

THE NEW ZEALAND BENEFIT SYSTEM

Key problems and options for reform

Treasury report to Welfare Working Group

September 2010

Outline of presentation

1. Where should reform efforts focus?
2. What factors determine future benefit numbers?
3. How can the system be reformed to improve outcomes?
4. What further work is required?

1. Where should reform efforts focus?

Social Security Act: work in paid employment offers the best opportunity for people to achieve social and economic well-being

- A) Moving beneficiaries off 'non-work' focused (NWF) ben's
- B) Beneficiaries with long duration and/or children
- C) Supplementary benefits - incentive effects and targeting

➤ ***Need to focus on both policy and institutional settings***

1. Where should we focus efforts?



| |
|-----------------------------------------|
| Improved labour market participation |
| Fiscal savings |
| Reduce poverty risk |
| Improved Intergenerational outcomes |
| Greater individual and social wellbeing |
| Increased economic Growth |

Key:



large opportunity



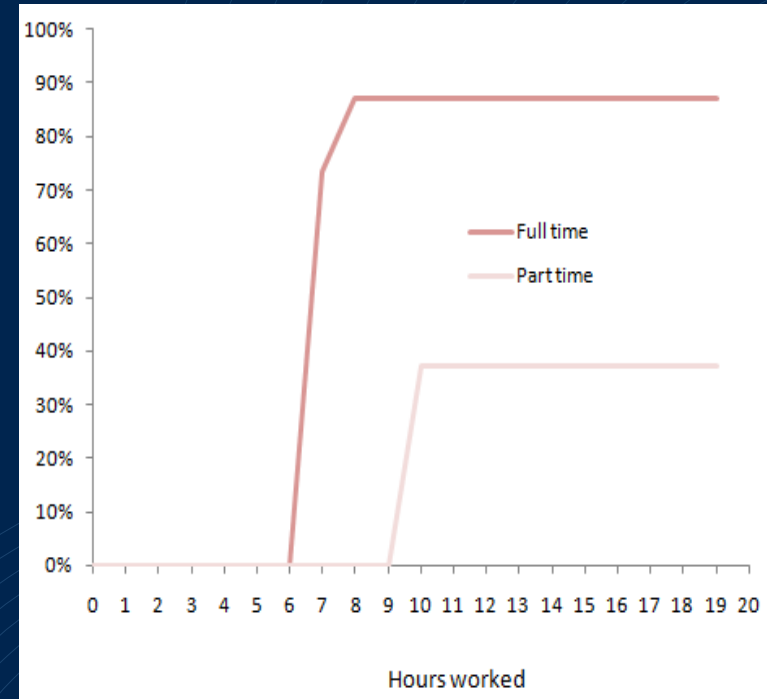
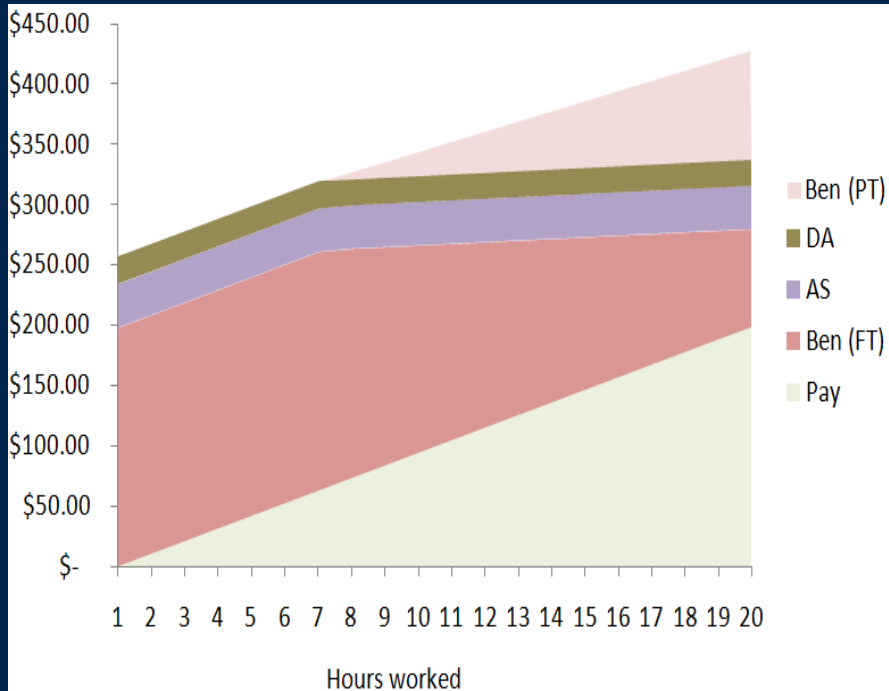
medium opportunity



small opportunity

1. Where should we focus efforts?

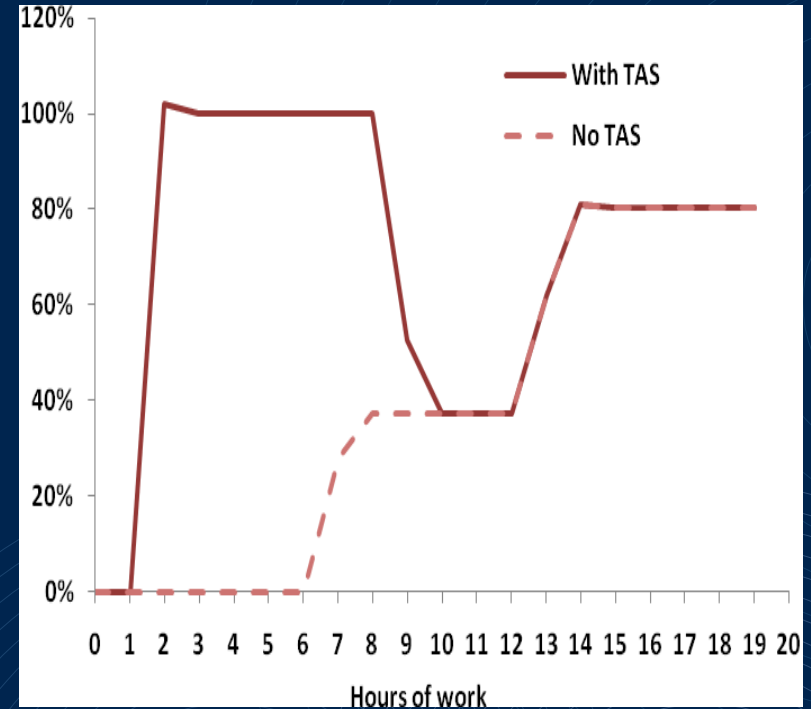
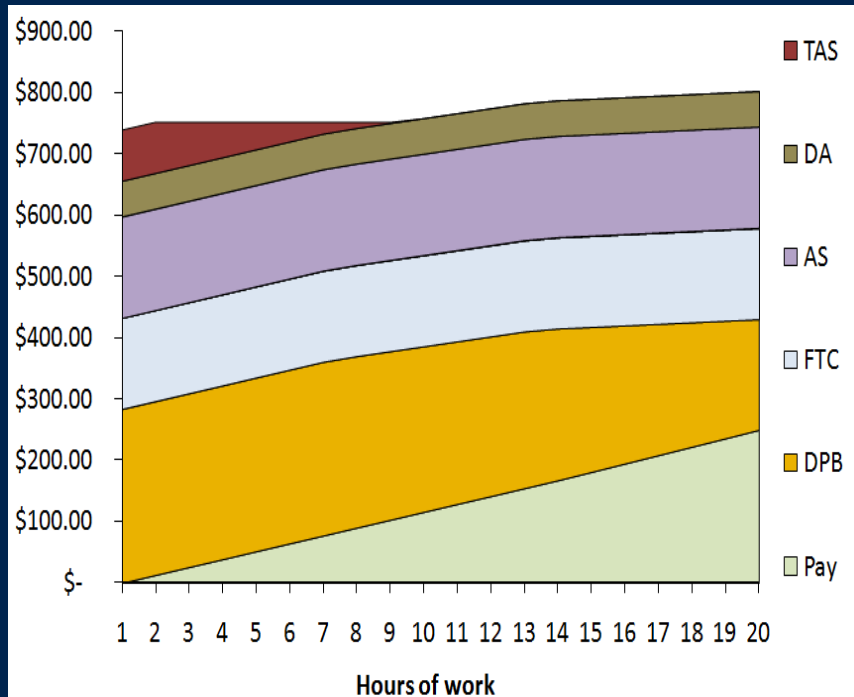
Improving labour market participation



➤ *Very low incentives for SB to work more than few hours/week*

1. Where should we focus efforts?

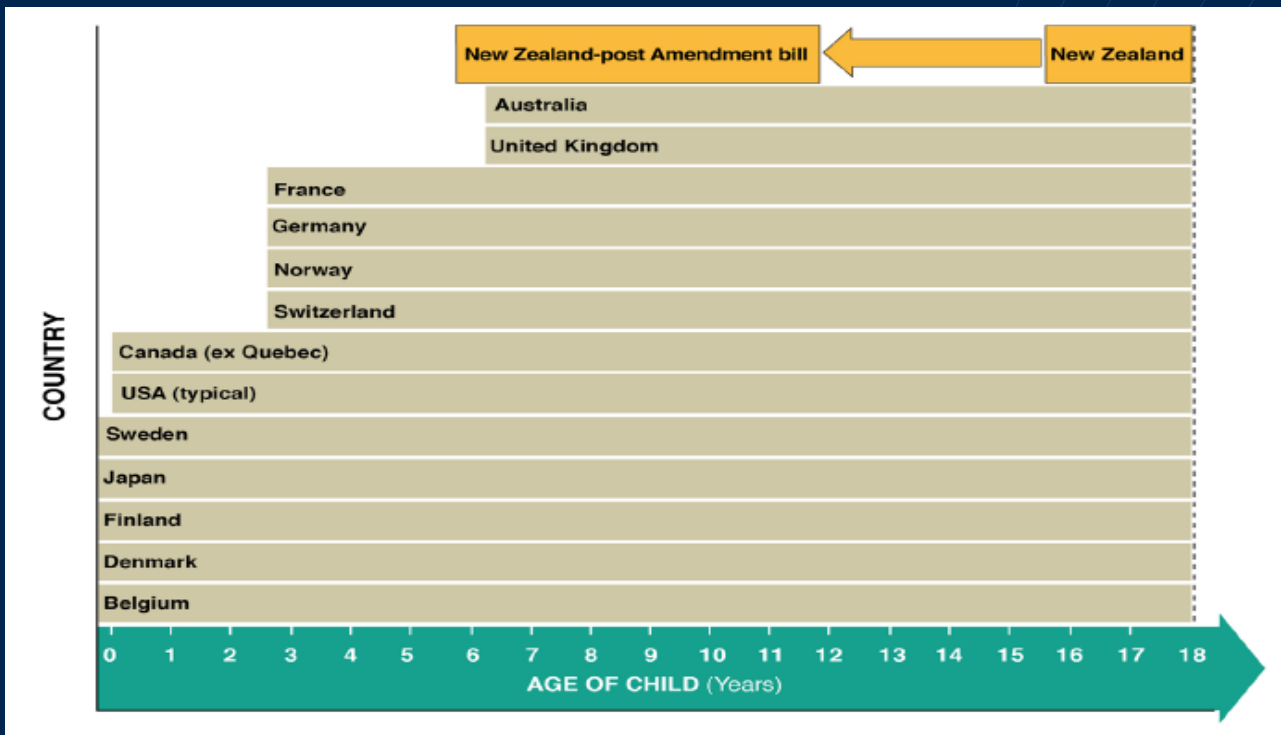
Improving labour market participation



➤ *Supplementary benefits can hugely distort incentives to work*

1. Where should we focus efforts?

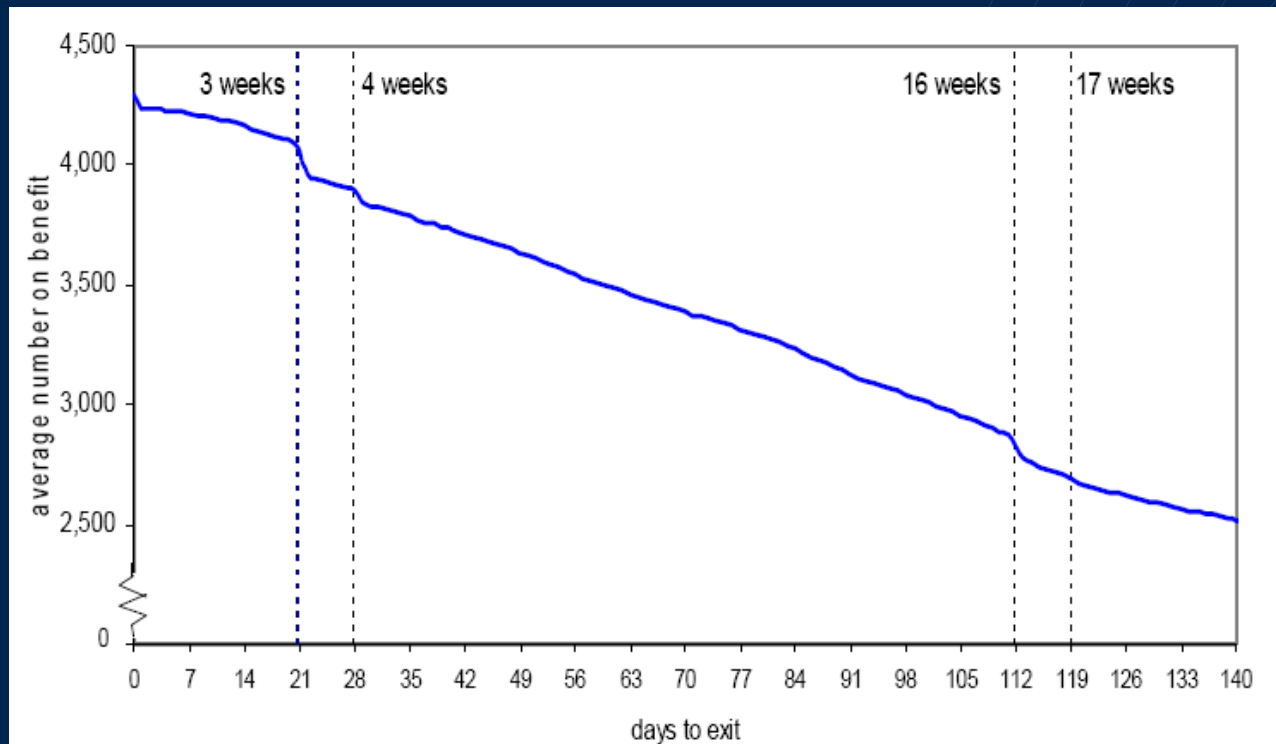
Improving labour market participation



➤ *Obligations on sole-parents to work is low relative to OECD*

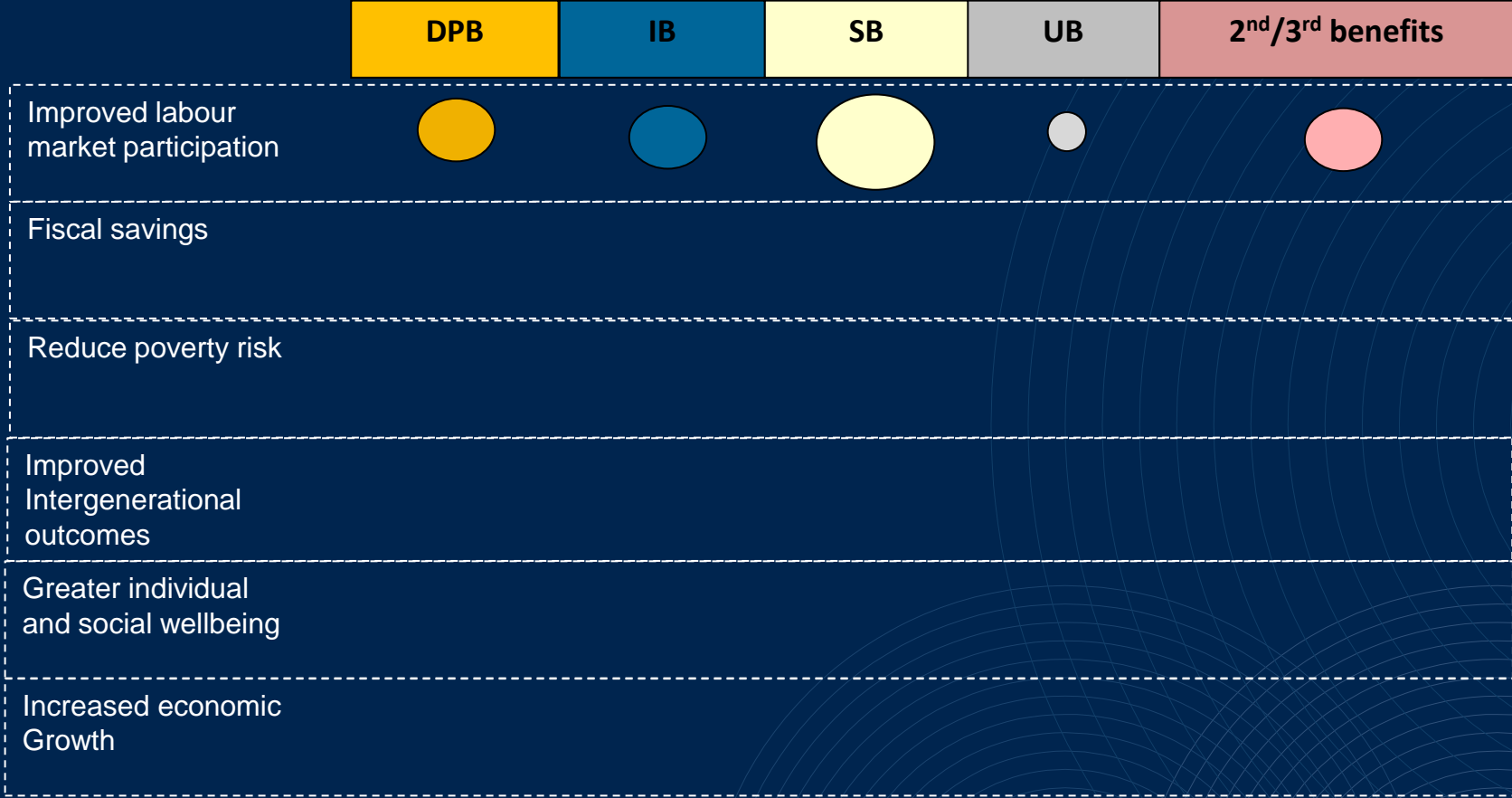
1. Where should we focus efforts?

Improving labour market participation



➤ *There is work capacity within the current SB population*

1. Where should we focus efforts?



Key:



large opportunity



medium opportunity



small opportunity

1. Where should we focus efforts?

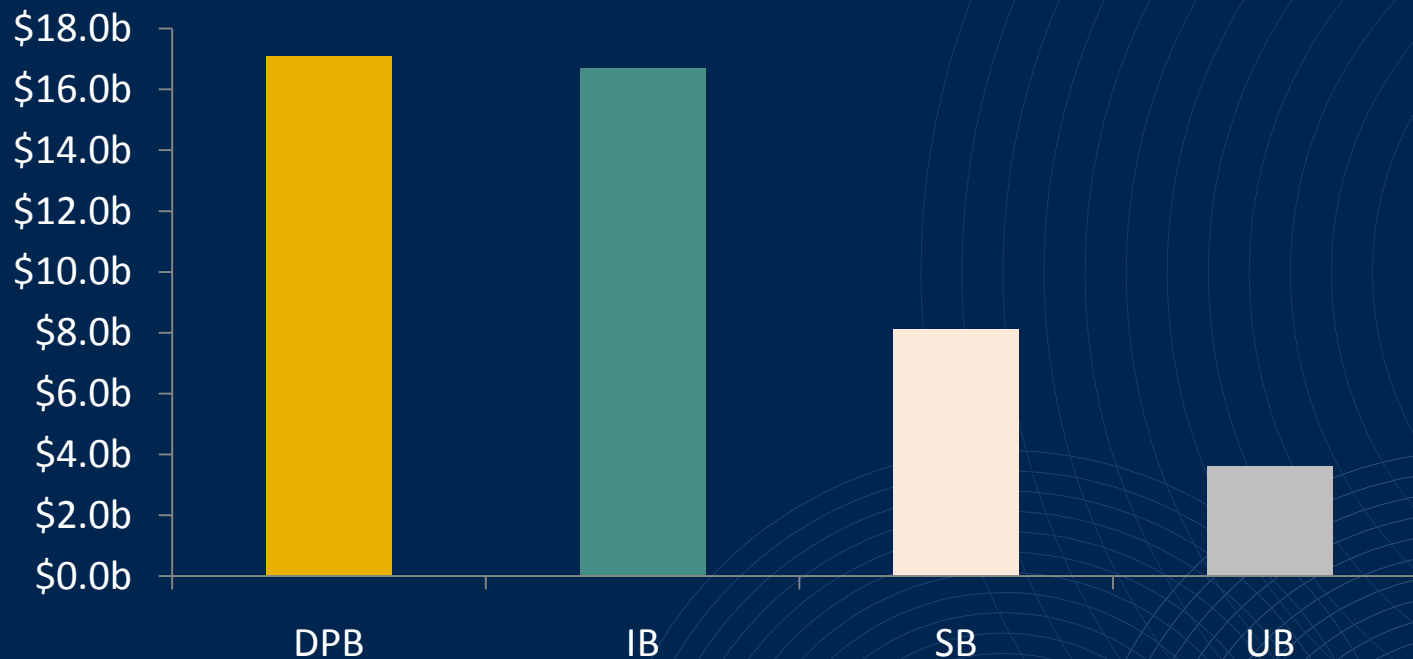
Increasing fiscal savings

| 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 |

➤ *Latest estimated actuals – high annual cost of NWF and Supps*

1. Where should we focus efforts?

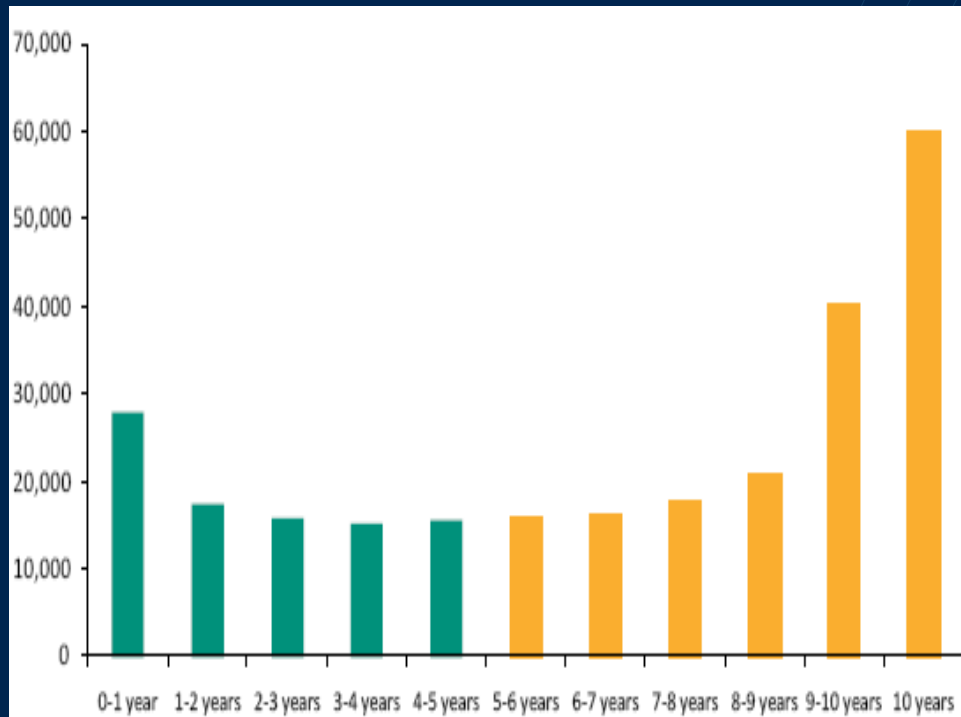
Increasing fiscal savings



➤ *Future liability of current UB < 10% of the NWF benefits*

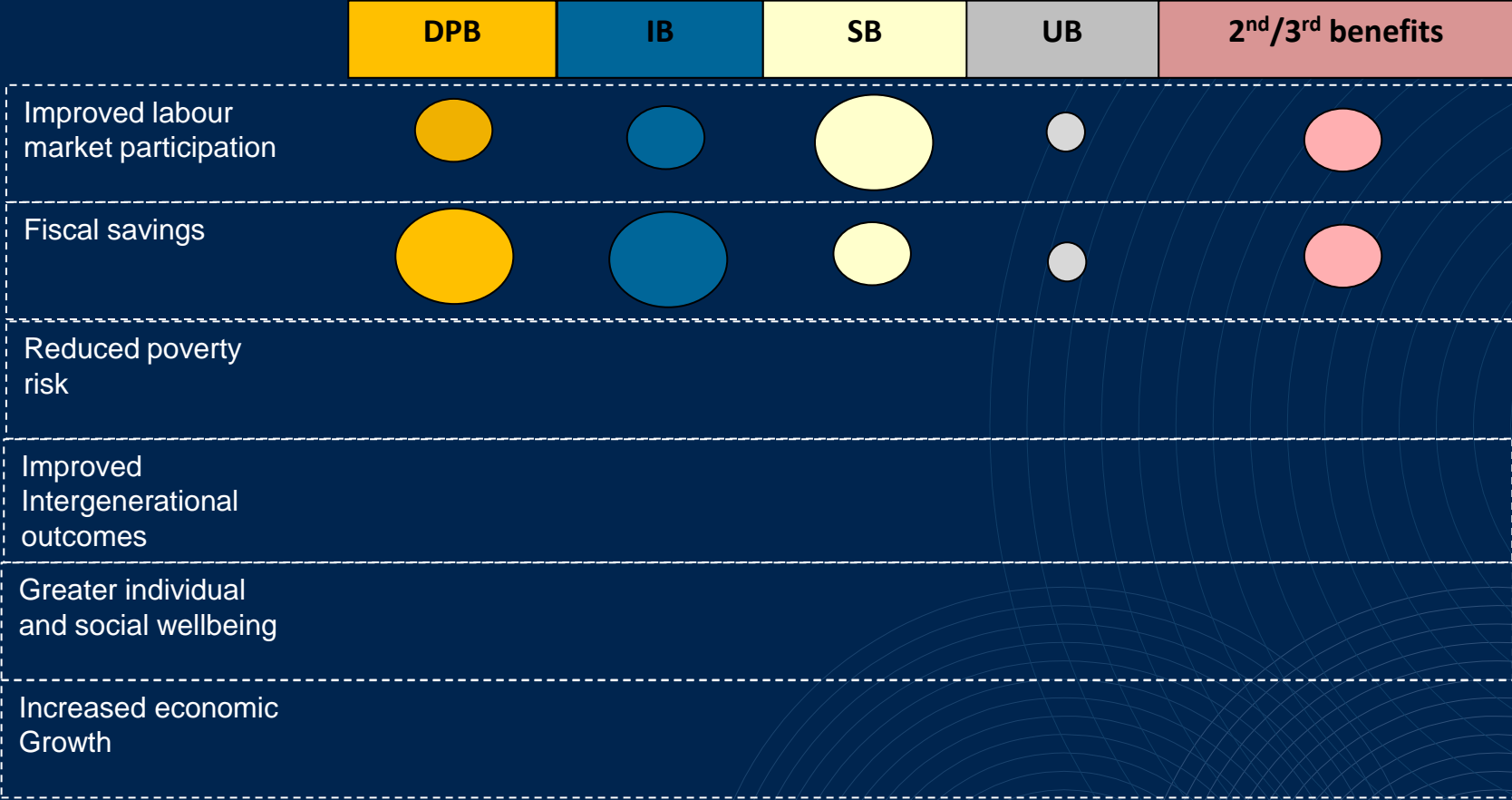
1. Where should we focus efforts?

Increasing fiscal savings



➤ *LT beneficiaries (5+ years) make up about 70% of cost*

1. Where should we focus efforts?



Key:



large opportunity



medium opportunity

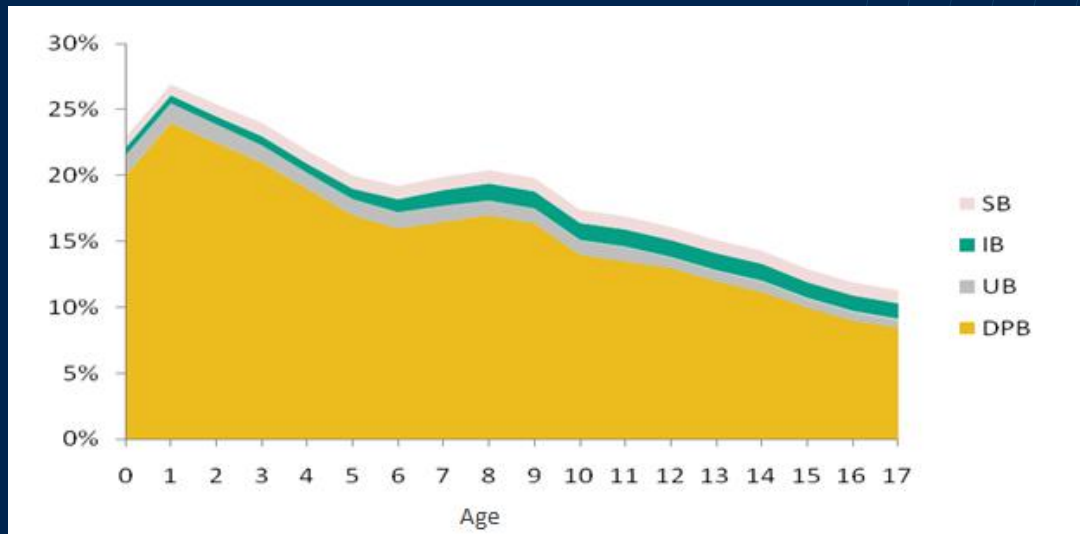


small opportunity

1. Where should we focus efforts?

Reducing poverty rates

Child poverty rates are almost 75 percent for 'work-less households' compared to 11 percent where at least one adult is working-full time (Perry, 2010)



➤ *Child poverty is a particular concern for DPBs*

1. Where should we focus efforts?

| | DPB | IB | SB | UB | 2 nd /3 rd benefits |
|-----------------------------------------|-----|----|----|----|-------------------------------------------|
| Improved labour market participation | ● | ● | ● | ● | ● |
| Fiscal savings | ● | ● | ● | ● | ● |
| Reduced poverty risk | ● | ● | ● | ● | ● |
| Improved Intergenerational outcomes | | | | | |
| Greater individual and social wellbeing | | | | | |
| Increased economic Growth | | | | | |

Key:



large opportunity



medium opportunity

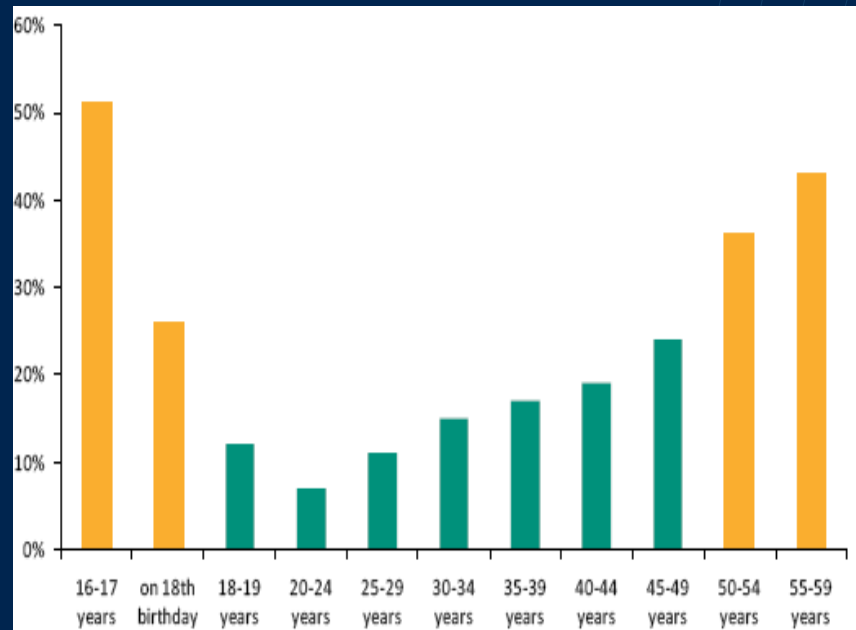


small opportunity

1. Where should we focus efforts?

Improving intergenerational outcomes

Long-term benefit receipt, in particular, is associated with inter-generational welfare dependency (Pacheco, G., & Maloney, T, 2003)



➤ *Risk factors for children: young first contact, Māori, DPB/IB*

1. Where should we focus efforts?

| | DPB | IB | SB | UB | 2 nd /3 rd benefits |
|-----------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------------------------------|
| Improved labour market participation | Medium opportunity | Medium opportunity | Large opportunity | Small opportunity | Medium opportunity |
| Fiscal savings | Large opportunity | Large opportunity | Medium opportunity | Small opportunity | Medium opportunity |
| Reduced poverty risk | Large opportunity | Medium opportunity | Medium opportunity | Small opportunity | Small opportunity |
| Improved Intergenerational outcomes | Large opportunity | Small opportunity | Small opportunity | Small opportunity | Small opportunity |
| Greater individual and social wellbeing | | | | | |
| Increased economic Growth | | | | | |

Key:



large opportunity



medium opportunity



small opportunity

1. Where should we focus efforts?

Greater individual and social well-being

Reported happiness is closely correlated to being in paid employment (Di Tella, R. and R. MacCulloch, 2006)

Long-term benefit receipt is correlated with poor social outcomes including poorer mental health, and higher rates of substance abuse and smoking (Gibbons, 2010)

Improved economic outcomes

Unemployment assistance reduces underemployment and advances labour market efficiency by enabling job-matching (OECD, 2010)

1. Where should we focus efforts?

| | DPB | IB | SB | UB | 2 nd /3 rd benefits |
|-----------------------------------------|-----|----|----|----|-------------------------------------------|
| Improved labour market participation | ● | ● | ● | ● | ● |
| Fiscal savings | ● | ● | ● | ● | ● |
| Reduced poverty risk | ● | ● | ● | ● | ● |
| Improved Intergenerational outcomes | ● | ● | ● | ● | ● |
| Greater individual and social wellbeing | ● | ● | ● | ● | ● |
| Increased economic Growth | ● | ● | ● | ● | ● |

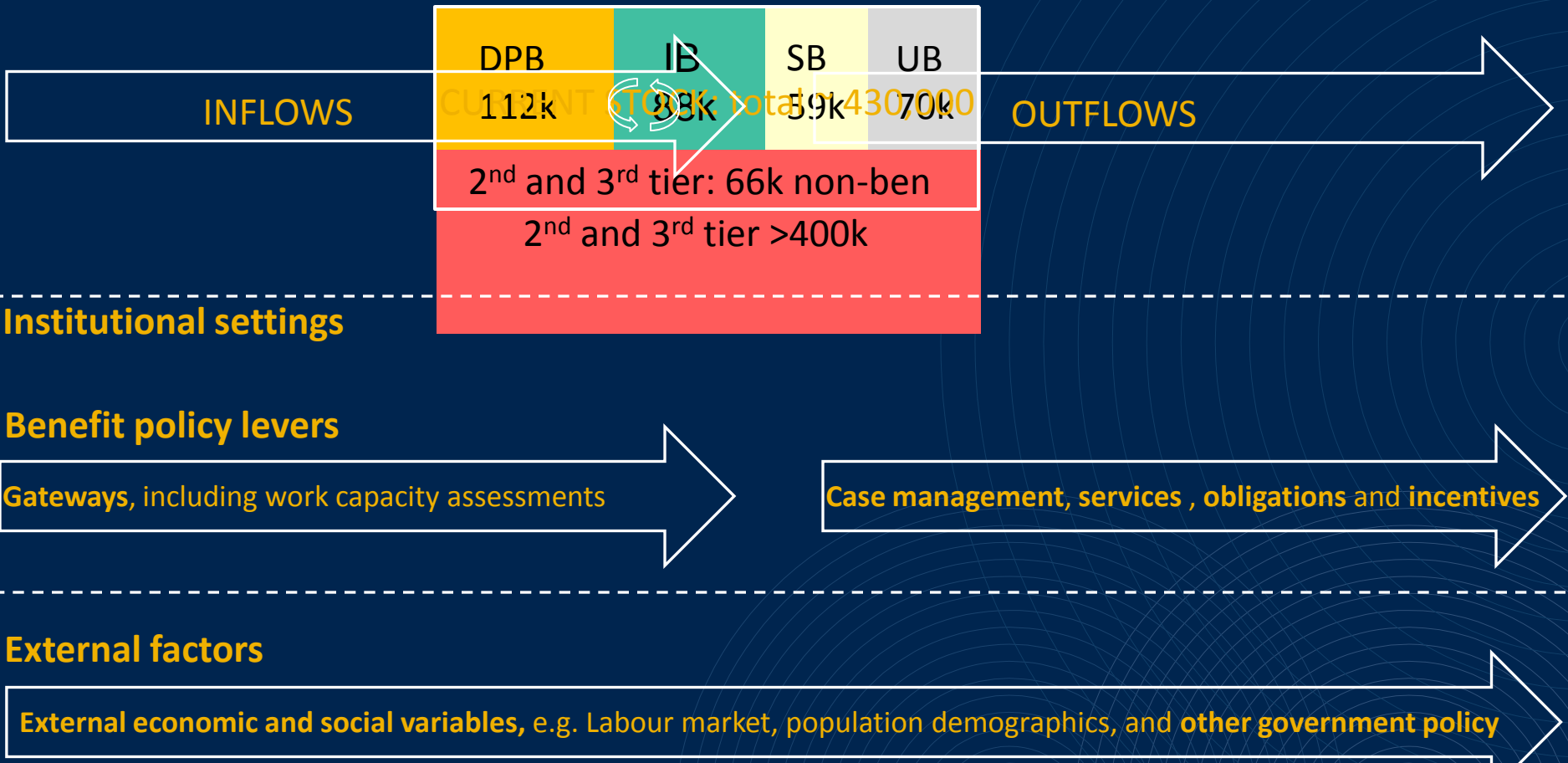
Key: ● large opportunity ● medium opportunity ● small opportunity

1. Where should reform efforts focus?

- A) Moving beneficiaries off 'non-work' focused (NWF) ben's
- B) Beneficiaries with long duration and/or children
- C) Supplementary benefits - incentive effects and targeting

➤ *Need to focus on both policy and institutional settings*

2. What factors determine future benefit numbers?



3. What reform options should be considered

Improvements to the gateways:

➤ *Need to know more about work-capacity of benefit population*

- Using a comprehensive work-capacity assessment reclassify SB/IBs
 - a. no capacity to work for long-term – suit IB*
 - b. some capacity but only limited for long-term – ‘new SB’*
 - c. some capacity but should work in short-term – UB with waiver*
- Reclassify the current DPB population
 - a. with LT dependent children*
 - b. with ST dependent children but otherwise limited barriers*
 - c. with ST dependent children but with complex set of barriers*

3. What reform options should be considered

Improvements to the obligations and sanctions:

➤ *Sole parents face only limited obligations to work*

- Investigate possible enhancements to the sole parent obligations – including lowering of youngest child and requiring FT job-seeking
- Drawing on international experience, further develop the graduated sanctions regime
- Continue with proposed work-testing for SBs – but with the appropriate abatement rate

3. What reform options should be considered

Improvements to case-management and services:

➤ *Interventions need to be individualised*

- Better targeting of training services
- More case-management focus on current NWF beneficiaries
- Engage case-managers to act as coordinators and facilitators for the treatment, rehabilitation

3. What reform options should be considered

Improvements to the incentives:

➤ *Reduce perverse incentives and enhance indirect support*

- Change to a part-time abatement rate for 'new SB'
- Review current employment programmes
- Encourage more employer participation
- Review impact of supplementary benefits on work incentives
- Better target childcare

3. What reform options should be considered

Improvements to institutions:

➤ *Countries willing to address, rather than shy away from, fundamental [institutional] reform enjoyed the greatest improvements (OECD, 2009)*

- More accountability for long-term 'costs' of system
- Explore benefits of outcome-based funding
- Contract a number of agencies to deliver diverse needs
- Evaluation of any reform is essential

4. What further work is required

Overarching message:

- *Focus on developing evidence on the relative cost-effectiveness of possible reforms*

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