childcare difficult to afford.¹⁰⁸ Evidence from the UK shows that, even when childcare is affordable, availability and flexibility can be key barriers for sole parent beneficiaries.¹⁰⁹ The evaluation of the British Childcare Taster Pilots observed that sole parents moving into work are likely to have casual employment arrangements (which are liable to change at short notice) or shift work, situations that formal childcare was often unable to accommodate. Such observations suggest that a flexible childcare system or funding arrangement that fits better around shift work or variable hours, or training or study schedules, will be much more responsive to DPB recipients' needs. School or centre-based childcare provision much beyond "standard" work hours may be an unlikely proposition, but there may be further scope to explore employer or home-based childcare arrangements,¹¹⁰ or to make formal childcare better available and affordable at short notice.

We could look to employer-based childcare arrangements to **facilitate increased employer involvement in the issues addressing sole parent benefit receipt**. We could also look to encourage employer involvement by increasing parental leave entitlement (noting the flow-on impacts to the labour market and employers).

IMPROVEMENTS TO THE INSTITUTIONAL SETTINGS

Changes to the institutional settings are as, if not more, important as any proposed changes to the policy levers. Without the incentives on institutions being aligned with the policy, there is a risk that any reforms are largely ineffectual. Further, given the potentially large shift in focus that is necessary, the type of incremental changes that have been made over the last decade to the system are not likely to result in the improved outcomes that are being sought. This has been highlighted by a thematic OECD review on the success factors associated with these reforms, which found that "countries willing to address, rather than shy away from, fundamental [institutional] reform enjoyed the greatest improvements".¹¹¹

Overall, the key change that is necessary to the institutional settings is **more accountability for the long-term 'costs' of the benefit system**. Drawing on lessons from recent changes made to ACC, and how some of the Social Insurance schemes work, many of the opportunities identified in this paper associated with benefit dependency can be realised.

Improved accountability can be achieved by a move to **more outcome-based funding** – as used in the ACC and recommended by the OECD. In this model, the expectations that government have on institutions can be made very clear – and performance targets can be developed that are linked directly to the desired outcomes. While the overarching outcome in many cases will be to move beneficiaries into work, the specific approaches will differ for each benefit type. For example, many short-term UBs simply require a job-brokering service, while longer-stay beneficiaries often need a number of targeted interventions such as training, work-place experience, and disability support.

Given these different needs, it may be beneficial to **contract a number of agencies to deliver the diverse range of services that are required**. This approach would be consistent with recent changes

to the UK and Australian benefit system, and build on experience from the ACC. It would also allow for a more flexible strategy to manage the balance between the different benefit types (for example, during periods of recessions more contracts would be provided to reducing UB numbers).

Finally, the ***evaluation of any reform options that are implemented is essential***. Institutions need to be encouraged to provide the necessary information and data analysis on the effectiveness of any changes, to help ensure future reforms are based on strong evidence on what interventions best work to improve the outcomes.

Annex 1: Potential opportunities to improve specific outcomes in each of the benefit types

Opportunity to improve outcomes	DPB	IB	SB	UB	AS, IRR, disability, childcare & hardship assistance
Improved labour force participation	Medium: Currently little incentive or support to engage in paid work. Participation in the case of DPBs with caring roles for very young and/or disabled children, should not be enforced. Actual gains could be smaller depending on other policy settings (e.g. childcare) .	Medium: Currently little incentive or support to engage in paid work. However, potential may be limited due differences in productivity between IBs and other beneficiaries.	Large: Currently little incentive or support to engage in paid work. Potential will be greater than IB because of differences in productivity, and given the 9,000 that have already identified some capacity, the potential could be large.	Small: Incentives and support to engage in work good compared to other main benefits.	Medium: Some quite large labour supply impact from high EMTRs.
Reduced poverty risk	Large: Recipients currently not incentivised or supported into paid work. Presence of children increases poverty risk.	Medium: Recipients currently not incentivised or supported into paid work. Less likely to have children than DPB recipients so poverty risk lower.	Medium: Recipients currently not incentivised or supported into paid work. Less likely to have children than DPB recipients so poverty risk lower. Poverty risk lower than IB because benefit durations is less.	Small: Benefit duration not usually long-term. This may be changing with the recession.	Small: Reflects that most of the poverty risk is driven by dependency on main benefits.
Fiscal savings	Large: Larger number of beneficiaries & longer duration than SB, UB. DPB sole parent rate also higher than IB, SB, UB.	Large: Larger number of beneficiaries & longer duration than SB, UB. Rate also higher than SB, UB.	Medium: Fewer beneficiaries and fewer long-term beneficiaries than DPB and IB.	Small: Fewer beneficiaries and shorter benefit durations than DPB, SB, IB.	Medium: Fiscal costs are high (close to \$2 billion), but reducing costs is likely to be linked to moving recipients off main benefits.
Improved intergenerational outcomes	Large: DPB clients are more likely to have children than other benefit recipients.	Small: Less likely to have children than DPB clients.	Small: Less likely to have children than DPB clients.	Small: Less likely to have children than DPB clients.	Small: Linked to moving people off main benefits.
Greater individual and social wellbeing	Large: Reflects long-term benefit receipt. Long-term receipt also correlated with characteristics of some DPB clients: being female, having young children, becoming dependent on a benefit at a young age.	Large: Reflects long-term benefit receipt.	Medium: Fewer long-term beneficiaries than DPB and IB.	Small: Fewer long-term beneficiaries than DPB, IB, SB.	Small: Could be some improvement to the extent assistance has an impact on benefit durations.
Increased economic growth	Small: Beneficiary numbers suggest that there could be some increase from improving recipients' productivity and work attachment, but evidence of impact on growth and effectiveness of training is lacking.	Small: Beneficiary numbers suggest that there could be some increase from improving recipients' productivity and work attachment, but evidence of impact on growth and effectiveness of training is lacking.	Small: Beneficiary numbers suggest that there could be some increase from improving recipients' productivity and work attachment, but evidence of impact on growth and effectiveness of training is lacking.	Medium: There could be some increase from improved job-matching, but evidence of impact on growth is lacking.	Small: There could be some increase from reducing distortions (e.g. housing and rental prices), but evidence of distortions and impact on growth is lacking.

Annex 2: How would a Social Insurance model work in the New Zealand context?

As mentioned earlier, Social Insurance (SI) models are common among many OECD countries. This section builds on the earlier section on lessons from SI schemes and ACC. It will outline some typical features of SI, the cost/benefits of introducing such a scheme, and some international evidence on where and how SI schemes are applied in practice.

Features of a Social Insurance Scheme

Social Insurance commonly refers to schemes established by statute that insure individuals against interruption of loss of earning power, and for certain special expenditures arising from marriage, birth, or death. The insured person usually receives a cash payment to replace a proportion of the income lost due to old age, or disability; sickness or maternity; work injury; unemployment; or through services, primarily hospitalisation, medical care, and rehabilitation.

Due to the scope of the Welfare Working Group, we will not be considering broader social insurance schemes that cover loss of income due to old age (pensions) and hospitalisation (health), but a system that insures an individual against loss of income due to unemployment, sickness, disability or maternity. Accident insurance in New Zealand, managed by ACC, already operates as a form of SI so is a useful example of how such a system could operate.

Some typical features of general SI schemes include:¹¹²

- **A “contract”** – between an insurer and another party to provide, in exchange for a set premium, agreed benefits to the insured, contingent on future events affecting the life or property of the insured. SI schemes would be regulated by the government, including market conduct regulation and prudential regulation.¹¹³
- **Funded** – from compulsory levies on current employees, employers and potentially direct funding from the taxpayer. Funding is usually on a fully funded basis, i.e. the premiums they charge need to be struck at levels sufficient to cover all of their future costs (or liabilities) that might result from exposure to insured events during the period of an insurance contract. In contrast, New Zealand’s current social welfare system is funded on a pay-as-you-go basis, i.e. funds are appropriated by parliament to pay the costs of the scheme in the current year.
- **Participation** – is generally compulsory much like ACC, but some countries do have voluntary systems. Services could either be provided by a state provider (e.g. the ACC) or opened up to competition among private providers.
- **Coverage** – varies from universal (current settings) to stricter controls on eligibility (likely under competition). Insurance schemes do not normally cover eventualities that could be construed as resulting from individual choice (moral hazard) or events related to systemic risk e.g. cyclical unemployment. ACC, for example, does not generally cover injuries attributable to self-harm and suicide. Therefore a SI scheme may need to be complementary to the existing welfare system.

Cost and Benefits of Social Insurance

While some of the following incentives can be simulated in benefit schemes, through administrative requirements, purchase arrangements, monitoring and evaluation, they are likely to be consistently stronger in insurance schemes. Some specific advantages of SI schemes include:

- **Risk sharing** – SI schemes transfer risk from the taxpayer to the shareholders of private insurance companies. This also reduces the risk that the current costs of the welfare system will burden future generations.
- **Greater transparency** – between those who fund the scheme (government/levy payer) and the scheme administrator. SI schemes place incentives on those who fund the scheme to hold its administrator to account for its performance. For example, ACC operates its accounts on a fully funded basis meaning ACC's performance receives considerable attention from employer and business groups and other premium payers. SI schemes also allow providers to set premiums that better reflect the risk of the insured, and hence, better control long-term liabilities.
- **Competition and contestability** – among insurers and specialist service providers gives consumers greater discretion over their insurance provider and focuses the performance of each provider on risk mitigation and getting claimants back into paid work through training or rehabilitation.¹¹⁴
- **Greater employer involvement** – as employers are partly funding the scheme, they face incentives to get employees back to work and put in place preventative measures.

However, costs/challenges also exist:

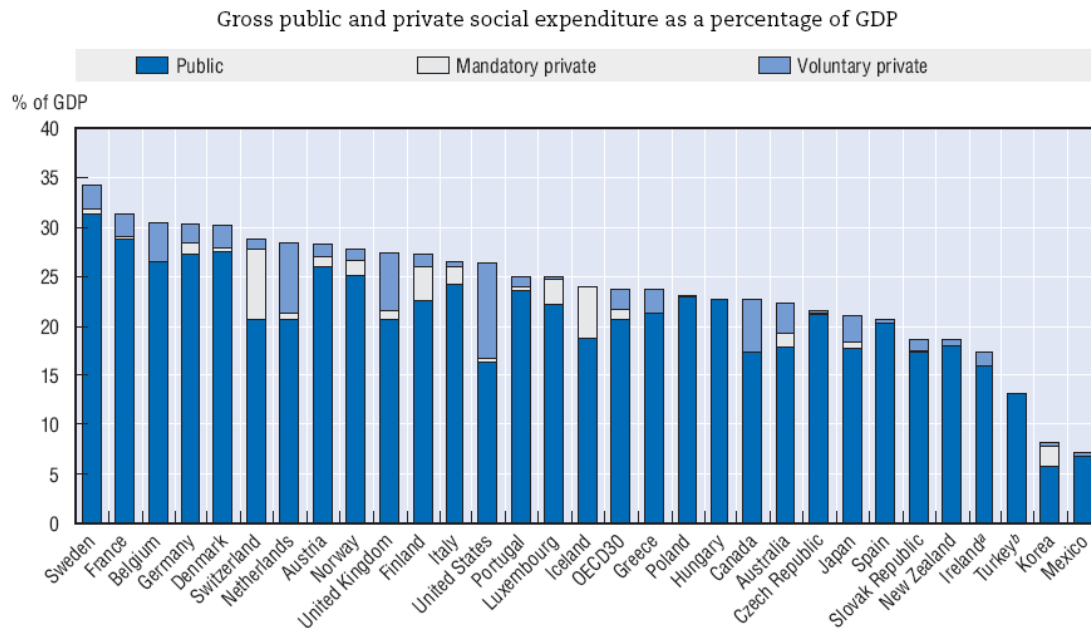
- **Uninsurable circumstances** – certain circumstances are unable to be insured for and would therefore create a significant 'non-earners' account in a SI scheme. Such circumstances include those beneficiaries who have not been part of the workforce (e.g. sole teenage mothers and permanently disabled teens who enter on their 18th birthday) or those who have not contributed long enough to be eligible for the schemes benefits
- **Moral hazard** – employees could face incentives contrary to policy objectives, e.g. they could hinder recovery from sickness to maintain entitlements or claim they are sick when they are quite capable of work.
- **Getting incentives right** – ensuring that there are sufficient incentives on those providing income and other support services, to do so in a way that is administratively efficient but also in a way that results in the right resources being allocated to the right things in order to reduce the overall costs of dependence (long tail liability).
- **Administrative/set up cost** – setting up a SI scheme could require significant initial investment.
- **Allocates resources efficiently** – would a SI scheme focus on those groups most in need of assistance?

International Evidence

Given that all OECD countries apart from Australia and New Zealand use some form of SI as part of their welfare system, there are numerous examples from which to draw from when discussing how a SI scheme might apply to New Zealand. They range from compulsory SI in Canada and the UK, to the government subsidised, privately provided SI schemes (Ghent system) of the Nordic countries (Sweden, Denmark and Finland). However, since the end of WWII, there has been a shift away from voluntary to compulsory provision of SI.

Spending on social protection (including health and pensions) also varies across OECD countries. On average, OECD countries' public spending on social protection represents about one quarter of GDP.¹¹⁵ They range from a low 17% of GDP in Ireland to a maximum 34% of GDP in Sweden in 2003 (see Figure 13 below). There is also significant cross-country differences in how spending on public social protection is funded. In the majority of countries, social contributions and other earmarked revenues are the main funding source, covering 60% of spending. By contrast, some countries, such as New Zealand and Australia, rely mainly on general taxation, i.e. non-earmarked government revenues.

Figure 13: Social expenditures in 2003



Note: Countries are ranked from left to right in descending share of total social expenditure as a percentage of GDP.

a) Data for voluntary private expenditure refer to 1999.

b) Data refer to 1999.

Source: OECD Social Expenditure database (SOCX).

There is however, convergence across countries in the share of social spending financed by social contributions and other earmarked revenues. On average, there has been a significant decrease in countries where such revenues have traditionally been the main source of funding, and some increase in other countries. This is highlighted by recent OECD evidence that states that social contributions should be used to fund schemes more closely related to labour market status (e.g. unemployment insurance).

Despite lacking any form of SI, New Zealand's replacement rates (38%) are actually slightly above the OECD average (28%) as illustrated in Table 2 below (although our rates are below average for year one).¹¹⁶ Also evident from the table is the common practice of tapering off benefit levels. Most countries appear to have time-limited benefits and some countries even have no form of assistance beyond year one.

Table 2: Generosity of Unemployment Benefits

Net replacement rates at different points during an unemployment spell, 2007^a
In percentage

	Year 1	Year 2	Year 3	Year 4	Year 5	Five-year average
Norway	72	72	72	72	72	72
Belgium	65	63	63	63	63	63
Austria	61	58	58	58	58	59
Denmark	68	68	68	68	9	56
Ireland	50	50	50	50	50	50
Portugal	79	79	56	24	3	48
Germany	64	48	42	36	36	45
France	67	64	31	31	31	45
Finland	60	58	33	33	33	43
Australia	42	42	42	42	42	42
Spain	69	65	25	25	13	39
New Zealand	38	38	38	38	38	38
Sweden	66	63	41	8	8	37
Iceland	57	54	54	8	8	36
United Kingdom	28	28	28	28	28	28
Netherlands	71	59	3	3	3	28
Switzerland	80	40	0	0	0	24
Luxembourg	87	8	8	8	8	24
Canada	52	14	14	14	14	22
Hungary	48	13	13	13	13	20
Poland	42	16	8	8	8	16
Czech Republic	33	11	11	11	11	15
Japan	45	3	3	3	3	11
Turkey	46	0	0	0	0	9
Slovak Republic	32	3	3	3	3	9
Greece	33	5	1	1	1	8
Italy	37	0	0	0	0	7
Korea	31	0	0	0	0	6
United States	28	0	0	0	0	6
Median	52	40	25	13	9	28

a) Countries are shown in descending order of the overall generosity measure (the five-year average). Calculations consider cash incomes (excluding, for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. To focus on the role of unemployment benefits, they assume that no social assistance or housing-related benefits are available as income top-ups for low-income families (covered in Figure 1.19 below). Any entitlements to severance payments are also not accounted for. Net replacement rates are evaluated for a prime-age worker (aged 40) with a “long” and uninterrupted employment record. They are averages over 12-months, four different stylised family types (single and one-earner couple, with and without children) and two earnings levels (67% and 100% of average full-time wages). Due to benefit ceilings, net replacement rates are lower for individuals with above-average earnings. See OECD (2007a) for full details.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

International Examples

Canada’s Employment Insurance (EI) scheme is possibly the best example of how a SI scheme might be applied to New Zealand. The EI scheme is a levy funded scheme that provides temporary financial assistance for unemployed Canadians. It has the following features:¹¹⁷

- Participation is compulsory if your employer is among the “insured employments”. The scheme primarily covers those that are temporarily unemployed but may also cover those who are sick, pregnant or caring for a newborn or adopted child, as well as those caring for the seriously ill.
- Canadian workers pay premiums of 1.73% of insured earnings per annum (up to a maximum of \$747.36) in return for benefits if they lose their jobs. Employers contribute 1.4 times the

value of employee premiums. Since 1990 there have not been any government contributions to the EI fund.

- To be eligible you need to have worked a minimum of 420 to 700 insurable hours, depending on where you live in Canada and the unemployment rate in your economic region. However, this can be as high as 910 hours. Time varies but is typically capped at 50 weeks.
- Benefit rate is 55% of average insurable weekly earnings. As of 1 January 2010, the maximum yearly insurable amount is \$43,200. This equates to \$457 per week (NZD - \$57,609 or \$609 per week). This income is taxable and lower income families receive higher benefits.

The EI scheme is complementary to Canada's other benefit schemes. For those not covered by EI, their system more closely resembles New Zealand's social welfare system.

Although there has been a large shift away from voluntary, government-subsidised SI schemes like those present in Sweden, Denmark and Finland, it is useful to describe how these systems work to show the full spectrum of SI schemes in use among OECD countries. The Ghent system is closely associated with trade unions, although formal membership of an unemployment fund has nothing to do with membership of a trade union. Using Denmark as an example, a typical Ghent system has the following features:¹¹⁸

- Membership is voluntary through an unemployment insurance fund. These funds are complementary to the existing benefit system.
- Funding is a combination of the state, employers and employees. Current state funding is 50-60% although membership fees have been increasing.
- To be eligible for benefits you need to have been a member for 12 months, employed full time for 52 weeks within the last 3 years, and be registered as a job seeker with the employment service.
- Maximum entitlement is 4 years at 90% of previous earnings. The scheme is capped at 89 Euros per day and 59 Euros for part time (2006). I.e. low income recipients get 90%, higher income earners get significantly less.
- There is competition among unemployment funds (inter-trade). This was a gradual shift as originally the funds were very segmented – trades having their own funds with no inter-trade membership. Union controlled funds are losing members to inter-trade funds.
- Significant contracting of services including to consultancy bureaus, temping agencies or unemployment funds with taking over the tasks carried out by the public authorities. The goal is to outsource services in order to establish competition and thus improve productivity.

It is no coincidence that those countries with the Ghent system also have high social expenditures as represented in Figure 13 above. Although employers and employees both contribute to the scheme the majority of the scheme is funded through the state out of general taxation. As many of the benefits of SI are through the way the funding mechanism alters the incentives, these benefits would not materialise under the Ghent system.

Conclusion

Social Insurance schemes certainly have some advantages over Social Assistance systems. Evidence shows that the ability to transfer risk to private insurance companies, create a transparent funding system involving employees and employers, and create a competitive environment where contestability and innovation among scheme and services providers, enhances outcomes. However, overseas evidence also suggests that SI schemes in many cases are fiscally expensive, poorly targeted, create additional problems such as moral hazard, and only provide narrow coverage requiring the existing system to remain in place.

While New Zealand is unusual among OECD countries, there does not appear to be a strong case for restructuring our benefit system to a SI-based model. Such a move would require significant investment that does not appear to be justified by the benefits. ACC is not only a good example of how SI might work in New Zealand, but a good example of how changes to their operations can improve outcomes for both claimants and stakeholders.

We believe that many of the same outcomes can be achieved through adjusting our existing system to focus the incentives in much the same way as private insurance providers – outlined above. There we outlined some intermediate steps such as introducing competition and contestability among service providers, increased employer involvement, and sharpening incentives to better manage long-term liabilities, which could enhance the outcomes of our current system. We would recommend exploring these alternatives before further investigating SI in any detail.

REFERENCES/NOTES

¹ Note that the problems and options identified within this report have been largely chosen to fit within the scope of the Welfare Working Group - <http://ips.ac.nz/WelfareWorkingGroup/Scope.html>, however, in some cases issues outside this scope have been identified as potential causes of some of the problems effecting the benefit system.

² Social Security Act 1964 – Section 1A – ‘Purpose’ (note this was inserted as part of 2007 amendments) <http://www.legislation.govt.nz/act/public/1964/0136/latest/DLM1001030.html>

³ Social Security Act 1964 – Section 1B – ‘Principles’ – quoting principles (a) and (b) – (2007 amendments) <http://www.legislation.govt.nz/act/public/1964/0136/latest/DLM1001031.html>

⁴ Ministry of Social Development, Description of Social Assistance Benefits in New Zealand, prepared for the Welfare Working Group, April 2010, p1.

⁵ Valins, Oliver (2009) A Framework for Understanding the Distribution of Government Assistance. Treasury Report.

⁶ Benefit numbers come from MSD data set.

⁷ Welfare Working Group Forum *Bob Gregory presentation* - noting importance of substitution effect

⁸ Fletcher (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt*: page 17.

⁹ Infometrics (2006) *Assessing the Effects of Welfare Benefit Interventions – an exploratory econometric analysis*.

¹⁰ MSD (2010) *Description of Social Assistance Benefits in New Zealand*: Prepared by the Ministry of Social Development for the Welfare Working Group, 28 June 2010, page 11.

¹¹ Welfare Working Group Forum – *presentations by Prinz and Knox*.

¹² Welfare Working Group Forum – *presentation by Adema*.

¹³ OECD (2009) *Sickness, Disability and Work*.

¹⁴ Welfare Working Group, *Issues paper*, and various.

¹⁵ Fletcher, Michael (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt*.

¹⁶ Welfare Working Group (2010) *Issues paper*.

¹⁷ Fletcher, Michael (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt*.

¹⁸ <http://ips.ac.nz/WelfareWorkingGroup/Scope.html>,

¹⁹ Note that *Future Focus* has introduced some enhanced work obligations on DPBs, and that some SBs to participate in work.

²⁰ Ministry of Social Development, BEFU 2010 benefit forecasts.

²¹ Welfare Working Group (2010) *Issues paper*.

²² Ibid.

²³ Ministry of Social Development's output performance measures and standards for helping people into work are focused on UB and work ready DPB and SB. The sustainable employment performance measures cited in the Estimates for 2010/11 for example, for the appropriation through which Work and Income funds are administered, only refer to "UB Jobseekers" and "Work-ready DPB and SB clients" (Social Development and Housing Sector, Information Supporting the Estimates of Appropriations for the year ending 30 June 2011). Assuming "work-ready" applies to those 12,500 DPB clients with recent work and training experience, and those 9,000 SB clients assessed as being capable of part-time work, (Numbers from Ministry of Social Development Future Focus fact sheets, <http://www.msd.govt.nz/about-msd-and-our-work/newsroom/factsheets/future-focus/index.html>) the reported performance measures apply to less than 90,000 of the 356,000 people on main benefits.

²⁴ For example in 2007 there were 93,052 UB clients in Work and Income interventions compared to 17,124 DPB clients, 5,958 SB clients, and 6,297 IB clients. Welfare Working Group, *Issues paper*, p28.

²⁵ Welfare Working Group, *Issues paper*, p23.

²⁶ Wills-Johnson, Nick (2005) *A cost benefit analysis of vocational rehabilitation services provided by CRS Australia*, Journal of Contemporary Issues in Business and Government.

²⁷ Adapted from example used in the Welfare Working Group *Issues paper* – in this case the Domestic Purposes Benefit living in Auckland with two children received the Family Tax Credit (FTC), Accommodation Support (AS) the Disability Allowance (DA) and Temporary Additional Support (TAS).

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- ²⁹ Barnes, M., Lyon. and Miller, J. (2008) 'Employment Transitions and the Changes in Economic Circumstances of Families with Children: Evidence from the Families and Children's Study', Department for Work and Pensions Research Report No. 506, UK.
- ³⁰ Browne J and Paull G (2010) 'Parent's work entry, progression and retention and child poverty', Department for Work and Pensions Research Report No. 626
<http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep626.pdf>
- ³¹ Welfare Working Group (2010) *Issues paper*, p14 members adjusted for household size.
- ³² Perry (2010) *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2009*.
- ³³ Refer Children's Commissioner website - Brief Statistics on Child Poverty in New Zealand
http://www.occ.org.nz/home/childpoverty/about_child_poverty
- ³⁴ Welfare Working Group Forum, *presentation by Dr John Agnus* (Children's Commissioner).
- ³⁵ Child Poverty Action Group (2008) 'Left Behind: How Social and Income Inequalities Damage New Zealand Children'. Edited by Susan St John and Donna Wynd.
- ³⁶ OECD (2007) *Sickness, Disability and Work: Breaking the Barriers*, Vol 2: Australia, Luxembourg, Spain and the United Kingdom – note: Income is measured as total income of all household members adjusted for household size.
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- ³⁸ Pacheco, G., & Maloney, T. (2003). 'Are the determinants of intergenerational welfare dependency gender-specific?' in *Australian Journal of Labour Economics*, 6(3), 371-382
- ³⁹ Ball, D., & Wilson, M. (2002). The prevalence and persistence of low income among New Zealand children: Indicative measures from benefit dynamics data. *Social Policy Journal of New Zealand*, 2002, 92-115 – note Researchers have investigated the childhood and adolescent predictors of youth unemployment. Data from the Dunedin Multidisciplinary Health and Development Study supports international evidence that early personal and family characteristics influence the attainment of human capital, particular foundational skills. In turn, these characteristics affect labour market behaviours and outcomes, and likelihood of benefit receipt.
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- ⁴¹ Boden, J. M., Ferguson, D. M., & Horwood, L. J. (2008). Early motherhood and subsequent life outcomes. *Journal of Child Psychology and Psychiatry*, 49(2), 151-160; and Wilson, M. (1999). The duration of benefit receipt: New findings from the benefit dynamic data set. *Social Policy Journal of New Zealand*, 13.
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- ⁴⁵ OECD (2009), Social Protection, Poverty Reduction and pro-poor growth, Policy Guidance Note.
- ⁴⁶ (e.g. education spending has a more positive impact on growth, personal income tax has a more negative impact on growth). The Treasury, *Medium-term Tax Policies Challenges and Opportunities*.
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- ⁴⁸ Welfare Working Group (2010) *Issues paper*. P.7 Across benefit categories, of the recipients who spent at least five years on a benefit, 38 percent were on the Invalid's Benefit and 30 percent were on the Domestic Purposes Benefit. Unemployment Benefit accounted for only 7 percent of all people who spent at least five of the following ten years on a benefit.
- ⁴⁹ This figure assumes the 1999-2008 cohorts were of identical size and had an identical duration to the 2009 cohort . Note that it does not including supplementary benefits (which are higher for DPB on average – see WWG Issues paper pg 50).
- ⁵⁰ Welfare Working Group (2010) *Issues paper*. P.8 – "Those most at risk of staying a long time when they enter the system, June 1999-June 2009".

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- ⁵¹ Welfare Working Group (2010) *Issues paper*. P.7 – “Time beneficiaries have spent on a benefit over the previous 10 years – from June 2009 - note: people aged 24-69 on benefit on June 2009 (i.e. taking the 2009 cohort and collecting data on how long they had spent in benefit in last 10 years).
- ⁵² Bryan Perry (2010) *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2009* – using a 50% of median incomes NZ has a 15% child poverty rate (about 11th worst in OECD).
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- ⁶² Work and Income’s Likelihood of Long-term Benefit Receipt (LLTBR) score identifies the likelihood a person will remain on a main benefit for the next two years. The LLTBR score is based on client characteristics recorded in MSD’s administrative systems and the statistical relationship between these characteristics and the subsequent time clients remain on benefit. The score can be generated for any working age beneficiary, but depends on the administrative data recorded, and MSD’s experience working with that particular beneficiary type.
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- ⁶⁴ Ibid.
- ⁶⁵ Source: Ministry of Social Development, Work and Income Manuals and Procedures. <http://www.workandincome.govt.nz/manuals-and-procedures/income-support/main-benefits/domestic-purposes-benefit-sole-parents/domestic-purposes-benefit-sole-parents-48.htm>
- ⁶⁶ Cebulla , Andreas and Guilio Flore with David Greenberg (2008) *The New Deal for Lone Parents, Lone Parent Work Focused Interviews and Working Families’ Tax Credit: A review of impacts*, Department for Work and Pensions Research Report No 484.
- ⁶⁷ Unpublished MSD Working Paper.
- ⁶⁸ Finn, Dan and Rosie Gloster (2010) *Lone Parent Obligations: A review of recent evidence on the work-related requirements within the benefit systems of different countries*. Department for Work and Pensions Research Report No 632.
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- ⁷⁰ Miller, Cynthia (2002) *Leavers, Stayers, and Cyclers: An Analysis of the Welfare Caseload* MDRC; and Pamela Loprest (2001) ‘How are Families that Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers. *New Federalism, Series B* (No B-36) – note the Federal Poverty Line is an absolute measure, established each year. It is roughly comparable to the EU ‘Strict Poverty’ measure of 40% of the median income.
- ⁷¹ Hutten, Rebecca (2003), ‘From Work Test to Enhanced Case Management: Lone Parents and Social Development in New Zealand’ in Jane Millar and Martin Evans, Eds. *Lone parents and employment: International comparisons of what works* – note: Work-testing was introduced for DPB recipients in the late 90s in two tranches, with a part time work test for sole parents whose youngest child was aged between 6 and 13 and a full time work test for sole parents whose oldest child was over 14 operating from 1999. This work-testing coincided with the strengthening of the labour market and appeared to lead to a small decline in DPB receipt in the early 2000s. These work tests were regarded as “easy to subvert and [were] subverted.”
- ⁷² Future Focus paper B: Obligations and Sanctions - CAB Min (10) 7/9
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⁷⁴ Office of the Auditor General (2009) *Ministry of Social Development: Changes to the case management of sickness and invalids' beneficiaries*

⁷⁵ OECD (2009): *Sickness, disability and work: Keeping on track in the economic downturn*

⁷⁶ Information provided by MSD to the Treasury in 2008 suggested Work and Income case manager UB caseload ratios were 1:117, while the comparable ratios for DPB Sole Parents were 1:183, and for long-term SB/IB 1: 350.

⁷⁷ OECD (2009) *Pathways onto (and off) disability benefits*.

⁷⁸ OECD (2009) *Pathways onto (and off) disability benefits* - The integration dimension refers to the whole range of employment and rehabilitation measures, and distinguishes between the following seven sub-dimensions: (i) *anti-discrimination legislation* covering employer responsibility for work retention and accommodation; (ii) supported employment programme (extent, permanence and flexibility); (iii) *subsidised employment*; (iv) *sheltered employment sector* (extent and transitory nature); (v) *vocational rehabilitation programme* (obligation and extent of spending); (vi) *benefit suspension regulations* (from considerable duration to non-existent); and (vii) *additional work incentives* (including possibilities to combine work and benefit receipt). In each of the sub-dimensions, a higher score indicates a more active approach.

⁷⁹ Unpublished MSD Working Paper.

⁸⁰ Unpublished MSD Working Paper.

⁸¹ Greenberg, David, Victoria Deitch and Gayle Hamilton (2009) *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research* MDRC.

⁸² *Ibid.*

⁸³ Heckman, James and Flavio Cunha (2010), *Investing in our young people*, NBER Working Paper No.16201, National Bureau of Economic Research; and James Heckman and Bas Jacobs (2010), *Policies to Create and Destroy Human Capital in Europe*, NBER Working Paper No.15742, National Bureau of Economic Research.

⁸⁴ *Ibid.*

⁸⁵ Explanatory Memorandum to the Social Security (Lone Parents and Miscellaneous Amendments) Regulations 2008, http://www.opsi.gov.uk/si/si2008/draft/em/ukdsiem_9780110843285_en.pdf

⁸⁶ Dr Susan St John (201): *Lessons from the Tax Working Group*, Autumn edition of Children http://www.occ.org.nz/_data/assets/pdf_file/0015/7305/Children_72.pdf

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⁸⁸ With respect to SB, changes made as part of *Future Focus* introduced a part-time work test but no changes were made to the abatement regime. If implemented in April 2011 as expected, it may result in sickness beneficiaries receiving only \$1/hr to increase work from 15 to 20hrs per week.

⁸⁹ Millar, Jane and Martin Evans, Eds. (2003), *Lone parents and employment: International comparisons of what works* – note: an evaluation of an MSD programme which provided the full costs of ECE to beneficiaries found that it significantly increased ECE participation amongst participating families (in the order of 20% increase in participation) for relatively little cost. This suggests that despite childcare subsidies and 20 free hours, the cost of fees may still present a barrier to ECE participation for very low income families.

⁹⁰ Clegg, Sue, Vanessa Stone and Genevieve Knight, (2007), *PSI Evaluation of the Childcare Taster Pilot and Extended Schools Childcare Pilot Programmes*.

⁹¹ Unpublished MSD Working Paper.

⁹² Greenberg, David, Victoria Deitch and Gayle Hamilton (2009) *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research* MDRC.

⁹³ OECD (2007) *Sickness, Disability and Work: Breaking the Barriers VOL. 2: AUSTRALIA, LUXEMBOURG, SPAIN AND THE UNITED KINGDOM*.

⁹⁴ Fletcher, Michael (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt*, and Welfare Working Group Forum – *presentation by Prinz*.

⁹⁵ OECD (2007) *Sickness, Disability and Work: Breaking the Barriers VOL. 2: AUSTRALIA, LUXEMBOURG, SPAIN AND THE UNITED KINGDOM*.

⁹⁶ OECD (2009) *Sickness, disability and work: Keeping on track in the economic downturn*.

⁹⁷ Wilson, Moira (2005) *Growth in numbers of sickness and invalids benefit recipients 1990-2002*.

⁹⁸ OECD (2009) *Sickness, disability and work: Keeping on track in the economic downturn*.

⁹⁹ Fletcher, Michael (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt*.

¹⁰⁰ Job Network evaluation Stage three: effectiveness report (2002).

¹⁰¹ Ludwig, Hon Joe (2008) Job Capacity Assessment Review -

<http://www.deewr.gov.au/Employment/Programs/JCA/Review/Pages/home.aspx>

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- ¹⁰² OECD (2009) *Sickness, disability and work: Keeping on track in the economic downturn*.
- ¹⁰³ Any changes to accommodation benefits (AS and IRRs) should consider the Housing Shareholders Advisory Group report <http://www.dbh.govt.nz/vision-for-social-housing-nz-press-release> and draw on the recent study provided to the WWG - Fletcher (2010 -forthcoming) *Financial assistance for accommodation costs – analysis of current policies and possible directions for reform*.
- ¹⁰⁴ Adema, W. and M. Ladaique (2009), "How Expensive is the Welfare State?: Gross and Net Indicators in the OECD Social Expenditure Database (SOCX)", *OECD Social, Employment and Migration Working Papers*, No. 92
- ¹⁰⁵ For further discussion of the examples below, see "ACC's financial position, paper to Cabinet Expenditure Control Committee (Forthcoming, September 2010)".
- ¹⁰⁶ The results for the pilot of the Better@Work programme in Taupo show an 18% decline in the average number of weekly compensation days paid per claim (from March to August 2009), in comparison to the same period in 2007. This compared to an average 17% increase in weekly compensation days paid per claim during the trial period.
- ¹⁰⁷ Unpublished MSD Working Paper.
- ¹⁰⁸ Clegg, Sue, Vanessa Stone and Genevieve Knight, (2007), *PSI Evaluation of the Childcare Taster Pilot and Extended Schools Childcare Pilot Programmes* and CSRE and Inland Revenue (2010) *Changing Families' Financial Support and Incentives for Working: The summary report of the evaluation of the Working for Families package*.
- ¹⁰⁹ Clegg, Sue, Vanessa Stone and Genevieve Knight, (2007), *PSI Evaluation of the Childcare Taster Pilot and Extended Schools Childcare Pilot Programmes*.
- ¹¹⁰ Both the Ministry of Education and the Ministry of Social Development are considering home based care arrangements as part of developing ECE participation and OSCAR funding.
- ¹¹¹ OECD (2009) *Sickness, disability and work: Keeping on track in the economic downturn*
- ¹¹² Mills, Michael (2010), *Lessons for Insurance for Welfare*, paper prepared by Michael Mills for the Welfare Working Group
- ¹¹³ The "contract" referred to could in part be regulatory.
- ¹¹⁴ Steering Group for the Stocktake of ACC Accounts (Forthcoming, 2010), *Accident Compensation Services in New Zealand: The performance of the ACC Scheme and Opportunities for Improvement*.
- ¹¹⁵ OECD Employment Outlook 2009, Chapter 4: Financing Social Protection – The Employment Effect.
- ¹¹⁶ OECD Employment Outlook 2009.
- ¹¹⁷ See <http://www.servicecanada.gc.ca/eng/sc/ei/index.shtml> for further details.
- ¹¹⁸ Lind (2009), *The end of the Ghent system as trade union recruitment machinery?* *Industrial Relations Journal*; Nov2009, Vol. 40 Issue 6, p510-523, 14p, 1.