

Long-Term Benefit Dependency: The Issues

Detailed Paper

Ko wai ra , Ko wai ra, ko wai ra, Te Tangata tututaua Kaore koa, Ko Hau, Ko Nuiho, Ko Nuake, Ko Manu, Ko Weka, Ko Toroa, Ko Ruiahona, Ko Tahingaotera. Tenei te maro te hurua Huruhuru nui no Manu no Weka. Ka tutapori atu ka tu tapori mai. Wero noa, wero noa, nga rakau whakaiaia. Na nga tupuna I tikina ki rawahi. Hei homai mo taku waka mo Waimihia. Te mata o nga rakau a Tukariri. Te mata o nga rakau a Tukaniwha. Te mata o nga rakau a Tukaitaua. Whano! Whano! Haremai te toki o haumi e! hui e! Taikie!

This karakia was used by Toroa, Captain of the Mataatua waka, to calm the raging waters at Te Awa o Te Atua that had trapped the Te Arawa waka. After the karakia was performed the waters subsided and all was calm. Te Arawa continued their journey to Maketu.

Acknowledgements

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



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

Preface

Tenei te maioha ake nei kia koutou nga Iwi Morehu o nga hau e wha. Kua tahuri mai nei koutou, ki te titiro ki tenei purongo korero ara, 'New Zealand Welfare System'. Te hunga aitua, kua wairuatia kua heke iho ki te rua tapu o Hinenuitepo, te kaitiaki o Te Ao Wairua. Tatau nga kanohi ora o nga matua tupuna, e mihi ana kia ratou, no reira, tena koutou, tena koutou tena tatou katoa.

The Welfare Working Group was established in April 2010 to conduct a fundamental review on New Zealand's welfare system and to make practical recommendations on how to improve economic and social outcomes for people on a benefit and New Zealanders as a whole.

Since we began our task, we have been privileged to learn from the experiences and expertise of a wide number of people. In 27 workshops around the country, many people have shared their personal experiences, insights and knowledge. We would like to thank everyone who has contributed so far.

The benefit system provides income protection and support for people who cannot work because of job loss, misfortune, sickness, disability or caring responsibilities. It does this in two ways, through providing income to bridge the gap when someone cannot work, and helps many people find a job so that they can get on with their lives.

We heard in our discussions that this support was clearly needed in 2008 when the New Zealand economy was hit by a global financial crisis. Some New Zealanders lost their jobs or were unable to find work and certainly the benefit system supported many New Zealanders to get back on their feet.

But there is also evidence that many people who entered the benefit system as a result of the last recession have found it difficult to escape, and may go on to spend many years out of work. It is this group that is of most concern.

This phenomenon, of many people entering the benefit system and remaining there for long periods has become increasingly prevalent in New Zealand.

In 2008, just prior to the recent recession, and after a decade of economic growth, roughly 10 percent of the working age population, or around 286,000 people, were receiving a benefit. At that time, about one in five of New Zealand's children were living in benefit dependent families.

At the same time, roughly 170,000 people had been on a benefit for at least 5 out of the last 10 years. That is the equivalent of the cities of Dunedin and Invercargill combined.

The Welfare Working Group has heard wide-ranging and concerning evidence about the destructive effects of being long term on a benefit. One of these effects is persistent low incomes and poverty, particularly among children. We have also been presented with considerable evidence that being on a benefit and out of paid work has adverse effects on people's health, and have heard many personal stories of the isolation and psychological distress of being out of work.

We have come to the view that the scale and consequences of long-term benefit receipt are deeply concerning and that the system is not achieving what New Zealanders could reasonably expect. It is not sustainable, it does not provide equal and fair opportunities for those people on different benefit types and it is associated with poor social outcomes.

This paper is the result of the first phase of our work. It examines the issues that currently beset our benefit system and why they must be addressed.

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Working papers and reference material including presentations made at the Welfare Working Group Forum are available on the Welfare Working Group website at <http://ips.ac.nz/WelfareWorkingGroup>

Section 1. Introduction

1.1 Terms of reference

The Government asked the Welfare Working Group to conduct a wide ranging and fundamental review of New Zealand's welfare system, with a primary focus on addressing issues of long-term welfare receipt. We were asked to make practical recommendations about how to turn around the growth in beneficiary numbers and expenditure, and the associated poor social and economic outcomes. The Government set the scope of our review to include:

- how long-term benefit dependence can be reduced and work outcomes improved, including for sole parents;
- how to promote opportunities and independence from benefit for disabled people and people with ill health;
- how welfare should be funded, and whether there are things that can be learned from the insurance industry and the Accident Compensation scheme (ACC) in terms of managing the Government's forward liability; and
- whether the structure of the benefit system and hardship assistance in particular, is contributing to long-term benefit dependency.

Our terms of reference do not cover the adequacy of benefit levels, New Zealand Superannuation, Working for Families, and the issues being considered as part of the Stocktake of ACC Accounts.

1.2 Our review process

The Welfare Working Group was asked to report back to the Government with recommendations by the end of 2010. This Issues Paper and associated Summary Paper brings together our view of the issues New Zealand faces around long-term benefit receipt. We have spoken to stakeholder groups across New Zealand and listened to a wide range of evidence at the Forum we hosted in June. We are now seeking public comment on this paper and invite your submissions.

We are also planning to release an Options Paper later in the year for public comment. The Options Paper will bring together a set of high-level options to address the issues identified in this Issues Paper. We will be presenting our report to Government with final recommendations by the end of the year.

1.3 Perspectives

As we have conducted our review, we have been mindful to consider and discuss issues from a number of different perspectives. We have felt it important to identify the perspectives and experiences of people who are receiving a benefit. We have also been mindful to ensure that the perspectives of employers and taxpayers are reflected in our discussion. Any balanced consideration of the issues needs to see the issues from all the different points of view. Looking forward, any improvement in outcomes will need to engage a wide range of stakeholders.

1.4 Aims of the benefit system

The current overall structure of the benefit system is governed by the Social Security Act 1964. The purpose of the legislation is defined as follows:

- (a) to enable the provision of financial and other support as appropriate - (i) to help people to support themselves and their dependants while not in paid employment; and (ii) to help people to find or retain paid employment; and (iii) 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;
- (c) to ensure that the financial support referred to in paragraphs (a) and (b) is provided to people taking into account - (i) that where appropriate they should use the resources available to them before seeking financial support under this Act; and (ii) any financial support that they are eligible for or already receive, otherwise than under this Act, from publicly funded sources;
- (d) to impose administrative and, where appropriate, work-related requirements on people seeking or receiving financial support under this Act.

The legislation also states that those exercising power or functions under the Act must have regard to the following:

- (a) work in paid employment offers the best opportunity for people to achieve social and economic well-being;
- (b) the priority for people of working age should be to find and retain work;
- (c) people for whom work may not currently be an appropriate outcome should be assisted to plan for work in the future and develop employment-focused skills;
- (d) people for whom work is not appropriate should be supported in accordance with this Act.

The Welfare Working Group considers that the purpose and underlying requirements of the Social Security Act remain relevant today.

1.5 Welfare Working Group's principles for the benefit system

In our consideration of the issues confronting the New Zealand benefit system, we identified five principles that should guide future policy changes. The principles recognise that paid work or participation is fundamental to the well-being of working-age New Zealanders. The evidence to support this conclusion is summarised in Section 4.

Enabling people who can be in employment to find paid work should be a central focus of the benefit system. However, for those who are permanently unable to be in paid work, the benefit system must also support people to participate as fully as possible in the community.

Principle 1: Recognise the value and importance of paid work to well-being

For most people, paid work is the best means to achieve long-term financial and personal well-being. Therefore, paid work should be the goal of most working-age New Zealanders. For people permanently unable to work, long-term income support should be provided to enable their participation and engagement in society.

Principle 2: Respect the dignity of people

The dignity of people should be respected. The benefit system needs to empower people to be as independent as possible and to have choice and control over their lives. It also needs to be responsive to the needs of individuals and families or whānau and the values of different groups.

Principle 3: Promote responsibility, accountability, and mutual obligations

The benefit system should foster responsibility and accountability among individuals, families or whānau, and communities. Income support provided by the benefit system should be conditional on recipients agreeing to meet obligations and to use the assistance offered to gain employment, where this is possible.

Principle 4: Be efficient and free from misuse

The administration of the benefit system should be consistent, cost-effective, and free from misuse.

Principle 5: Be affordable and sustainable

The benefit system should be affordable for the community now and in the future.

1.6 Our working definitions

The Welfare Working Group was asked to look at how to reduce long-term benefit receipt. There is no accepted definition of long-term benefit receipt. However, for the purposes of this review, examining periods of benefit receipt of more than six months (as one or multiple spells) ensures that all groups at risk of spending a long time on a benefit are captured. After six months on a benefit, the factors that put certain people or groups at risk of long-term benefit receipt can be identified.¹

For the purposes of this discussion paper, 'work' refers to paid work or employment. This reflects the expectation that for the vast majority of working age New Zealanders, paid work provides the best means to provide long-term financial security for themselves and their families. The valuable contribution that is made by people doing unpaid work, such as caring for children and other dependants, and volunteer work, is also important for people, their families and their communities.

¹ This is not to say that benefits should not continue beyond six months. For some people, including those with severe disabilities or very high caring responsibilities, benefits are the only realistic source of income. But nor is this to say that government should not intervene earlier than six months to support people back into work. Evidence from the health field, for instance, suggests interventions to prevent long-stays may need to be made within a much narrower timeframe.

The Welfare Working Group workshops and forum

Between May and June this year, the Welfare Working Group held 27 meetings across the country to hear from the community about what the major issues from the welfare system are. We heard some very personal and positive messages from participants who came from a diversity of backgrounds. We thank all of the people who gave up their precious time to meet with us.

The Welfare Working Group listened to what people had to say and reflected on how we could make the system work better for people in the system and the wider community. What we heard is that the system is not providing the support that people need. For many the experience in the benefit system is not one that is empowering, but instead leads people to disengage and feel disconnected from society.

Our conclusion from these workshops is that the review of the welfare system is timely. People want positive change in the benefit system in a way that will enable them to get on with their lives. There are ways in which it could be improved to enable people to get ahead for themselves and their families.

The messages that we heard through the workshops are reflected throughout this paper. In addition, in sections 4 and 5 we discuss specific feedback that we heard on what it is like to be on a benefit, the wider costs of the benefit system and what people say about work.

The Welfare Working Group hosted a forum on 9-10 June. Together with over 200 participants, the Welfare Working Group heard from over 50 speakers, who shared research, best practice and their experiences of the benefit system and related issues of welfare and work. Comprehensive coverage of the Forum, including video and audio recordings of the presentations is available at:
<http://ips.ac.nz/WelfareWorkingGroup/Forum/Index.html>

1.7 Contents of this paper

Each section in this discussion paper focuses on a different aspect of the benefit system in New Zealand.

Section 2 outlines the aims of the benefit system and how these have responded to economic and social change.

Section 3 is about the extent of benefit receipt in New Zealand.

Section 4 examines the adverse impacts of long-term benefit receipt on individuals, their families or whānau, communities, employers, and the wider economy.

Section 5 argues that there should be a paid work focus for a wider variety of people on benefits and identifies the main obstacles to reducing long-term benefit receipt.

Section 6 looks at the fiscal costs and future sustainability of the benefit system.

Section 7 concludes the paper and lists the questions on which we would like to hear your views. We would like your views by **Friday, 17 September 2010**, so we can incorporate your feedback into the next phase of our review.

Section 2. Aims of the benefit system

2.1 Introduction

The benefit system is designed to protect people from major adverse life events that make it impossible to work either temporarily or permanently. These adverse events might include being made redundant, failing to find a job after leaving school, becoming sick and unable to work, separating from a partner and having to care for a child, or caring for someone who would otherwise have to be in hospital.

The benefit system attempts to provide support in two ways:

- the provision of income support to people when not in employment; and
- support for people on work-focused benefits to find a job.

State-provided welfare is a feature of all developed countries, and reflects the fact that without it, too many people, especially children, would have inadequate or no protection. It acknowledges a shared responsibility among citizens to provide for others in times of need.

In most developed countries, there are some 'conditions' or 'obligations' attached to the payment of income support. These conditions might be that the person looks for employment, or takes the necessary steps to address the personal issues that stand in the way of them getting a job. These conditions or obligations are often necessary to ensure the *wrong sorts of behaviours are not encouraged* by the benefit system.

There are other ways that individuals can protect themselves against adverse events apart from relying on a benefit system. Savings and loans can be used to cover a period of income loss; family members might provide additional support; and charities, churches and community organisations might also provide help. We can also insure ourselves, as we do our house or car, against possible future mishaps. Many countries require their citizens to insure against the risks arising from losing a job or becoming unwell, either by insuring themselves privately or contributing to a social insurance fund.

2.2 A broad overview of the benefit system

The overall structure of the benefit system is governed by the Social Security Act 1964.

The Act sets out the rules and provisions governing the payment of benefits. Benefits are only available to people who meet residency requirements; and who fulfil specific eligibility criteria such as lack of employment, sickness, permanent and severe incapacity; and are targeted to families with low incomes. Table 2.1 sets out the broad eligibility criteria for the different main benefits.

Table 2.1: Key eligibility criteria for main benefits

Main benefits	Key eligibility criteria
Unemployment Benefit	Do not have a job and actively seeking work
Sickness Benefit	Cannot work because of sickness, disability or pregnancy
Invalid's Benefit	Cannot work because they are permanently and severely restricted in their capacity to work or totally blind
Domestic Purposes Benefit – Sole Parent	Sole parent with dependent children
Domestic Purposes Benefit – Women Alone	Woman with no dependent children who has lost the support of their partner after turning 50 years
Domestic Purposes Benefit – Care of Sick or Infirm	Caring full time for someone who would be in hospital if not for this care
Emergency Maintenance Allowance	Sole parent who is not eligible for Domestic Purposes Benefit (including 16 and 17 year olds)
Widow's Benefit	Woman whose partner has died, whether or not she has dependent children
Emergency Benefits	Cannot receive any other benefit and in hardship
Independent Youth Benefit	16 or 17 years old and not supported by their parents, generally because of family breakdown

Source: Ministry of Social Development Manuals and Procedures (MAP)

People receiving an Unemployment Benefit, some people on Emergency Benefit, and most partners of beneficiaries are required to be actively seeking work. Young people on Independent Youth Benefit are required to either seek work or participate in education, training or development activities. Exemptions from the work test are available in certain circumstances.²

If a person is eligible for a main benefit, they can also receive additional supplementary payments for additional needs. In general, these supplementary payments are also available to non-beneficiaries with low income and assets.

Table 2.2: Supplementary payments

Supplementary payment	What the payment is for
Accommodation Supplement	Accommodation costs
Disability Allowance	Ongoing additional costs of a disability
Temporary Additional Support	Last resort assistance for up to 13 weeks for people who cannot meet essential costs
Special Needs Grants, Advance Payment of Benefit, Recoverable Assistance Payment	Recoverable or non-recoverable assistance for one-off immediate needs

Source: Ministry of Social Development Manuals and Procedures (MAP)

² The Social Assistance (New Work Test, Incentives and Obligations) Amendment Bill proposes to introduce work-test requirements for others: A part-time work test would apply from September 2010 to those on Domestic Purposes Benefit – Sole Parent (DPB (SP)) and Emergency Maintenance Allowance (EMA) whose youngest child is six or older. From May 2011, those on Sickness Benefit (SB) who have been assessed as being able to work part-time (15 to 29 hours a week) would have an obligation to look for suitable part-time work.

On average, a person receiving a benefit receives about \$331 per week before tax (\$296 per week after tax). This is made up of \$270 base rate of a benefit before tax (\$235 after tax), and \$61 from supplementary payments (not taxed).³

More information about the technical details of benefits is available in *Description of Social Assistance Benefits in New Zealand* on the welfare working group website.

The New Zealand benefit system provides a range of employment and training services – but these are largely focused on people receiving Unemployment Benefit. For the 2010/11 financial year, roughly \$320 million is set aside for these interventions. These interventions include vocational training, job-search assistance, wage subsidies, work experience, courses to improve confidence and motivation and vocational services for people with disabilities.

New Zealand's benefit system differs from the benefit systems of most other countries by taking a 'social assistance' rather than 'social insurance' approach. Unlike most countries with social insurance approaches, payment in New Zealand is not time-limited and the rate of payment does not depend on prior contributions or earnings. New Zealand's benefit system is funded through taxes on a 'pay-as-you-go' basis, rather than by contributions from individuals.

The New Zealand benefit system also differs in that one organisation, Work and Income, is charged with delivering both income support and employment services.

It is important to see the benefit system within a wider context of other activities of Government. These include New Zealand Superannuation, which provides universal payments to people over 65 years of age; ACC payments for people who are injured; and Working for Families Tax Credits for families with dependent children. Other government-funded goods and services such as health, education and housing can also be seen as parts of the welfare system in its widest sense.

2.3 The history of the benefit system

The current structure of the New Zealand benefit system reflects its historical development over the last 150 years.

An important starting point was 1846, when the state placed responsibility for the care of the destitute on near relatives.⁴ Government social security was progressively built up from this point, with the incremental addition of provisions for older people, the unemployed, the sick, widowed, and orphaned.

The broad structure of the NZ benefit system was clearly set in place in the 1930s following the widespread and severe unemployment of the Great Depression. A key element was the 1936 Employment Promotion Act, which represented the new Government's attempt to reduce the numbers on 'relief work' and create a better public employment service. When introducing the legislation, the Minister of Labour argued that as a result of the legislation:

³ This average only includes the main ongoing supplementary payments (Accommodation Supplement, Disability Allowance, Temporary Additional Support and Special Benefit). Working for Families Tax Credits are not included.

⁴ *Ordinance for the Support of Destitute Families and Illegitimate Children 1846.*

*'... we will see that a very good percentage of those at present on sustenance or on scheme No. 5 will find themselves back in industry, where they rightly belong. For it is only employment in industry that is going to bring about anything in the nature of a permanent solution of the unemployment problem.'*⁵

The Social Security Act 1938 set in place the broad architecture of the current benefit provisions. The Prime Minister, Michael Joseph Savage, argued that:

*'I want to see people have security ... I want to see humanity secure against poverty, secure in illness or old age.'*⁶

There have been some significant changes to our benefit system since the 1930s. In particular, the introduction of the Domestic Purposes Benefit for women (on hardship grounds only) in 1968; and those implemented following the 1972 Royal Commission on Social Security (which led to a more comprehensive Domestic Purposes Benefit). In addition, through the 1980s and 1990s greater work expectations were introduced for people on the Unemployment Benefit, and temporarily for those on some other benefit types.

While there have been some significant changes, many benefit types have remained largely unchanged. This means that in many areas, the design of New Zealand's benefit system still reflects outdated assumptions about participation in paid work of women and disabled people.

The outdated assumptions about the nature of paid work are evident in the fact that largely only people on the Unemployment Benefit are obliged to seek paid work.⁷ Sole parents, widows, and many people who are disabled have the capacity to work, with the changing nature of paid work and technological advances. Figure 2.1 shows that now more than one in two mothers, and disabled people, are in work.

The Office for Disability Issues' Briefing to the Incoming Minister in 2008 noted some of these outdated assumptions when it stated:

*Our income support system was based on the assumption disabled people cannot work. Now we recognise many disabled people want to work, and can with the right support. Work and Income's practice and policy has changed to allow disabled people the same access as others to education, training and employment programmes and supports. However, vestiges of the old 'can't do' thinking linger, either formally in different pieces of legislation or policies, or informally in practice and in the attitudes of people providing services, employers and even families.*⁸

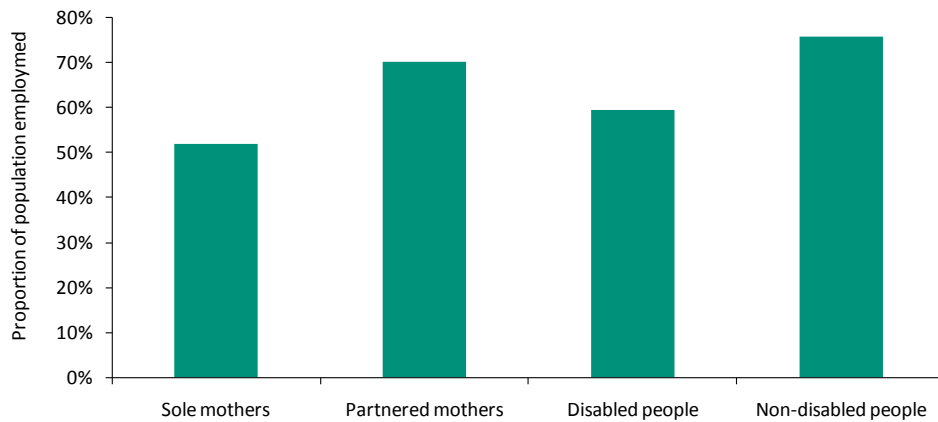
⁵ Hon HT Armstrong, Minister of Labour, p356 Hansard volume 244, 1936.

⁶ Michael Joseph Savage, p 649 Hansard volume 251, 1938.

⁷ The Social Assistance (New Work Test, Incentives and Obligations) Amendment Bill proposes part-time work-test obligations for some sole parent beneficiaries and some people receiving SB.

⁸ Office for Disability Issues (2008); *Briefing to the Incoming Minister 2008*.

Figure 2.1: Employment rates for mothers and disabled people



Source: Statistics New Zealand, 2006 Census and 2006 Disability Survey.

2.4 Summary

New Zealand has a 'social assistance' benefit system. This means that people are eligible for income support if they have a low family income and qualify under different categories (such as being a sole parent). Individuals who qualify receive a flat rate main benefit, with supplementary payments to reflect additional costs.

Expectations and supports to gain employment are largely targeted at those receiving the Unemployment Benefit, and less so other categories. The structure of provisions within the New Zealand benefit system reflects the fact that it was created last century. The detailed rules of the benefit system often presume that individuals cannot work, and have failed to keep pace with recent social and economic changes.

Tell us what you think

Q1: What do you think the goals or objectives of the benefit system should be?

Q2: Are there aspects of the benefit system that are outdated and have not kept place with the changing nature of work and families?

Section 3. Benefit receipt

3.1 About one in eight New Zealanders were on a benefit in April 2010

There were 356,000 working age people on a main benefit at the end of April 2010, which includes 29,000 partners. Beneficiaries make up about 13 percent of (one in eight) working age New Zealanders.⁹ Table 3.1 shows how the working age benefit population is distributed across the main benefits.¹⁰ At the end of April 2010, over 90 percent of all beneficiaries were on an Unemployment Benefit, Sickness Benefit, Invalid's Benefit or Domestic Purposes Benefit (Sole Parent). At the end of June 2009, over 20 percent of children were dependent on recipients of a main benefit.

Table 3.1: Take up of benefits by working age people, at the end of April 2010

Main benefit type	Number receiving at the end of April 2010 ^{1,2}	Proportion of main benefit population
Unemployment Benefit ³	75,300	21%
Sickness Benefit	65,700	18%
Invalid's Benefit	95,700	27%
Domestic Purposes Benefit – Sole Parent	98,300	27%
Domestic Purposes Benefit – Women Alone	3,500	1%
Domestic Purposes Benefit – Care of Sick or Infirm	6,500	2%
Emergency Maintenance Allowance	2,200	1%
Widow's Benefit	5,900	2%
Emergency Benefits	3,100	1%
Total main benefits	356,200	100%⁴

Notes: 1. Includes partners. 2. A further 13,800 people aged under 18 and 65 or older received a benefit. 3 Unemployment Benefit includes all unemployment-related payments, including Unemployment Benefit and Unemployment Benefit - Hardship paid to unemployed people. 4. Percentages do not add up because of rounding. Source: Ministry of Social Development Administrative Data.

3.2 People leave benefits for a variety of reasons

Currently around one in five working age beneficiaries are on an Unemployment Benefit and have an obligation to seek work and receive support to get into work. Partly as a result, this group are less likely to stay on a benefit and more likely to exit permanently.

Looking at the speed at which people permanently leave the benefit system, one in three new entrants to the benefit system who come on to the Unemployment Benefit stay less than six months on a benefit over the following ten years. This is compared to one in four Sickness Beneficiaries and one in eight Invalid's Beneficiaries and Domestic Purposes Beneficiaries. In 2009, around 149,000 people exited the Unemployment Benefit. This is significantly higher than the number who exited from Domestic Purposes Benefit – Sole

⁹ Aged 18-64 years.

¹⁰ The numbers here do not include those people who apply for the Unemployment Benefit (UB), but move into paid work before a benefit is granted. Currently around 40 percent of applicants are placed into work without the need for a benefit.

Parent (23,000 people), Sickness Benefit (21,000 people), and Invalid's Benefit (4,000 people).

Table 3.2: Exit reason from payment, June 1999 to June 2005

	Invalid's Benefit	Sickness Benefit	Domestic Purposes Benefit	Unemployment Benefit
Working	19%	24%	46%	48%
Left New Zealand	5%	3%	6%	5%
Marital status change	3%	2%	25%	1%
In prison	7%	2%	1%	1%
Died	27%	1%	0%	0%
Non-renewal of medical certification	6%	35%	0%	0%
Other	33%	33%	22%	45%
Number of exits (average per year)	4,000	21,000	23,000	149,000

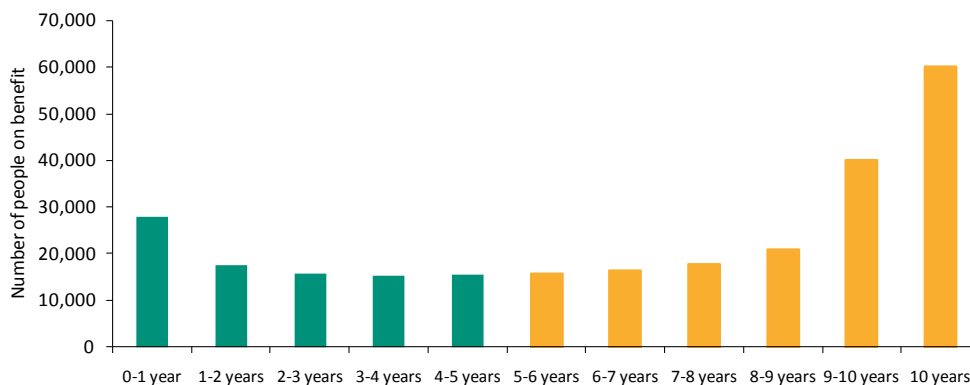
Source: Statistics New Zealand and Ministry of Social Development (2008); 'A report on the feasibility of integrating benefit data with Linked Employer-Employee Data, to produce official statistics'.

People exit all benefit types for a variety of reasons, including employment, change in marital status, movement to New Zealand Superannuation, non-renewal of medical certificates, death, and prison.

3.3 There is a significant number of people on benefit for long periods of time

One feature of benefit receipt in New Zealand is that a number of people use the benefit system for long periods, and for some people, almost permanently. Figure 3.1 shows the differing amounts of time that people had spent on a benefit in the previous decade. As can be seen, there are over 170,000 people who had spent five or more of the last ten years on a benefit¹¹. Within this group of people, 100,000 had spent more than nine or more years on a benefit.

Figure 3.1: Time beneficiaries have spent on a benefit over the previous 10 years, June 2009



Note: People aged 28-64 on a benefit as at June 2009.

Source: Ministry of Social Development Benefit Dynamics Dataset.

¹¹ Aged 28-64 years at the end of June 2009.

Most of the people who are in the benefit system for extended periods of time are on benefits with a weak employment focus. As can be seen from Table 3.3, of the over 170,000 people who had spent more than five of the past ten years on a benefit, 65,000 were on an Invalid's Benefit, 47,000 were on a Domestic Purposes Benefit – Sole Parent and 24,000 were on a Sickness Benefit. By way of contrast, only 12,000 were on an Unemployment Benefit.

There are a range of explanations for people spending longer periods on a benefit. Part of the explanation relates to people's personal circumstances. However, it also relates to how the support that people receive when in the benefit system affects their ability to locate and sustain employment. Our conclusion is that a lack of consistent work focus makes it difficult for the most vulnerable groups to secure employment.

Table 3.3: Numbers of 28-64 year olds on benefits long term by benefit type, June 2009

Main benefit type	Numbers using benefits for 5 out of 10 years	Percentage of very long-term benefit users
Unemployment Benefit	12,000	7%
Sickness Benefit	24,100	14%
Invalid's Benefit	65,400	38%
Domestic Purposes Benefit – Sole Parent	46,700	27%
Domestic Purposes Benefit – other	5,400	3%
Widow's Benefit	900	1%
Emergency Benefits	3,400	2%
Benefits as partner	13,100	8%
Total main benefits	170,900¹	100%

Note: 1. Numbers may not add up due to rounding.

Source: Ministry of Social Development Benefit Dynamics Dataset.

3.4 People who enter the system younger or at older ages spend longer periods on a benefit

Figure 3.2 shows how long people stay after first being granted a benefit.¹² Young people who are granted a benefit when they are 16 or 17 years old are most likely to spend more than five out of the next ten years on a benefit. People who enter the benefit system in the month after their 18th birthday are also more likely to remain on a benefit for a long time.

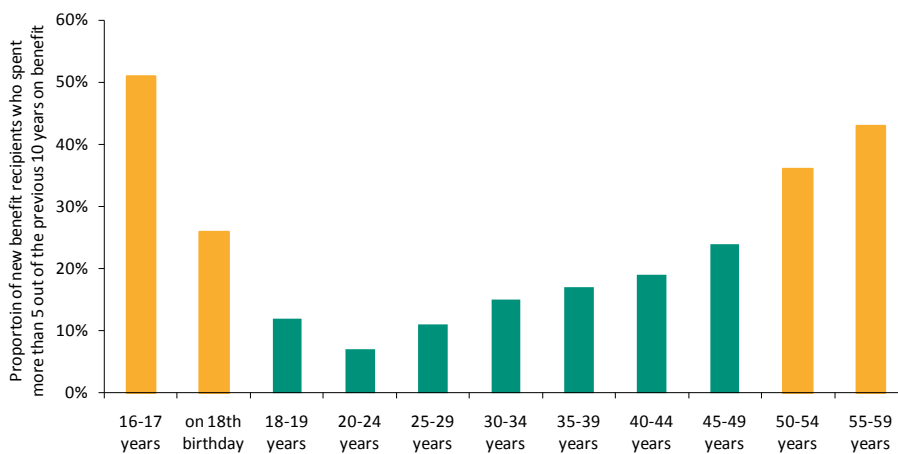
The numbers of people that are entering the benefit system at a young age each year (and remaining there) is significant. Each year around 5,700 people enter the benefit system at 16-17 years of age, and a further 4,600 people enter the benefit system on their 18th birthday. In many cases, the evidence shows that these young people have emerged from dysfunctional backgrounds, have low levels of participation and achievement at school,

¹² People who enter the benefit system today generally have a lower expected duration on benefit than those people who are already on a benefit. This is because a significant share of people on benefit leave quickly and thus they are more likely to be represented as entrants to the benefit system than people who are on benefit at a point in time.

and have a history of contact with Child, Youth and Family.¹³ For this group of young people, long periods of benefit receipt and the absence of a job is likely to exacerbate existing problems. Studies link unemployment in ages 16-24 years to negative social and health outcomes, including criminal behaviours, suicidal thoughts, drug and alcohol abuse, and increased risk of future periods of economic inactivity.¹⁴

Early childbearing (and entry to a benefit) increases the likelihood of educational underachievement and poor economic circumstances in young adulthood. In the Christchurch Longitudinal Study, those who became mothers before age 18 years had a greater range of risk factors compared with those who had not become mothers by age 21 years.

Figure 3.2: Those most at risk of staying a long time when they enter the system, June 2009



Source: Ministry of Social Development Benefit Dynamics Dataset.

The evidence from Figure 3.2 is also that as people age their probability of staying on a benefit for long periods increases. More than one in three people aged 50-59 years who entered the benefit system in 1999 spent more than five years out of the next ten years on benefit. According to the Ministry of Social Development's Benefit Dynamics Dataset (1999) around 11,000 people aged 50-59 years entered the benefit system that year.

The older people who enter the benefit system who remain on benefit for long periods are most likely to be on Sickness Benefit and Invalid's Benefit. People on these benefits are more likely to cite barriers around entering the workforce such as their age and time not in the workforce.¹⁵ Home ownership (or other forms of savings) is one of the most important factors for older people in avoiding hardship in retirement. The lower levels of

¹³ Welsh, D and Wilson, M (2010); *Lifecourse factors associated with time spent receiving benefit in young adulthood: A note on early findings* internal Ministry of Social Development working paper.

¹⁴ Fergusson, D; Horwood, J and Woodward, L (2001); 'Unemployment and psychosocial adjustment in young adults: causation or selection?'; *Social Science and Medicine*, 53:3. Maloney, T (2004); *Isolating the scarring effects associated with the economic inactivity of youth in New Zealand; evidence from the Christchurch Health and Development study*; report to the Department of Labour

¹⁵ UMR Research (2005); *Barriers to Employment Research: Combined Report for MSD & ACC*; unpublished report.

income associated with people spending extended periods out of paid work immediately prior to retirement makes it less likely that people will avoid hardship.¹⁶

3.5 A number of children spend much of their childhood reliant on benefits

There were 222,000 children dependent on recipients of a main benefit at the end of June 2009 (around one in five children).¹⁷ Some of these children will have been born while their mother was on benefit. Of the women newly taking up Domestic Purposes Benefit in the year to June 1999, around one in seven had additional newborn children included in their benefit at least once over the following ten years.

The next section of the report discusses evidence that shows the damaging effect of long-term low income on children. Recent research showed that 13 percent of children born in 1993 spent more than ten years of their first 14 years in a benefit-reliant household.¹⁸ A further 8 percent spent between seven and ten years of their first 14 years on a benefit. More than half of the children born that year experienced at least some period in a benefit-reliant household before they were 14 years old.

3.6 The numbers of people on a benefit has increased sharply

At the end of April 2010, almost 13 percent of the working age population was receiving a benefit. Of the people who were on a benefit at the end of June 2009, more than 170,000 had been on a benefit for most of the past ten years. The vast majority of long-term benefit receipt is concentrated in people receiving benefits for reasons other than unemployment. A key question is how does this compare to usage of benefits in the past?

The overall extent of benefit use increased significantly in New Zealand over the last 50 years. In 1960, approximately 2 percent of the working age population were receiving a benefit. By 2008, before the economic recession occurred, and after a decade of economic growth, roughly 10 percent of the working age population were receiving a benefit. The vast majority of the increase in benefit receipt occurred because of an increase in non-work-related benefit types – Invalid's Benefit, Sickness Benefit and Domestic Purposes Benefit – Sole Parent (see Figure 3.3).

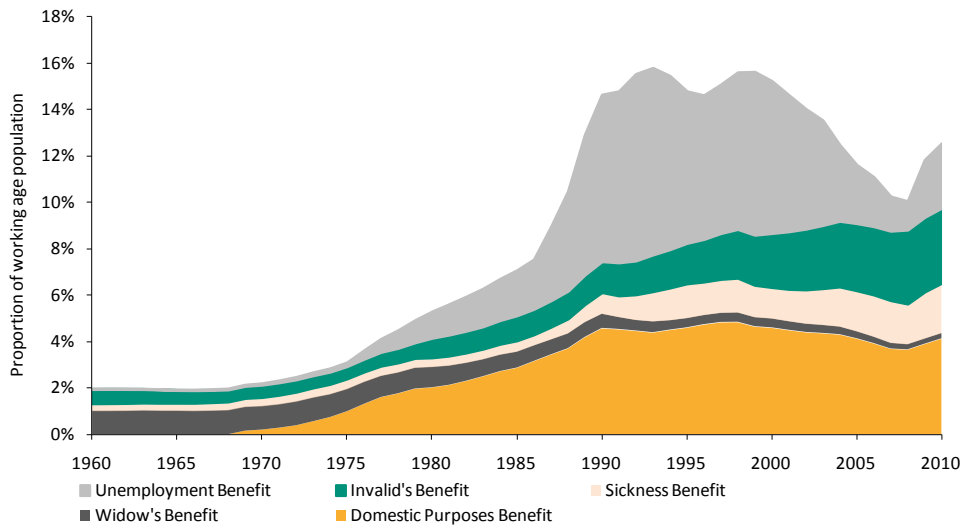
When we look at numbers on sole parent benefits, the overall drivers of the prevalence are the extent of sole parenthood and the level of employment among sole parents. Sole parenthood in New Zealand grew rapidly in the late 1970s and 1980s with the number of sole parents increasing by a third between each five-yearly census, before levelling out between 2001 and 2006.

¹⁶ Fergusson, D; Hong, B; Horwood, J; Jensen, J and Travers, P (2001) *The Living Standards of Older New Zealanders*, Ministry of Social Development.

¹⁷ Ministry of Social Development (2010); *2009 Statistical Report*.

¹⁸ Wilson, M and Soughtton, D (2009); 'Children in Families Supported by main benefits: An update'; *Social Policy Journal of New Zealand*, Issue 36.

Figure 3.3: The growth in the prevalence of benefit receipt among the working age population, 1960 to 2009



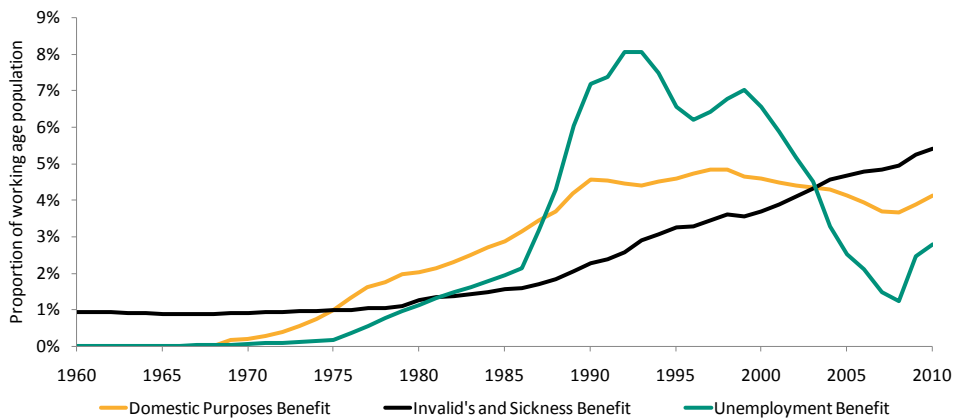
Note: The historical series is a count of main benefit payments. It is across all working age groups (18-64 year olds) and does not include partners.

Source: Ministry of Social Development Statistical Reports and Statistics New Zealand population estimates.

Employment of sole parents reduced considerably in the late 1980s, but began increasing from 1997-98. Policy changes, as well as a strong labour market, have played an important role. The implementation of a work testing regime for sole parents in 1998 led to an increase in employment of single mothers compared to partnered mothers. The stronger financial incentives to be in work, through the Working for Families package, also seems to have had an effect in increasing employment.

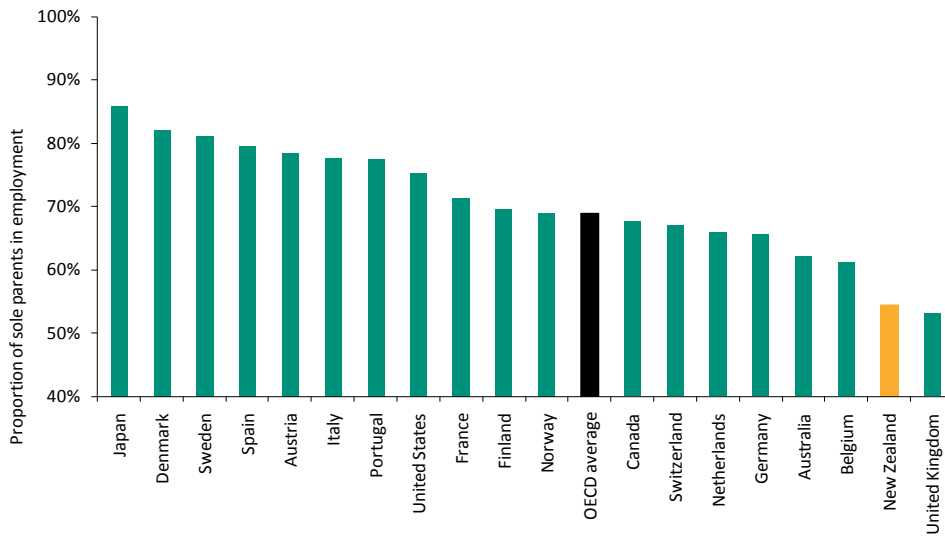
The proportion of the population receiving the Domestic Purposes Benefit is currently significantly higher than when this benefit was first established. For example, in 1980 approximately 2 percent of the working age population were receiving Domestic Purposes Benefit, but by 2008 this had reached over 3 percent, having peaked at close to 5 percent in 1997 (see Figure 3.4). The decline in Domestic Purposes Benefit receipt from the late 1990s until 2008 reflected a combination of both improving employment of sole parents as well as a decline in the prevalence of sole parenthood in the later period. Since the recession in 2008, the numbers claiming Domestic Purposes Benefit have risen again.

Figure 3.4: Trends in main benefit types among the working age population, 1960-2009



Source: Ministry of Social Development Statistical Reports and Statistics New Zealand population estimates.

Figure 3.5: Sole parent employment rates across the OECD, around 2007



Source: OECD family database (www.oecd.org/els/social/family/database)

Overall, there were major social and economic changes that have affected the need for people to draw on the Domestic Purposes Benefit. However, the lack of support and work focus led to people spending long periods on a benefit (see section 5 for further discussion). Indeed, we see that New Zealand’s rate of employment for sole parents is one of the lowest in the Organisation for Economic Cooperation and Development (OECD) (see Figure 3.5).

The number of people on an Invalid’s Benefit and a Sickness Benefit is primarily determined by the number of people assessed as meeting the medical classification required for each benefit type, and the employment rates for disabled people. Information on the prevalence of disability and the employment rates for disabled people is scarce, but some broad conclusions are possible on the basis of data that is available.

Broadly speaking, the growth in Sickness Benefit and Invalid’s Benefit numbers was not caused by the population getting sicker or more disabled. A comparison of New Zealand health surveys show that between 1996 and 2006 more people rated their health as excellent or very good; fewer people rated their health as fair or poor; people on average reported better physical functioning scores and better role limitation scores. Overall, general health was improving as measured by steadily improving levels of life expectancy and health expectancy across all major population groups.¹⁹ Likewise New Zealand’s rate of employment for disabled people is one of the highest in the OECD. Around two in three disabled people, with low or medium levels of support needs, are in employment.

In the 1960s and for most of the 1970s roughly 1 percent of the working age population received a Sickness Benefit or an Invalid’s Benefit (see Figure 3.4 above). From the late 1970s, the prevalence of these benefits began to increase. By 2008, prior to the recession, almost 5 percent of the working age population were in receipt of one of these benefits. The growth in receipt of these benefits was across all ages, suggesting that the changing age structure of the population played very little role in the overall increase. Policy changes in other areas, for example the increase in the age of eligibility for New Zealand

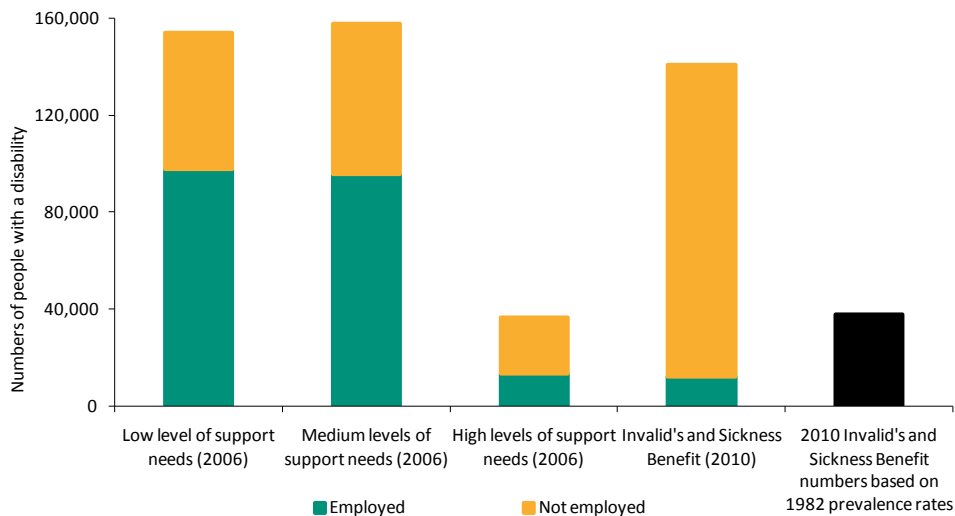
¹⁹ Ministry of Social Development (2009); *The Social Report*.

Superannuation, as well as deinstitutionalisation and ACC changes, seem to have played a small role.²⁰

When we compare the numbers of people on an Invalid's Benefit or a Sickness Benefit with the numbers of people who report different levels of impairment, the numbers on Sickness Benefits and Invalid's Benefits outweighs the number of people whose conditions mean that they need daily assistance as measured by the 2006 New Zealand Disability Survey. According to that survey, around 37,000 disabled people aged 15-64 years require a high level of support (see Figure 3.6). Over one in three people with high levels of support needs are in paid employment. There are around 150,000 people with medium levels of support needs with about two in three of this group in employment.²¹

There are now 143,000 working age people on Invalid's Benefits and Sickness Benefits (excluding partners). This figure is higher than the number of people who require daily assistance. If we apply the prevalence of people on the Invalid's Benefit and Sickness Benefit from 1982 to our current population levels (around 40,000 people), it is similar in size to the number of people recorded as high needs from the 2006 Disability Survey. The people on Invalid's Benefit and Sickness Benefit, without a level of impairment that requires daily support, are likely to include people whose physical impairments require medium or low levels of support, or people with mental health conditions that do not restrict daily tasks, but that affect work capacity.

Figure 3.6: Numbers of people with different levels of disability



Note: Due to the absence of data we are not able to imply the estimated level of employment in the 1982 prevalence chart.

Source: Statistics New Zealand (2006 New Zealand Disability Survey, population estimates); Ministry of Social Development Statistical Report; and the Welfare Working Group Secretariat.

²⁰ Wilson, M and McLeod, K (2006); 'Understanding the Growth in Invalid's Benefit Receipt in New Zealand'; *Social Policy Journal*, Issue No. 29.

²¹ Respondents have been assigned a rating by Statistics New Zealand of either 'low', 'medium' or 'high' support needs based on their need for assistance and/or special equipment relating to their disability. High needs refers to daily use (medium needs refers to less than daily) (met or unmet) for any of the following: special equipment; work environment adaptations; help with meal preparation, shopping, everyday housework, finances, communication, washing, dressing or medication.

There is evidence that the growth in numbers on the Sickness Benefit and the Invalid's Benefit has in large part been driven by more people being diagnosed with psychological conditions and musco-skeletal conditions.²² Given that there is evidence that these are exactly the conditions for which a return to work brings the biggest health benefits, the lack of early intervention in the current benefit system, a weak work focus and higher benefit rates than other payment types for people with health problems is notable.²³

3.7 More people are spending time on benefits with a weak employment focus

This section shows that there are a significant number of people who were on a benefit for most of the past ten years (170,000 people). These people tend to be on benefits which have a weak employment focus (Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit). Many individuals on a benefit are without a job, but also have poor health and are caring for a child as a sole parent.

Compared to individuals on Unemployment Benefit, individuals on other benefits tend to have less support to return to work and have few expectations to be actively searching for employment. When combined with it becoming harder and harder to leave benefit as time goes by, it is unsurprising that the number of people receiving long-term benefits has steadily grown.

Over time, the weaker work focus on these benefits undermines the capacity of people receiving them. People who already have a number of barriers and disadvantages are placed on payments with less active support to look for work. These people then spend significant periods outside the labour market, which in turn makes it even more difficult for them to return to employment.

There was a consistent lack of policy response to the large numbers of people spending long periods outside of paid work (even during periods of low unemployment), on low incomes, with deteriorating health, and worsening employment prospects.

3.8 Summary

There are currently 356,000 working age adults receiving a benefit in New Zealand. This represents almost 13 percent of the working age population. Of the people on a benefit, roughly 75,000 are on the work focused Unemployment Benefit (including partners and those in training). There are 281,000 adults on non work focussed benefits – Domestic Purposes Benefit, Sickness Benefit, Invalid's Benefit, and others (including partners).

A large number of people have been on a benefit for long periods of time – 170,000 people have spent more than five out of the past ten years on a benefit. At the same time, roughly one in five of New Zealand's children were living in benefit dependent families.

People on a benefit long-term are disproportionately on the Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit, rather than on the Unemployment Benefit. The lack of a consistent work focus on these benefits has contributed to people remaining on a benefit for long periods.

²² Wilson, M and McLeod, K (2006); 'Understanding the Growth in Invalid's Benefit Receipt in New Zealand'; *Social Policy Journal*, Issue No. 29.

²³ Waddell, G and Burton, A (2006); *Is Work Good for Your Health and Wellbeing*; report commissioned by the Department for Work and Pensions on the scientific evidence on work and health and wellbeing.

The number of people on benefits with a weak focus on work has grown significantly since the 1970s. This reflects a variety of factors including the changing nature of families, the labour market, and the absence of a work focus across the entire benefit system

Tell us what you think

Q3: What aspects of the current benefit system are working well and should be retained?

Q4: What aspects of the benefit system contribute to long-term benefit receipt?

Section 4. The impacts of paid work and long-term benefit receipt

4.1 Paid work brings in income

The primary reason that most people work is to financially support themselves and their family and whānau. Not surprisingly then, people in paid work are better off financially than people who are not in work. On average, a person who holds a higher school qualification receives \$740 gross per week, which is considerably higher than what they would receive on a benefit. On average, a person getting a benefit receives about \$331 per week before tax (including supplementary payments). In addition, the gap will tend to increase the longer people are in work, as they gain skills and experience.

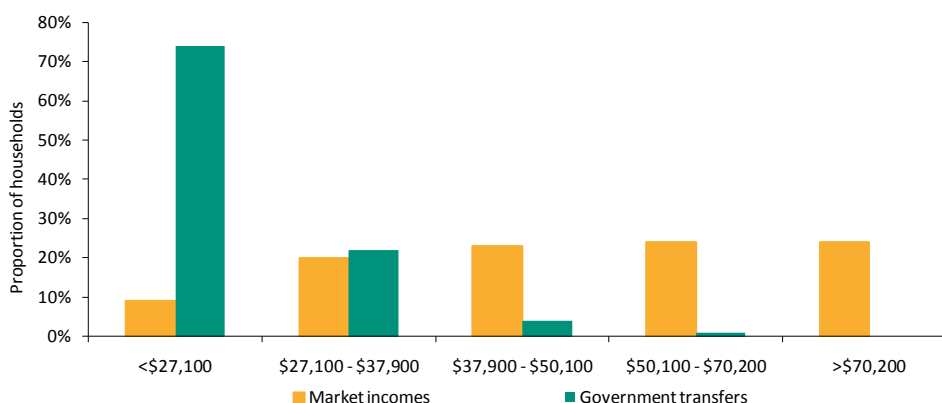
4.2 Income from paid work is a major route out of hardship and poverty

A range of studies show that for individuals and their families, securing paid work is an important route out of poverty.²⁴

At an aggregate level, it is clear that increasing levels of employment reduce poverty in the community. In recent years, every percentage point increase in the level of employment has been associated with slightly more than one percentage point decline in the poverty rate. As more people get jobs, they receive earnings that take their incomes above measured poverty thresholds.

This is because the differences in income between those households that rely on specific government transfers (including all government financial supports, including benefits, tax credits), compared to households reliant on wages and salaries are so marked. When we look at households on very low incomes, we see that those households are far more likely to be reliant on government transfers than those households who are reliant on market incomes.

Figure 4.1: Household income (equivalised) by source of income



Source: Perry, B (2009); *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2008*; Report prepared for the Ministry of Social Development.

²⁴ Jenkins, S; Rigg, J and Devicienti, F (2002); *The Dynamics of Poverty in Britain*; Department of Work and Pensions, Research Report 157.

Over 70 percent of households that are reliant on Government transfers are in the bottom fifth of households by income (income of approximately \$27,100 per year), while less than 10 percent of households that are reliant on market incomes are in the bottom fifth of income (see Figure 4.1).²⁵ To put it another way, two in every three people who have very low incomes are reliant on government transfers, rather than market incomes.

4.3 Long-term benefit dependency is associated with severe financial hardship

The longer someone has low income, the worse the adverse outcomes from poverty are. As people spend longer periods on very low levels of income they use up resources and economise more on essentials. Persistent periods of low income therefore have a growing cost to the outcomes of those households on a benefit. Research from the United Kingdom suggests that there is a relatively weak link between temporary low income and deprivation (financial stress, low standards of daily living, underinvestment in consumer durables and poor housing), but those with permanent low incomes have deep levels of deprivation.²⁶

4.4 Paid work brings extra resources to spend on children

At the end of June 2009, 222,000 children aged 0 to 17 years were dependent on recipients of a main benefit.

Based on previous experience it is clear that many of these children will spend long periods living in benefit dependent families. For example, for children born in 1993, approximately one in five were supported by a main benefit for seven or more of their first 14 years of life.²⁷

Nearly 60 percent of all children living in poverty are in households where the adult (or adults) is not in paid work. A further 10 percent of children living in poverty have no adults working full-time (see Figure 4.2 below). To put it another way, 61 percent of all households with children whose parents are not in work are in poverty. While there are many factors that impact on childhood wellbeing and outcomes, the level of family resources is a critical determinant of a range of outcomes, including health and education.²⁸

Low levels of income are associated with many risk factors associated with poor child health. New Zealand children growing up in poor families are more likely to live in overcrowded dwellings, and have nutrition and access to health services restricted by income. Data shows that 38 percent of the most disadvantaged households report that they sometimes cannot afford to eat properly. In addition, children growing up with the

²⁵ The figures presented are based on the household equivalised quintile estimates from Perry (2009). The quintile boundaries are based on the boundaries for a couple with no children. The respective boundaries for a sole parent are: \$24,600; \$34,500; \$45,500; \$63,800.

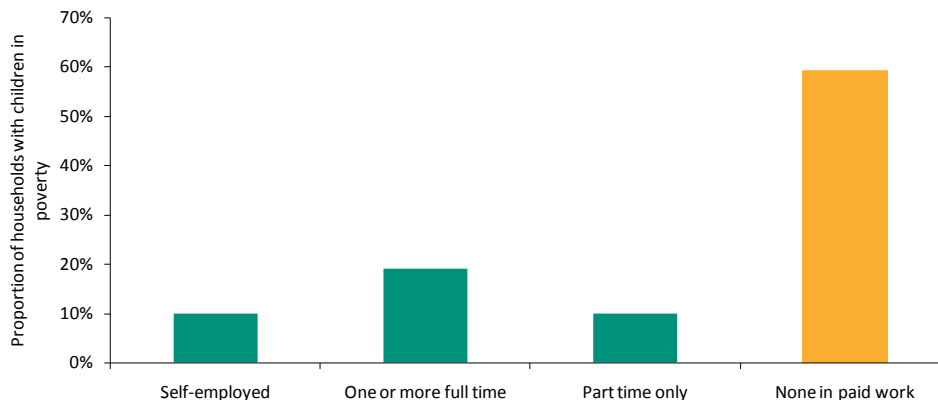
²⁶ Berthoud, R; Bryan, M and Bardasi, E (2004); *The Dynamics of deprivation: the relationship between income and material deprivation over time*; Department for Work and Pensions, Research report 19.

²⁷ Wilson, M and Soughtton, D (2009); 'Children in Families Supported by Main Benefits: An Update'; *Social Policy Journal*, Issue No. 36.

²⁸ Woessmann, L and Fuchs, T (2001); *What Accounts for International Differences in Student Performance? A Re-Examination Using PISA Data*; IZA Discussion Paper No. 1287; CESifo Working Paper Series No. 1235.

lowest income have far higher rates of hospitalisation for rheumatic fever and serious skin infections.²⁹ Importantly, children from poor families do less well at school.

Figure 4.2: Proportion of households with children in poverty by household type, 2008



Source: Perry, B (2009); *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2008*; Report prepared for the Ministry of Social Development.

Childhood poverty is also concentrated in some groups. In 2009, one in six European/Pakeha children, one in four Pacific children, and one in three Māori children lived in poor families. The higher poverty rate for Māori children reflects the relatively high proportion of Māori children living in sole parent beneficiary families and households. In June 2009, 43 percent of Domestic Purposes Benefit recipients were Māori.³⁰

Work, benefit levels and poverty

Adult joblessness is strongly linked to childhood poverty, and this has a range of negative health and educational outcomes for children. Indeed nearly 60 percent of New Zealand children living in poverty are in households where there is no adult in work.

New Zealand's level of social assistance for sole parents relative to median weekly earnings is one of the highest in the OECD. Figure 4.3 below shows that New Zealand's sole parent benefit (including housing costs) is the fourth highest in the OECD. New Zealand's sole parent benefit is 55 percent of median household equivalised income. The rate of this benefit is higher than Finland (52 percent), Norway (52 percent) and Sweden (52 percent).

Those countries with the lowest levels of childhood poverty in the OECD are those that also have the highest rates of sole parent employment (combined with a benefit level close to New Zealand's rate). The countries with the lowest child poverty rates in the OECD are Denmark, Finland, Sweden, Norway, France and Austria.³¹ In all of these countries medium levels of benefit are combined with a high employment rate for sole parents.

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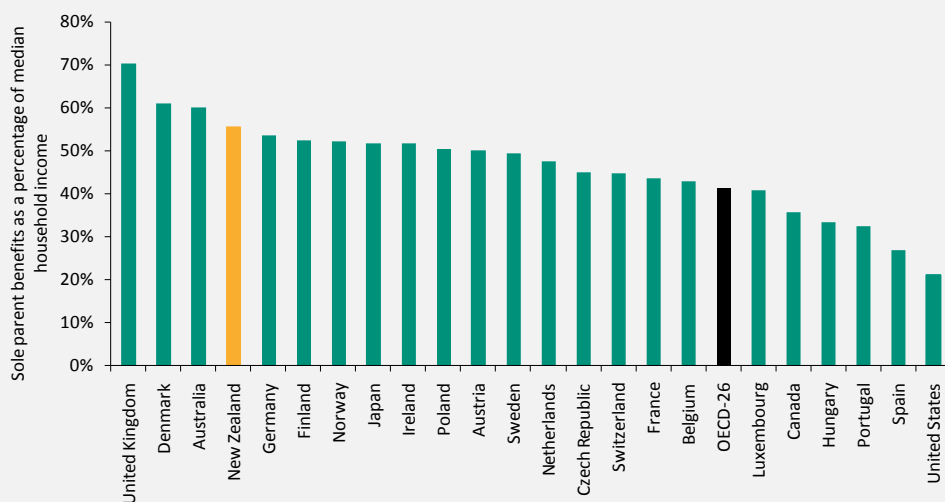
²⁹ Craig, E; Jackson, C and Han, D.Y, NZCYES Steering Committee; *Monitoring the Health of New Zealand Children and Young People: Indicator Handbook - 2007 Auckland*; Paediatric Society of New Zealand, New Zealand Child and Youth Epidemiology Service.

³⁰ Perry, B. (forthcoming); *Household Incomes in New Zealand: trends and indicators of inequality and hardship 1982-2009*

³¹ OECD (2009); *Doing Better for Children*; OECD.

The top performing countries in terms of childhood poverty show that it is possible to have low rates of child poverty when reasonable benefit levels are combined with high employment rates for sole parents. Whiteford and Adema (2007) find that if New Zealand could lower the share of jobless households to that experienced in the top performing countries, New Zealand's child poverty rate would drop by a quarter.³²

Figure 4.3: Sole parents benefits (including housing costs) relative to median household income, 2005



Source: OECD (2009); *Society at a Glance*; www.oecd.org/els/social/indicators/SAG.

4.5 Employment and job-related experience

People in employment have attachment to an employer and the labour market and they build experience over time. According to Statistics New Zealand, nearly 95 percent of people who are in employment, remain in employment from one quarter to the next.

The longer that people are in work, the more skills and work related experience they gain. Dixon and Crichton show that there is substantial earnings growth for the group of beneficiaries who move from benefit to work.³³ They show that in the first six months after someone moves from benefit to sustained work, their average earnings are \$1,760 per month. They then show that in the second six months after beneficiaries are in work (real) monthly earnings are 1.1 percent higher (or \$19.36 higher). In the third six months earnings are 6.1 percent higher (\$107.36 higher), and by the fourth six months, 8.5 percent higher (\$149.60).

Weak attachment to the labour market is both a cause of long-term benefit receipt and a consequence. People out of work are most likely to reduce job search and have fewer work related skills. The key issue for many employers is not the need for people with advanced technical and professional skills, but people who are employment ready and

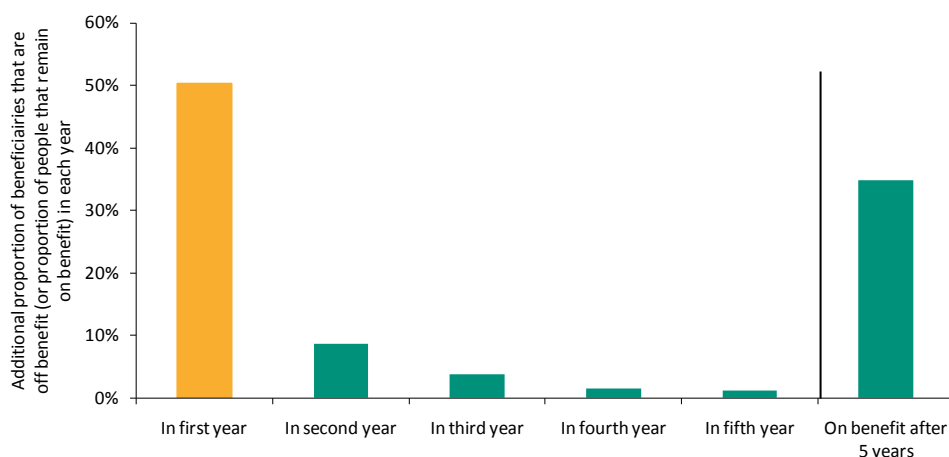
³² Whiteford, P and Adema, W (2007); *What works best in reducing Childhood Poverty: A Benefit or Work Strategy*; OECD Social, Employment and Migration Working Paper 51.

³³ Dixon, S and Crichton, S (2007); 'The longer term employment outcomes of people who move from a benefit to work'; *Social Policy Journal of New Zealand*, Issue No. 31, July 2007.

committed.³⁴ As people spend longer on a benefit, they become less motivated and less confident about trying to actively seek work and less desirable to employers.

There is strong evidence on the association between the time spent on a benefit and the likelihood of leaving and remaining off a benefit.³⁵ While 50 percent of people who enter the benefit system in any given year are off benefit after one year, only an additional 9 percent of people are off benefit after two years, and only a further 6 percent of people are off the benefit three years later (see Figure 4.4). Over one-third of the people who enter the benefit system are on benefit five years later.

Figure 4.4: The proportion of additional people off benefit each year



Source: Ministry of Social Development Benefit Dynamics Dataset (1993-1998 cohort).

4.6 Being out of paid work is associated with poor psychological and social consequences

There is a rapidly growing literature on the well-being of people in employment compared to those who are unemployed. People who are in employment have higher measured life satisfaction than those who are unemployed. The non-monetary impact on wellbeing from the loss of employment far outweighs the loss in income associated with not being in employment.³⁶ This result shows the fundamental importance of paid work for people, economically, psychologically and socially.

Tension and conflict in families is associated with joblessness. The loss of social and professional contacts in the workplace can result in poor health, family violence and social

³⁴ Paul Anderson from KiwiRail to the Welfare Working Group Forum.

³⁵ There is still a question as to the degree to which the declining rate at which people find work as they spend longer on benefit is the result of the most disadvantaged remaining jobless longer (unobserved heterogeneity) or whether being out of paid work is harmful for the likelihood of moving into employment (state dependence). Nevertheless, when looking at the unemployed, even where we control for all the personal characteristics of people, the steep decline in the rates at which people leave unemployment remains. In addition, we also observe a strong effect from earlier periods of unemployment lowering the probability of exit from the current spell (see Carroll, N (2006); 'Explaining Unemployment Duration in Australia'; *The Economic Record*, vol 82, number 258.)

³⁶ Winkelman, L and Winkelman, R (1998), 'Why Are the Unemployed so Unhappy? Evidence from Panel Data'; *Economica*, 65, 1–15; Frey, B.S and Stutzer, A (2002). 'What can economists learn from happiness research?' *Journal of Economic Literature*, vol. 40, pp. 402–435; Carroll, N (2007); 'Unemployment and Psychological Wellbeing'; *The Economic Record*; vol 83, number 262. Clark, A; Georgellis, Y and Sanfey, P (2001), 'Scarring: The Psychological Impact of Past Unemployment', *Economica*, 68, 221–41.

exclusion. The stress generated by joblessness is associated with medical problems that are linked to lifestyles involving poor diet and/or excessive consumption of alcohol.³⁷ The Royal Australasian College of Physicians' position statement notes that psychological distress may occur in children whose parents face increased economic pressure, sometimes resulting in withdrawal, anxiety and depression in the children, or aggressive or delinquent behaviour and substance abuse.

What people from the workshops said about what it was like to be on a benefit

A key theme about life on a benefit, that came through the Welfare Working Group workshops around the country, was that being on a benefit was a blessing in hard-times, but having to be on a benefit for long periods was demoralising. People who had a long history on benefit, particularly older beneficiaries, talked about how their confidence was initially quite low. We heard that even though there is a strong overall desire to work, some people get 'comfortable' with a 'non-work focused' lifestyle on a benefit.

Workshop participants described how the current system is too complicated and too much time is spent on compliance. People talked about how the system incentivises people to change what they do in order to qualify for a range of different allowances. We heard that the system does not give enough incentive for people to work longer hours.

We also heard that people with high and complex needs (particularly those people with disabilities that require high levels of support) find the system difficult to negotiate as they feel that they are caught between the health system and the welfare system. This group of people said that long-term dependence should not be viewed as a negative.

We also heard of the difficult choices that people make. One workshop participant, Anaru, told us that he was just about to complete his building apprenticeship when he was laid off due to the impact of the economic downturn. He is now receiving the Unemployment Benefit, but his family has urged him to take other work, such as a seasonal job in fruit packing, to tide him over until he can get another apprenticeship. He understands that this might lead to new opportunities, but is concerned that taking an unskilled job would be a waste of his skills and affect his chances of returning to the building industry.

On the positive side, people who moved into paid work were happy they found work (often after plenty of knock-backs). In a number of cases, they were receiving Working for Families and felt 'reasonably comfortable' on their incomes. Often the work is not perfect, but it is still better than being on a benefit. For young people, we heard that employers want to see evidence of them having a work ethic, team work, self-responsibility, and the discipline to get up every morning.

4.7 Paid work is associated with better physical and psychological health

Dame Carol Black's recent review of the health of Britain's working age population draws us to the positive links between health and paid work by highlighting the 'compelling

³⁷ Australian Department of Education, Employment and Workplace Relations (2009); *Jobless families in Australia: Their prevalence, personal and societal costs and possible policy responses*; report prepared by Tony Vinson for the Australian Department of Education, Employment and Workplace Relations; Darity, W (1999) 'Who Loses from Unemployment', *Journal of Economic Issues*, 33(2) 491-96. Sen, A (1997) 'Inequality, Unemployment and Contemporary Europe'; *International Labour Review* 136(2), 155-171; Junankar, N and Kapuscinski, C.A (1992); *The Costs of Unemployment in Australia*. EPAC, Canberra: AGPS.

evidence that work has an inherently beneficial impact on an individual's state of health'.³⁸

This view is echoed in the Royal Australasian College of Physicians' position statement which concludes that 'for most individuals, working improves general health and wellbeing and reduces psychological stress'.³⁹

An extensive review of evidence from the United Kingdom found strong evidence that re-employment improved self-esteem, improved mental and overall health and reduced psychological distress and minor psychiatric illness.⁴⁰ It also found a broad consensus that sick and disabled people, especially those with 'common health problems', should be encouraged and supported to remain in, or return to work, as soon as possible because it is therapeutic; helps to promote recovery and rehabilitation; reduces poverty; and promotes participation in society, independence and human rights.

This evidence, that work can have health benefits, sits alongside evidence that being out of paid work is itself harmful to health. This is reflected in higher mortality, poorer general health, poorer mental health and higher medical consultation and hospital admission rates.⁴¹

The initial period on benefit may be critical for people with a health condition. David Bratt at the Welfare Working Group forum notes that the risk of never returning to work rises steeply as the time off work due to illness lengthens. It has been estimated that, on average, if a person is off work for 45 days due to illness, the chance of ever going back to work is just 50 percent, and this falls to 35 percent if the absence is longer than 70 days (ten weeks).⁴² The ways that people view limitations resulting from their impairments is formed early on in their benefit spell and the longer they spend inactive, the more limiting the perception of their condition can become. This suggests that an active and immediate approach to support people back into work, and to counter perceptions of the limitation early on, is critical.

4.8 The benefit system and families and whānau

Economic dependency and economic wellbeing are supported by a range of factors outside of work. These factors include whānau and families and savings and assets.

Family formation is inherently a personal decision and an individual's decisions about their needs in regard to family formation and partnering will depend on the circumstances that they face. A benefit system should not promote certain family types over others. There is limited evidence in this area.⁴³ Nevertheless, a key question is whether New Zealand's high rate of sole parenthood compared to other OECD countries is entirely driven by broader social trends.

³⁸ Black, C (2008); *Working for a Healthier Tomorrow*; Review of the Health of Britain's working age population.

³⁹ The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2010); *Realising the Health Benefits of Work: A Position Statement*.

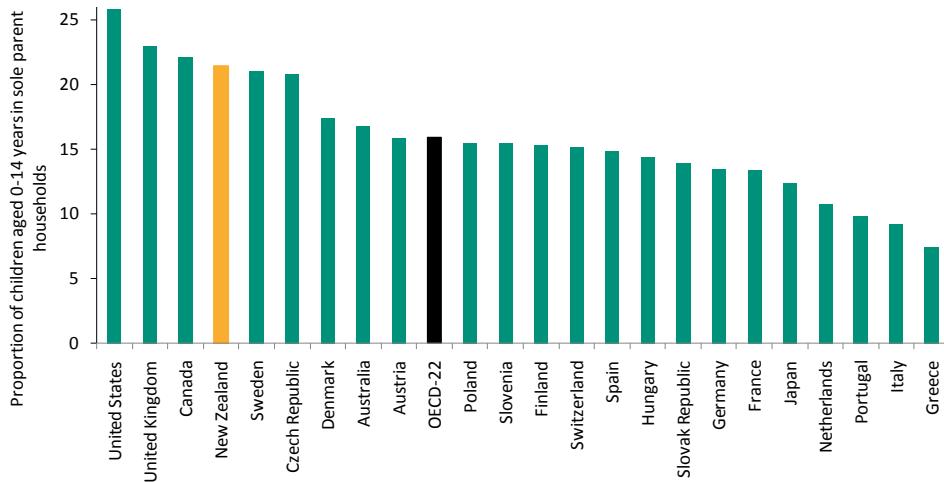
⁴⁰ Waddell, G and Burton, A (2006); *Is Work Good for Your Health and Wellbeing*; report commissioned by the Department for Work and Pensions on the scientific evidence on work and health and wellbeing.

⁴¹ Ibid.

⁴² The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2010); *Realising the Health Benefits of Work: A Position Statement*.

⁴³ Nolan, P. (2008); *When work and marriage do not pay: Poverty traps and marriage penalties in New Zealand's tax-benefit system*. Paper presented to the New Zealand Association of Economists Conference.

Figure 4.5: Proportion of children in sole parent households, around 2007



Source: OECD Family Database (www.oecd.org/els/social/family/database).

What did people from the workshops say about the wider costs from the benefit system?

The key theme that we heard from the workshops about the wider costs of benefit receipt was that it disempowered adults and was adversely impacting on children and young people. We heard of a culture of low expectations for some young people and children. One participant commented that some families are in ‘the survival box’. We also heard that access to benefits influences whether young people stay or remain living with their parents.

4.9 Intergenerational consequences of long-term joblessness

Family and whānau have a critical role in shaping young people and providing them with the best possible start in life. Ultimately, we want strong outcomes for our children, in terms of education and health in childhood that build strong outcomes in adulthood. Disadvantage in childhood can have long-lasting effects into adulthood. Some participants in our workshops noted that some families/whānau were benefit dependent for many generations and that this dynamic is becoming entrenched.

Where parents with work capacity are not engaged in paid work, this sends messages about the value of paid work and the benefits to engaging in education to improve work prospects. In addition, families with very low levels of income have fewer resources to invest in their children. This may lead to children from poor families having worse educational and health outcomes.

There is evidence that growing up in a family that is dependent on welfare is associated with a greater risk of benefit dependence.⁴⁴ In the UK, it was found that in the decade prior to their 33rd birthday, around one in ten sons had been unemployed for more than one year, but for sons whose father was unemployed when they were 16 years old, nearly one in five sons experienced one or more years of unemployment.⁴⁵ In Australia, one in

⁴⁴ Maloney, T; Maani, S and Pacheco, G (2003); ‘Intergenerational Welfare Participation in New Zealand’; *Australian Economic Papers*, September 2003.

⁴⁵ Johnson, P., and Reed, H. (1996). Intergenerational mobility among the rich and the poor: Results from the National Child Development Survey, *Oxford Review of Economic Policy*, 7, 127-42.

ten young people from middle-income families received income support, compared to one in three from long-term social security recipient families.⁴⁶

Professor Deborah Cobb-Clarke at the Welfare Working Group Forum showed that Australian youth who had lived in families with a history of being on income support were more likely to engage in a range of risky behaviour. This risky behaviour included 'engaging with a bad crowd', 'running away', and 'consuming alcohol and illicit drugs' and was also associated with having contact with police and the courts.

4.10 Long-term benefit receipt and criminal offending

Long-term benefit receipt is costly for the community because it is associated with higher levels of criminal offending. The level of offending by some people on benefit is high, and there is good evidence that some of this is caused by joblessness.⁴⁷ Research shows that, particularly for young people, getting a job reduces the likelihood of criminal offending. For young people, employment reduces time in 'unstructured' activities; is associated with self esteem, financial security, good role models, and often takes young people away from deviant peer groups. A conclusion of the United States National Supported Work Demonstration Project research was that 'work appears to be a turning point in the life course of criminal offenders over 26 years old. Offenders who are provided even marginal employment opportunities are less likely to reoffend than those not provided such opportunities'.⁴⁸

4.11 Regional communities and the benefit system

Long-term benefit receipt is concentrated in some regions and areas, and this brings a range of adverse effects.

Figure 4.6 shows the prevalence of benefit receipt amongst the working age population across local authority areas. The prevalence of benefit receipt is much lower in the South Island, with benefit prevalence of less than 10 percent in most areas. Buller, on the West Coast, is a notable exception. Benefit prevalence is much higher in the North Island, where few local authority areas have prevalence rates of less than 10 percent. Areas with a prevalence of at least 20 percent are the Far North, Papakura (in Auckland), Opotiki, Gisborne and Wairoa (the East Cape), Whanganui and the Horowhenua.

Specific neighbourhoods are adversely affected where there are large concentrations of people on benefits long term. These effects range from extra stress on community organisations, to reduced purchasing power in the local economy.

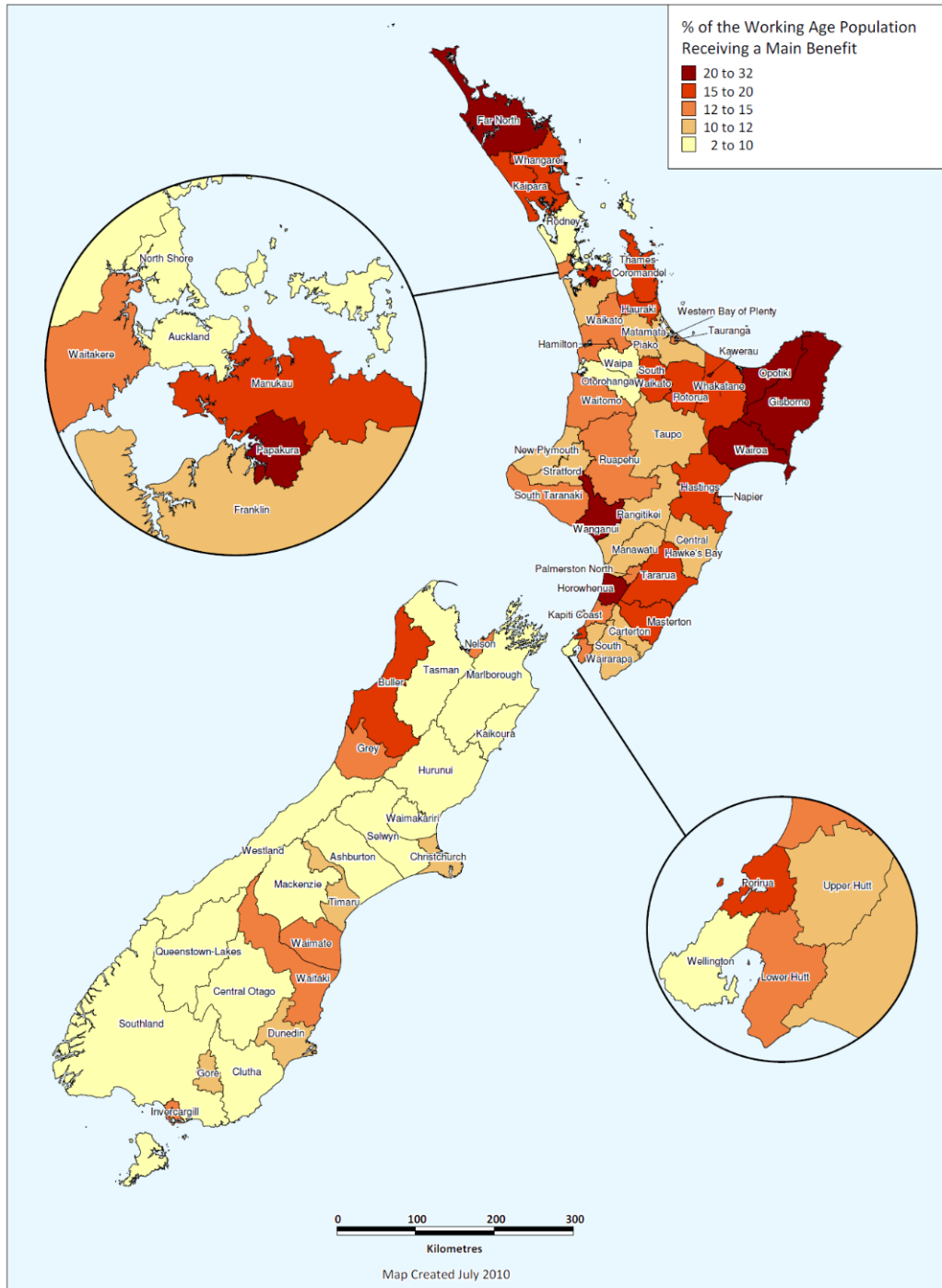
These effects also seem to be exacerbated by the costs of housing. Areas of high benefit receipt and few jobs will often attract more beneficiaries because of cheaper housing. At the same time, differences in housing costs are also a barrier for some people to move to areas with more jobs.

⁴⁶ Deborah Cobb Clarke to the Welfare Working Group forum.

⁴⁷ Freeman, R. (1999) 'The economics of crime' Handbook of Labor Economics Ch 52 Volume 3, Part 3, 1999, Pages 3529-3571; Fergusson, D. M., John Horwood, L. and Woodward, L. J. (2001). Unemployment and psychosocial adjustment in young adults: causation or selection? *Social Science & Medicine*, 53, 3, pp. 305-320; Kazemian L. and Maruna S. (2009) Desistance from crime, Handbook on Crime and Deviance, Krohn et al., [eds] Ch 15 p277-295.

⁴⁸ Uggen, C. (2000). Work as a turning point in the life course of criminals: A duration model of age, employment, and recidivism. *American Sociological Review* 67, p542.

Figure 4.6: Number of working age people in receipt of a main benefit as a proportion of the population by local authority areas, June 2010



Source: Ministry of Social Development.

4.12 Māori and the benefit system

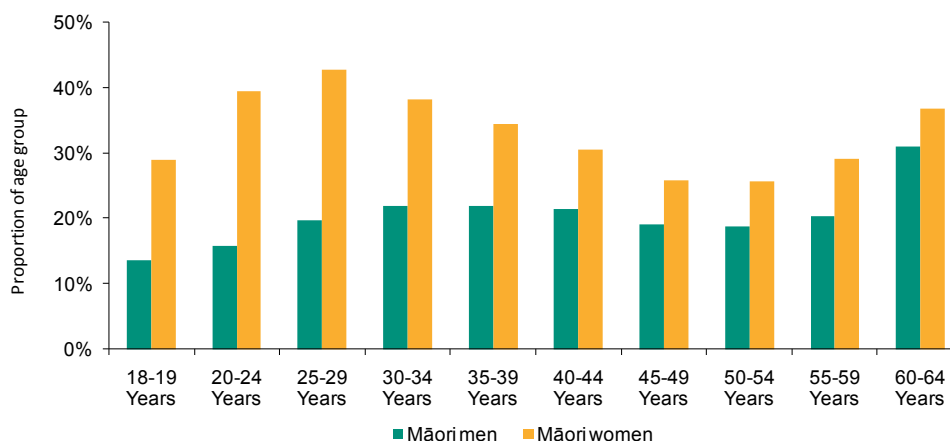
The extent of benefit receipt among Māori was an important issue raised in our workshops and consultations. We heard a diverse range of views and experiences. Key themes were the very high level of joblessness and benefit receipt in some Māori communities, and the impact that this high level of benefit receipt is having on whānau and rangatahi in particular. We have heard many examples of individuals moving into

employment with the right combination of self belief, training and support. We also heard about the increase in benefit receipt by Māori as a result of the recent recession.

Despite this, the statistics are disturbing, as the extent of benefit receipt in Māori communities is very high. At the time of the latest census in 2006, just over 27 percent of Māori between the ages of 18 and 64 years were receiving a benefit. This compares to 12 percent in the total population. Māori women were more likely than Māori men to be receiving a benefit. Among Māori women, just over 34 percent were receiving a benefit compared to 20 percent of Māori men.

Figure 4.7 shows the proportion of Māori men and women in different age groups on benefit at the time of the census in 2006. As can be seen, among young Māori women in their twenties, around 40% were receiving a benefit. Among Māori men in their thirties over 20 percent were on a benefit. At older ages benefit receipt increases sharply. The majority of Māori women on benefit receive the DPB, while Māori men on benefit tend to receive Unemployment, Invalid's or Sickness Benefit.

Figure 4.7: Benefit receipt of Māori men and women by age group, 2006



Note: The population estimate is based on a total response count of Māori.

Source: Statistics New Zealand estimated national ethnic population (2006), and Ministry of Social Development administrative data (2006).

As would be expected from these figures, there is a very high concentration of long-term benefit receipt among Māori. Based on an analysis of individuals aged 28 to 64 years of age on benefit in June 2009, it is estimated that just over 26 percent of all Māori women in the age group had spent five or more years on a benefit in the prior decade. Almost 17 percent of all Māori men in that age group had spent five or more years on a benefit in the last decade.

The extent of benefit dependence is higher among Māori than the rest of the population, but up until the recession the difference was declining. Census data shows that between 1996 and 2006 benefit receipt among the Māori population fell strongly as the economy improved. The extent of benefit receipt has now increased since the recession, with over 28 percent of Māori on benefit in 2009. The unemployment rate for Māori has increased from 12.6 percent in June 2009 to 16.4 percent in June 2010.⁴⁹

⁴⁹ Statistics New Zealand (2010); *Household Labour Force Survey: June 2010 quarter*.

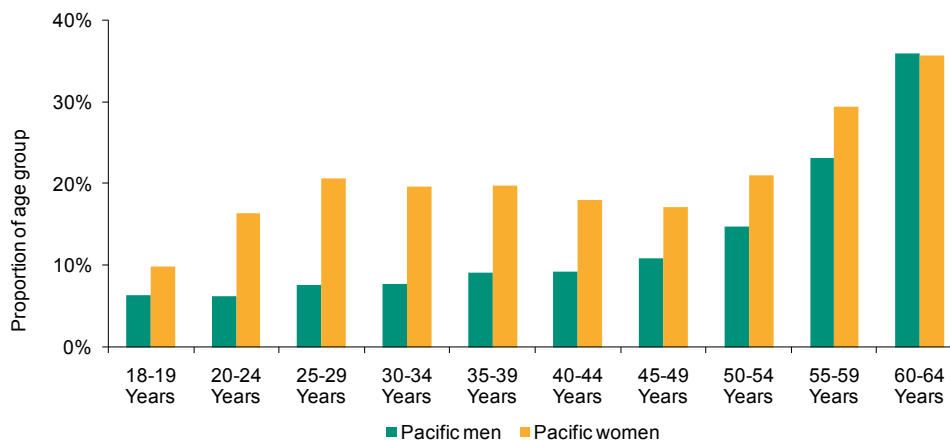
It is likely that factors such as lower levels of education, poorer health, sole parenthood, and rural geography explain the higher rates of benefit receipt overall.⁵⁰ However it is also reasonable to conclude that part of the cause is the structure of the benefit system itself, with long-term benefit receipt becoming entrenched and normalised in many Māori communities.

4.13 Pacific people and the benefit system

There is a higher concentration of benefit receipt among Pacific communities, and Pacific people are over represented in the number of people on benefit for long periods.

In 2006 more than 15 percent of Pacific people received a benefit, compared to 12 percent for the general population.⁵¹ At the time, 20 percent of Pacific women and 11 percent of Pacific men were receiving a benefit. Figure 4.8 shows benefit use by age for Pacific men and women. As can be seen, young Pacific women have a high prevalence of benefit receipt, and for both men and women the extent of benefit use increases sharply at older ages.

Figure 4.8: Benefit receipt of Pacific men and women by age group, 2006



Note: The population estimates are a total response count of ethnicity, and the Ministry of Social Development administrative data is largely prioritised. As a result the prevalence of benefit receipt is under-estimated among Pacific people.

Source: Statistics New Zealand estimated national ethnic population (2006), and Ministry of Social Development administrative data (2006).

Census data shows that between 1996 and 2006 benefit receipt among the Pacific population declined more strongly than for the rest of the population. However since that time there has been an increase in the number of Pacific people on benefit. The impact of the recent recession on Pacific people, particularly among older Pacific people, and men aged 55 years or older, was raised at the workshops held in Auckland and Wellington. The unemployment rate for Pacific people has increased from 12.8 percent in June 2009 to 14.1 percent in June 2010.⁵²

⁵⁰ For evidence on how these different factors impact on employment see Winkelmann, L. and Winkelmann, R. (1997) 'Determining the relative labour force status of Māori and non- Māori using a multinomial logit model', Labour Market Bulletin, 1997(1) 24-62.

⁵¹ The prevalence estimates for Pacific People are likely to be an underestimate, as the administrative data is largely based on a prioritised ethnicity methodology.

⁵² Statistics New Zealand (2010); Household Labour Force Survey: June 2010 quarter.

4.14 Employers and long-term benefit dependence

Long-term benefit receipt is costly for employers. Withdrawal from the labour market by large sections of the potential workforce for long periods reduces their work readiness and capability. As mentioned in 4.5 above, the longer people are out of work, the harder they find it to locate and sustain work, if they do find it.

In the workshops, the Welfare Working Group heard from employers about the importance of productive staff in order to remain competitive and profitable. Many employers in the workshops were prepared to give beneficiaries ‘a start’ but had previously experienced problems in terms of reliability and focus. Paul Anderson from KiwiRail noted at the Welfare Working Group Forum that ‘there is a need to bridge the gap between the skills of beneficiaries and employers’ minimum requirements for both short and long-term beneficiaries and school leavers’. Employers at the workshops acknowledged the skills gap that existed, but some were considering employing immigrants as a means of filling skills shortages in their own workforces.

Over the last decade a significant proportion of firms found it difficult to recruit unskilled labour, yet there were significant numbers of people on a benefit. These labour shortages limited the capacity of firms to grow and take market opportunities. In 2008, roughly 10 percent of the working age population were receiving a benefit. Yet at that time around 15 percent of firms reported finding it hard to fill unskilled and manual vacancies.⁵³

Table 4.1: Difficulty of finding unskilled labour and the proportion of the population receiving a benefit

	Number of firms (2009)	Average difficulty of finding unskilled (2003-2008) ¹	Numbers on benefit (March 2010)	Benefit prevalence (percentage of population 15-64 years)
Northland	20,838	26%	17,621	18%
Auckland	161,104	29%	104,886	11%
Waikato	52,447	28%	33,199	13%
BOP	33,918	25%	23,027	14%
Gisborne/Hawkes Bay	23,446	30%	18,335	18%
Taranaki	14,458	22%	7608	14%
Manawatu	25,937	18%	19,983	11%
Wellington	52,179	31%	31,535	14%
Tasman/Nelson/Marlborough/West Coast	19,232	38%	10,490	10%
Canterbury	65,033	28%	35,862	8%
Otago	25,968	24%	11,201	12%
Southland	13,890	27%	5517	8%

Note: 1. Average difficulty refers to the percentage of firms that report it is increasingly difficult to find unskilled labour.

Sources: Statistics New Zealand (Business Demography Statistics); NZIER (Quarterly Survey of Business Opinion - 2003-09); Ministry of Social Development; Statistics New Zealand (Population Estimates).

⁵³ Statistics New Zealand (2008); *Business Operations Survey*

A difficulty in finding unskilled labour occurred across all regions. Table 4.1 shows the proportion of firms finding it difficult to find unskilled labour varied from 18 percent in the Manawatu to 38 percent in the Tasman/Nelson/West Coast/Marlborough region. These rates were high even in regions where there was a high proportion of the population receiving a benefit.

4.15 Summary

People who are in paid work are better off economically and socially. Research also points to the fact that being in paid work is also good for a person's health. For some at risk young people it also reduces the risk of criminal offending.

People out of paid work and on a benefit are more likely to experience poverty, social dislocation and poor mental and physical health. Long-term benefit receipt and joblessness also has a range of adverse impacts on neighbourhoods and communities. The adverse impacts of high levels of long-term benefit receipt are particularly concentrated in Māori and Pacific communities. High levels of long-term benefit receipt are also a constraint on economic performance as it means that employers are unable to recruit and train suitable staff.

Tell us what you think

- Q5: What impacts do you see from long-term benefit receipt on individuals, families and whānau, communities and the economy?
- Q6: What do you see as the main barriers to employment for people on a benefit?
- Q7: What are the barriers to employers hiring long-term beneficiaries and also investing in workplace health programmes?

Section 5. The benefit system does not support a focus on paid work

5.1 Why we should widen the focus on work

We have seen that long-term benefit receipt has a range of adverse consequences. In this section we review the specific arguments around whether the current focus on work for those people on the Unemployment Benefit and partners in the benefit system should be broadened out to a wider group of people. This section also looks at some of the features of the benefit system and other policy areas that need to be changed to enable more people to participate in paid work.

5.2 Why it is important to have a greater focus on paid work

Employment for parents is increasingly the norm

In a number of our workshops across New Zealand, we heard from sole parents who wanted to secure paid employment, so they could have greater control of their future, and better provide for their children.

The importance of paid work for many is clear from Statistics New Zealand's Income Survey where 26 percent of Domestic Purposes Benefit recipients are actively looking and/or available for work.⁵⁴ We also know that the single most important reason for people exiting Domestic Purposes Benefit is to take up employment.

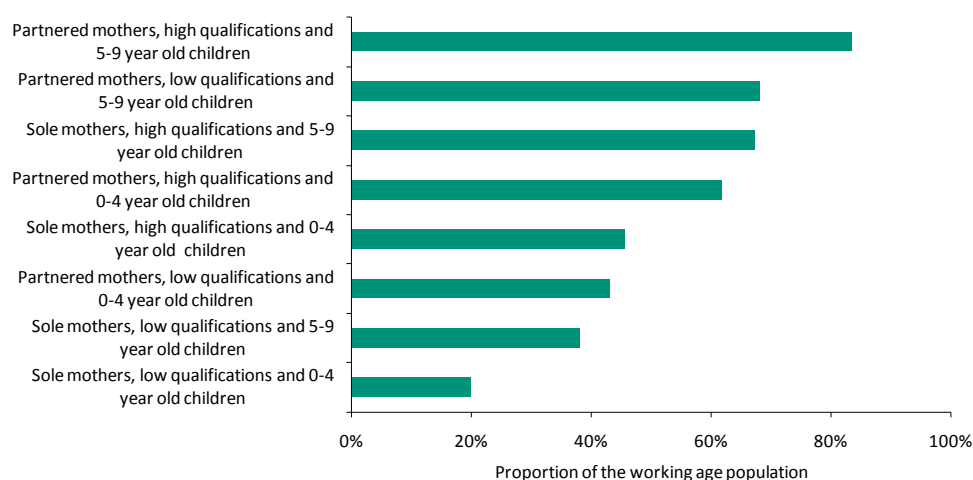
In New Zealand today it is the norm for most mothers to be in paid work. Two in three partnered mothers with dependent children are in employment. This increases to 80 percent of partnered mothers with post-school qualifications, whose children are aged five to nine years (see Figure 5.1). However, some groups have substantially lower employment rates. Only one in five sole mothers with no qualifications, whose children are aged 0-4 years, are in employment. Those in paid work only increases to two in five sole mothers with no qualifications, whose children are aged five to nine years.

Unlike in New Zealand, in many OECD countries the employment rates of partnered and sole mothers are similar, or sole mothers' employment rates are higher. Peter Whiteford at the Welfare Working Group forum showed that in Denmark, France, Germany, Sweden and Ireland sole mothers had *higher* employment rates than partnered mothers. Whereas in New Zealand sole mothers had an employment rate that was close to 20 percentage points *lower*.

The importance of paid work for mothers was discussed in the previous section, highlighting that paid work brings income and is a route out of poverty. At least as important for many parents, is how paid work enables them to be a positive role model for children (see box below).

⁵⁴ These statistics refer to the proportion who are measured as 'jobless'. To be counted as 'jobless', an individual needs to be available and actively seeking work, available but not seeking work, or actively seeking work but not available.

Figure 5.1: Employment rates for different groups of mothers



Source: Statistics New Zealand (2006 Census).

What people from the workshops said about work

A strong message expressed by sole parents was the importance of being a positive role model for their children. For most this was by being seen to be working, especially if they had older children. Some sole parents spoke of their desire to provide things for their children that they could not on a benefit, for example school uniforms and a day out.

Participants in workshops highlighted that support to sole parents to enter employment is limited and has been affected by the focus on reducing the numbers of people on the Unemployment Benefit. People described how child care costs and transport were inhibitors to going to work.

We heard that people on a benefit are there after falling out of the education system. Families, schools and communities are all part of the pathways on and off a benefit. We heard that many of the people who have a long history of benefit dependency have a range of deep issues. People discussed how we are not investing now to save money in the future.

People told us that training needs to be relevant to the workplace to improve employment and wages. For people re-entering the workforce after a long break, building skills that mean that they can do the job properly is important, and there needs to be better funding for programmes with direct labour market outcomes.

A strong message that we heard was that we need to stop stigmatising beneficiaries by focusing on deficits, rather than strengths, and 'blaming the victim'. This is emphasised by the categories of the benefits. Participants also emphasised the importance of recognising that whānau are integral to supporting people (beneficiaries) to achieve their desired outcomes.

Parents need to find childcare that is responsive to their needs

Parents who have the sole responsibility for their dependent children need to find caring and learning environments for them while they are at work. Care may be provided by relatives, nannies, or in different forms of centre-based care (for example, day care centres, crèches, playgroups and nurseries). Care involves activities like over-seeing health and safety, controlling inter-child conflict and feeding. Education involves more active

learning. The OECD notes that 'care shades into education... [and that] appropriate adult-child ratios decline as the child gets older and care needs diminish'.⁵⁵

Internationally, the Nordic countries (Sweden, Denmark and Norway) have very high rates of sole parent employment combined with generous, guaranteed (often public) provision of childcare. New Zealand's childcare assistance has been considerably expanded in recent years, with the introduction of 20 free hours per week of early childhood education, increases to subsidies for after school programmes and childcare for low income families.

Three-quarters of New Zealand children aged 0-4 years are in some form of childcare.⁵⁶ This rises from about 48 percent of children aged 0-1 year to 91 percent of children aged 4 years. Around 54 percent of young children are in some form of formal childcare; while 46 percent are in some form of informal childcare arrangement (many parents use both formal and informal care arrangements). Nearly 70 percent of parents who used formal childcare had costs of less than \$50 per week for this care, while over 95 percent of parents who used informal childcare had costs of less than \$50 per week.

The recently released 2009 New Zealand Childcare Survey reported that among sole parents, 26 percent who had worked or wanted to work in the last 12 months had experienced difficulties with childcare.⁵⁷ This was higher than for two-parent families (13 percent). The main problems were the cost of care and availability at the right times.

OECD conclusions about the impact of childcare on child wellbeing

While the impact of childcare on child wellbeing remains an area of considerable debate, the OECD summarises the findings in their report *Doing Better for Children*.⁵⁸ The basic conclusions are that:

- Out-of-home care can have positive effects, given an average quality of childcare, for children whose parents are mentally ill, overly stressed or have poor parenting skills.
- If childcare allows higher family employment, more income may have positive effects on children.
- Childcare can allow positive social interactions with other children, which become important from about age two years onwards for many children, in addition to the benefits of learning how to socialise and cooperate with others.
- On the other hand, significant amounts of non-parental care at very young ages (before the age of two years) may raise risks of insecure attachment to parent and may limit breastfeeding.

More recent evidence casts some doubt on this last point. A new study of maternal employment in the US now suggests that there are no overall negative impacts on children from mothers working in paid employment while the child is under one year of age.⁵⁹

⁵⁵ OECD (2009); *Doing Better for Children*; OECD.

⁵⁶ Statistics New Zealand (2010), *2009 Childcare Survey*.

⁵⁷ Ibid.

⁵⁸ OECD (2009); *Doing Better for Children*; OECD.

⁵⁹ Brooks-Gunn, J., Han, W., and Waldfogel, J (2010) 'First-year maternal employment and child development in the first 7 years', *Monographs of the Society for Research in Child Development*, Vol 75 (2) August.

The debate around childcare is one which extends beyond sole parents, with a strong push in recent years across OECD countries, to increase participation in early childhood education, together with a push in a number of countries for early years support and programmes for young children.

The value of work for disabled people is increasingly being acknowledged

We also heard from our workshops how important work is for disabled people. Work is an important part of participating in New Zealand society. Statistics New Zealand's 2009 Income Survey showed that around 22 percent of people receiving Sickness Benefit and 11 percent of people receiving Invalid's Benefit were available and/or actively looking for work.⁶⁰ In Section 3 we saw that some people leave Sickness Benefit and Invalid's Benefit for employment.

Employment participation by people with disabilities in New Zealand is high by OECD standards. Nearly three in five working age disabled people requiring medium levels of support (around 96,000 people) or low levels of support (around 97,000 people) are in paid employment.⁶¹ There are around 35,000 working age people with permanent and severe conditions that restrict daily activities they are able to undertake. According to the 2006 New Zealand Disability Survey, around one in three of these working age disabled people with high support needs were in employment.

Barriers for people with sickness or disability in employment

Working age disability policies target a large and diverse group with varying barriers presenting obstacles for participation in the labour market. For people with ill-health and disability, the relationship between medical conditions and vocational fitness is determined by a range of complex and inter-related factors. In particular, the types of conditions (the degree to which there are co-existing conditions), the skills and capacities that the individuals have and their fit with the types of jobs that employers offer are all important components of whether people with ill-health will be in employment.⁶²

In New Zealand, one in three people on the Sickness Benefit or the Invalid's Benefit have a psychological or psychiatric condition and one in eight have a musco-skeletal condition. These conditions have also been the major drivers of the growth in the Invalid's Benefit in recent times.⁶³ Waddell and Burton conclude:⁶⁴

- Emotional symptoms and minor psychological morbidity are very common in the working age population: most people cope with these most of the time without health care or sickness absence from work.

(Continued over)

⁶⁰ These statistics refer to the proportion who are measured as 'jobless'. To be counted as 'jobless', an individual needs to be available and actively seeking work, available but not seeking work, or actively seeking work but not available.

⁶¹ See chapter 3 for a detailed description of the definition of medium and high needs support.

⁶² See Lattimore, R (2007) 'Men Not At Work: An Analysis of Men Outside of the Labour Force', page 154 for a further discussion.

⁶³ Wilson, M and McLeod, K (2006); 'Understanding the Growth in Invalid's Benefit receipt in New Zealand'; Social Policy Journal of New Zealand, Issue 29.

⁶⁴ Waddell, G and A Burton (2006); Is Work Good for Your Health and Wellbeing; report commissioned by the Department for Work and Pensions on the scientific evidence on work and health and wellbeing.

- People with moderate mental health problems are more likely to be out of paid employment with a risk of a further deterioration in mental health and consequential reduced chances of gaining employment.
- There is a general consensus that work is important in promoting mental health and recovery from mental health problems and that losing one's job is detrimental.
- There is a high background prevalence of musculoskeletal conditions, yet most people with musculoskeletal conditions (including many with objective disease) can and do work, even when symptomatic.
- Psychosocial factors (personal and occupational) exert a powerful effect on musculoskeletal symptoms and their consequences. They can act as obstacles to work retention and return to work; control of such obstacles can have a beneficial influence on outcomes such as pain, disability and sick leave.
- Control (reduction) of the physical demands of work can facilitate work retention for people with musculoskeletal conditions, especially those with specific diseases.

5.3 Achieving a greater focus on work requires a range of responses

We have argued that a focus on securing employment should be the default approach for the vast majority of people on a benefit. There are a variety of reasons why many people on benefits are not securing employment, and implementing this focus will require a range of responses.

A growing economy and job vacancies is clearly a necessary condition for increased levels of employment of beneficiaries, but it is not a sufficient condition. We know this because in 2008, 10 percent of the working age population were receiving a benefit, yet many firms had unfilled vacancies and were finding it difficult to recruit unskilled workers (see Section 4 for discussion). The experience from the time indicated that there were a variety of factors giving rise to a mismatch between the labour needs of employers and the circumstances of people on benefit.

For some people on a benefit, lack of transport, living in a remote area, access to affordable and suitable childcare, and chronic or episodic health needs create barriers to securing employment. Lack of actual or perceived financial returns from work, lack of disability-friendly workplaces, as well as the perceptions of employers, are also often cited as a barrier. There is also a group of people on benefit who have either given up, or are not interested in working.

On the employer side, the evidence suggests that many firms perceive it as risky to employ people who have been on a benefit. The survey evidence suggests that lack of the desired attitude, motivation or personality in applicants is the main reason why jobs are hard to fill even though there are unemployed people available.⁶⁵ Some of these reasons reflect concerns with the level of alcohol and drug dependence among people on a benefit, as well as criminal offending.

⁶⁵ Statistics New Zealand (2008); *Business Operations Survey*.

In the following sections we look at some of the particular aspects of the benefit system, as well as other areas, that are contributing to a mismatch between employers and people on benefits.

Participation is a key to improving social outcomes in general

In this paper we make the case that participation in paid work plays a vital role in improving outcomes for people across a range of factors. Employment provides income, but it also provides routine, and contributes to self-esteem. Employment also plays a strong role in supporting a sense of belonging to the community. There is strong evidence that most people value the contact they have through work, with fellow workers and with others.

We also recognise that for a small group of working age people, paid work will not be possible in the short term, or in some cases over an extended period, due to significant health or disability issues, or due to caring responsibilities. For those for whom employment is not possible for these reasons, social participation through other mechanisms remains vitally important.

We have heard from people with disabilities of the strong desire many have to work, as part of 'an ordinary life'. They have told us that they want to contribute – even if it's not through paid employment. They also tell us about not being isolated or excluded. In this context, they tell us that they want to be in the driving seat, to contribute to shaping decisions that affect their lives, rather than being seen as 'recipients of services'.

The importance of being included in the community is one of the elements of the United Nations Convention on the Rights of Persons with Disabilities. Among other things, the Convention also recognises the importance of access to education, as a key to enabling disabled people to participate effectively in society, and the right of a disabled person to work. The Convention sets up a challenge to government policy, to employers, to service providers and to the community, to make work possible and successful for a group that has often been excluded in the past.

Access to support services which enable people to participate in their community needs to be seen as an integral part of the wider welfare system.

5.4 Supporting more people into work from the benefit system

The number of people in long-term benefit receipt is not just driven by social and economic factors, but also by policy settings, the organisations who manage the benefit system and by the behaviour of individuals. There are features of the benefit system that create barriers to paid work. A strong benefit system needs to support people with current or potential work capacity quickly back into work. This section reviews the key features of the benefit system that are fundamental to supporting people into paid work, or that present obstacles as people consider paid work.

There is a significant level of hidden unemployment in the system

New Zealand's system of income support is based around categories of eligibility (for example, unemployment, sole-parenthood, sickness and disability). A key issue with the current system is that many people who have work capacity and are out of work are not often classified in the benefit system as unemployed. This is because many people in the benefit system are both unemployed and sole mothers, or unemployed and with ill-health

or impairments. When people lose their jobs they are classified in a way that emphasises extra difficulties, rather than the fundamental need for employment.

People who are entering the benefit system face financial and non-financial incentives to be placed on benefits with a weaker work focus. If a person moves from Unemployment Benefit through Sickness Benefit to Invalid's Benefit and Domestic Purposes Benefit, the work obligations get weaker, the case management becomes less focused on work and the rates of assistance can get more generous. This lack of work focus can also lead to people becoming disengaged from the labour market and spending extended periods on a benefit.

In reviewing disability provisions across a range of member countries, the OECD commented that 'generally, the lack of participation requirements can operate as an incentive for people on unemployment benefits to test their eligibility for a disability benefit...'.⁶⁶ Many of the circumstances where people move across benefits demonstrates need, but the system at times responds by providing less active support. For the year to March 2010, there were 37,219 transfers between benefits. There are around 9,000 moves from the Unemployment Benefit to Sickness Benefit and around 8,000 moves in return. There are around 5,500 moves from Sickness Benefit to Invalid's Benefit and around 1,000 moves in return. This is consistent with rules and processes that may lead people to more passive benefits, some with a higher payment level.

A strong benefit system should have a considered assessment of individual circumstances but from the starting point that people with current or potential work capacity should be supported into employment. The system sorts some onto Unemployment Benefit where there are strong work expectations and support to find work, but sorts others on to the Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit where the receipt of a benefit payment is not strongly linked to a focus on work.

One transitional issue is that moves towards a greater focus on work may result in higher measured official unemployment. This may occur as more people on non-work focused benefits begin looking for work and become available for paid work (the official measure of unemployment). On the other hand, over the long-term, as this group of people currently on less work-focused benefits locate and sustain employment, measured employment, labour force participation and Gross Domestic Product will rise. This underscores the importance of looking beyond short-term considerations to longer term benefits of reform.

Gateways to categorical payments need to be well managed

Given the at times significant differences between benefit types, the gateways to payments are particularly critical. There was a fall in the numbers on Unemployment Benefit between 2000 and 2008. While overall, numbers on all benefits fell over that period, the numbers on non-work focussed benefits increased (see earlier discussion in Section 3).

The change of the composition of the benefit population from work-focused benefit to less work-focused benefits is likely to in part reflect the improving labour market.

⁶⁶ OECD (2003); *Transforming Disability into Ability: policies to promote work and income security for disabled people*.

However, in a strengthening labour market it is even more critical that individuals with work capacity are engaged in the labour market.

In New Zealand, Sickness Benefit and Invalid's Benefits require general practitioners to provide a medical certificate with a diagnosis, the impact of problems on the patient's ability to work, and the likely duration. Medical practitioners have told us of the challenge they face in balancing their obligations to their patient, what might be seen as being in the immediate interest of that patient, and what is in the patient's long-term interest. Determining the latter depends on many factors, including whether there is active assistance available to address the needs of their patient.

The OECD has suggested that in many countries a number of people who were once managed as unemployed have been treated as incapable of working. This is in part because of the use of medical models for assessing eligibility, as opposed to models which assess a person's capacity, including capacity to work.

The inherent problem with most public disability schemes is that ... a medical practitioner with minimal or no training in the complex task of assessing how various injuries or ailments reduce labour market competitiveness, is required to estimate globally whether a person is unfit for work, including into the future. In practice, such decision-making varies considerably and unreliably across practitioners. The result being that significant numbers of people with partial work capacity and who are not wholly uncompetitive in the labour market, become deemed unable to work... In most benefit systems, they [benefit recipients] are also indirectly compelled to remain inactive and assert they are incapable of work in order to continue to receive payments.

OECD (2009); *Sickness, Disability and Work: Keeping on Track in the Economic Downturn – Background paper*; for OECD high level forum in Stockholm, 14-15 May 2009.

Medical practitioners are the first point of contact for people with medical problems. Among the recommendations from the recent position statement by the Royal Australasian College of Physicians, were that health practitioners receive more education about the health benefits of work; that health practitioners should discuss health risks of long-term work absence and unemployment with patients, and that health care professionals learn more about the services available to assist them address employment issues.⁶⁷

Sweden is among the countries where there is work underway to provide medical practitioners with formal guidelines related to appropriate periods of sick leave absence from paid work. By giving practitioners better information, alongside a system where exceptional cases can be reviewed, the aim has been to achieve greater consistency and to reinforce a 'return to work' emphasis. Other lessons from Sweden have included the need to work closely with practitioners to identify improvements in the system.⁶⁸

⁶⁷ The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2010); *Realising the Health Benefits of Work: A Position Statement*.

⁶⁸ OECD (2009); *Sickness, Disability and Work: Breaking the Barriers, SWEDEN: will the recent reforms make it?*

Better@Work – a lesson from an ACC pilot

The Better@Work Pilot currently being run by the ACC offers an early intervention and intense case management workplace rehabilitation service, with the aim of ensuring an early return to work for workers with injuries. In part, this pilot aims to achieve this by changing general practitioner behaviour towards increasing the certification of workers as fit for selected duties where appropriate, rather than fully unfit by default. It also provides a financial incentive to general practitioners to change their work certification practices.

It involves a coordinated response across health care professionals and case managers to identify suitable duties for injured workers and the supports they may need to help the patient safely stay in the workplace. Early performance indications from the Lake Taupo Primary Health Organisation show that Better@Work clients return to work faster than those who are not participating in the programme. In late 2009 the service was expanded to four Primary Health Organisations, three in Auckland and one in Hawkes Bay.

The lack of expectations and support does not promote successful transitions

In recent years the OECD has advocated an active approach to social policy, as a way of getting better outcomes.⁶⁹ The background to this approach is that, like New Zealand, many countries have been confronted in recent years with increased expenditure not leading to better results. This brought into question how effective various programmes were. With it came an assessment that parts of the system were not sufficiently active. A benefit system is active when it works to address the issues faced by applicants, rather than 'just assessing eligibility and making payments'.

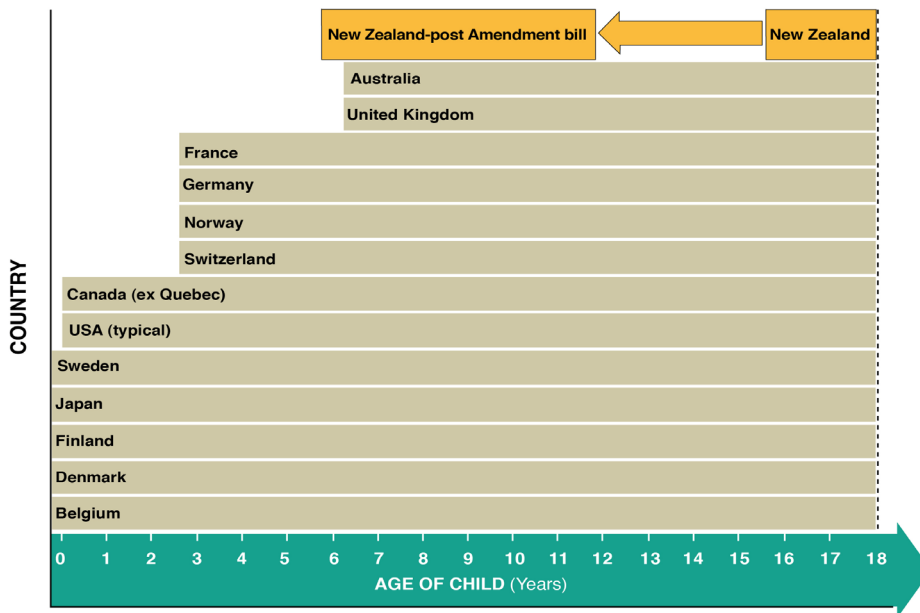
Given that the norm for working age people is supporting themselves and their family through paid employment, a key goal of activation is to help beneficiaries to be able to support themselves through paid employment (where this is possible). Active systems also help people with the wide range of issues that may affect their employability, for example, budgeting and debt issues, housing problems, family issues (including family violence) and addiction issues.

Passive provisions to sole parents do not support the employment of sole parents

Even though there has been a fundamental shift in labour market participation for women since the 1960s, including for mothers, New Zealand's sole parent provisions have remained largely unchanged. New Zealand is among a handful of countries with separate benefit provisions for sole parents, and of those countries that do, most have a work search or work activity requirement when children are at a much younger age than is currently the case in New Zealand (currently 18 years). As shown in Figure 5.2, most will continue to have work expectations for sole parents who have younger children than in New Zealand, even when proposed changes bring in a requirement from age six years latter this year (subject to the passage of the Social Assistance (New Work Test, Incentives and Obligations) Amendment Bill, currently being considered by Parliament).

⁶⁹ OECD (2005); *Extending Opportunities, How Active Social Policy Can Benefit Us All*, and Queisser, M, *Welfare reform in New Zealand, An OECD Overview*, Presentation to the Welfare Working Group Forum 9 June 2010.

Figure 5.2: Work expectations for sole parents (by age of youngest child)



Sources: Immervoll, H (2010); 'Minimum Income Benefits in OECD Countries: Policy Design, Effectiveness and Challenges'; OECD Social, Employment and Migration Working Paper 100. and Finn, D and R Gloster (2010); 'Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries'; Department of Work and Pensions, research report number 632.

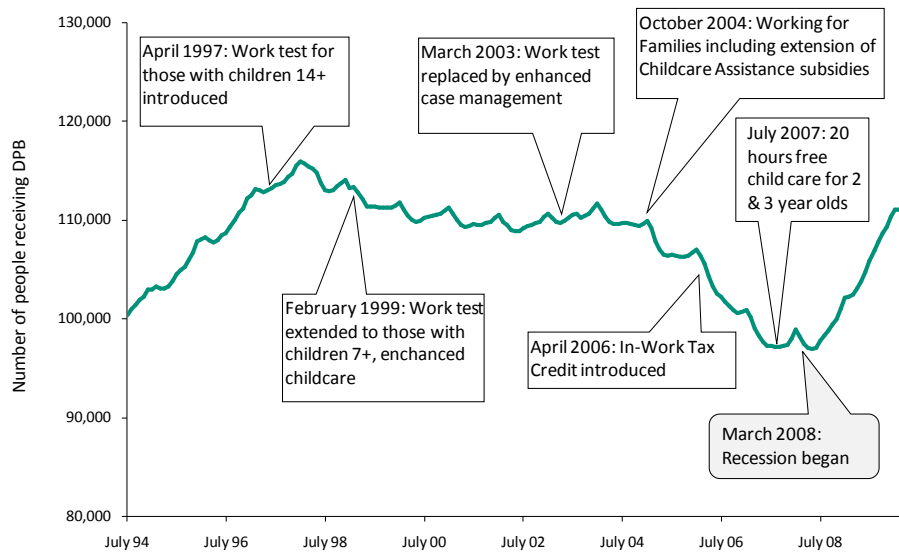
Like New Zealand, Australia and the United Kingdom have had high child poverty rates and low rates of sole parent employment. However, both Australia and the United Kingdom have moved to engage sole parents (and those receiving incapacity benefits) early by combining personalised case management with compulsory 'mutual obligation' activities, such as developing plans for a return to paid work.

New Zealand's experience shows that when the benefit system has taken a more active approach with sole parents, we get different results. The major changes over the last 20 years in benefit settings for sole parents were:

- from 1998 to 1999 – the progressive introduction of work tests together with greater access to childcare assistance;
- from 2003 – the removal of the work test, replaced by a potential requirement to engage in a planning process; and
- from 2005 – the progressive introduction of Working for Families, increased childcare assistance, housing assistance and family assistance, including from 2006 a more generous in-work family payment.

Figure 5.3 maps these policy changes against benefit numbers across time. The introduction of work testing in the late 1990s, alongside the introduction of more generous childcare assistance (including out-of-school care) saw a reduction in numbers of people on the Domestic Purposes Benefit. The reduction flattened out when the work test was replaced by the planning requirement. Numbers reduced again with the Working for Families package (including improvements in childcare assistance, and in-work support).

Figure 5.3: Domestic Purposes Benefit numbers and policy changes, 1994 to 2010



Source: Ministry of Social Development administrative data.

Working actively with other groups has seen positive outcomes

With Unemployment Benefit numbers reducing to lower levels by around 2005, Work and Income began to work more actively with Domestic Purposes Benefit and then Sickness Benefit and Invalid's Benefit groups. A number of pilot programmes were developed (such as mentoring and in-work support for sole parents, the PATHS pilot for sickness beneficiaries) within existing benefit rules to work with these groups. Case load ratios were reduced as part of the approach. At the same time, the Working for Families policies improved the financial returns from being in paid work for those with children.

During the period 2005 until 2008 this resulted in reductions in Domestic Purposes Benefit numbers and a slowing of the growth of Sickness and Invalid's Benefit numbers. The recession, however, meant that Work and Income reprioritised resources to manage the rapidly increasing numbers requiring Unemployment Benefits. These results show that a greater work focus across these groups does have a positive effect, with more people being helped to get into employment and get on with their lives without the need for a benefit.

Passive systems that do not support people with ill-health into work are unsuccessful

The initial period on benefit is critical for people with a health condition. On average, if a person is off work for 45 days due to illness, the chance of ever going back to work is just 50 percent and this falls to 35 percent if the absence is longer than 10 weeks.⁷⁰ Therefore, approaches to support people with sickness or disability need to be focused on work as soon as possible.

Early identification of those at risk of long-term benefit receipt can inform how best to work with each case, for example, via standard case management, through to referral to specialist or intensive case management. For many it will be a strong work focus right

⁷⁰ The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2010); *Realising the Health Benefits of Work: A Position Statement*.

away, for others it is likely to be access to support services which address issues that limit or prevent employment, and for others a focus on work may not be appropriate.

A number of countries have made working-age benefits conditional on participation in rehabilitation or job support measures. For example, Austria and Germany have policies which promote 'rehabilitation before disability'. In the Netherlands and Sweden, long-term sickness beneficiaries must participate in re-engagement or rehabilitation activities before they claim incapacity (Invalid's) benefit. In the United Kingdom, more generous incapacity allowances are conditional on claimants agreeing on a plan for rehabilitation and ultimately work-focused activity.⁷¹

A balanced approach for people with impairment or ill-health has the same basic elements as for all working age beneficiaries: a mix of incentives, support, and expectations which reinforce personal responsibility. Further, the system needs to recognise that some people in this group may need support to find and maintain employment (and others may never move into paid employment). Activation for people with ill-health does make a difference. From October 1998 until June 2001, Sickness Benefit was abolished as a separate benefit category and merged with Unemployment Benefit to form the Community Wage programme. During this short period, numbers on benefit through sickness did fall, only to rise again when a separate provision was restored.

*OECD's conclusions on disability policy*⁷²

In its comprehensive review of disability policy, the OECD noted that no single country can be said to have a particularly successful policy for disabled people. Looking across the countries in their study they did note the following lessons:

- recognise the status of disability independent of the work and income situation (the degree to which someone who has a diagnosed condition is able to participate is dependent on a wide range of factors);
- introduce greater expectations of people with sickness and disability (for example conditional on employment search and integration measures) and their employers to sit alongside expectations of Government;
- disabled people should be entitled to a participation package adapted to individual needs and capacities;
- promote early intervention (prior to entry on to benefits where possible);
- make cash benefits a more flexible policy instrument so that it can adapt to individual capacities and needs;
- reform programme administration and upskill case-workers; and
- design disability programmes as active programmes to make them more consistent with other benefit types.

⁷¹ Kemp, P.A. (2008) 'The transformation of incapacity benefits' in M. Seeleib-Kaiser (ed.) *Welfare State Transformations: Comparative Perspectives*, Basingstoke: Palgrave MacMillan.

⁷² OECD (2003); *Transforming Disability into Ability: Policies to Promote Work and Income Security for Disabled People*.

There is not enough focus on empowering individuals through promoting personal responsibility

There are a range of potential options to encourage individuals to take personal responsibility for their pathways into work and independence. Ultimately, there are three important components to promoting personal responsibility – mutual obligation, monitoring and management, and empowerment.

The basis for mutual obligations (or conditionality) is that entitlement to benefits should be dependent on satisfying certain responsibilities. A common form of mutual obligation is to undertake work-related activity such as attending interviews and undertaking job-search or applying for jobs.

Monitoring, management and sanctions are critical to ensure that obligations are met. Monitoring is having a clear process to ensure that obligations are being met. Management is the process through which benefit receipt is handled if obligations are not being met. Sanctions are penalties that are applied where obligations are not being met.

For most beneficiaries, resources received through the benefit system are used to pay for bills, cover rent and food and to support better outcomes for their children. However, in a small number of cases support for children in at-risk families may be undermined by the self-destructive behaviour of their parents. The Australian Government has trialled restricting the types of goods and services that can be purchased using parts of benefit entitlements and bringing in some level of mutual obligations to the payments received.

Evidence from behavioural economics suggests that sanctions will drive behaviour if they are clear, transparent and clearly understood.⁷³ Ineffective sanctions have low levels of understanding of them, lack of consistency around how failures to engage are handled and do not have specific approaches for people who receive multiple sanctions. A report to the United Kingdom Department of Work and Pensions notes that sanctions have to be present within the system, to underpin the obligations in the benefit system, but that they should be a last resort.⁷⁴

Empowerment is a critical component of a mutual obligation approach. Ultimately some individuals on benefit make poor decisions in part because they have few other options. If individuals do not receive support based on their need, do not have active support with employers and work experience, or available childcare and skills and progression, they will be less likely to make choices that move them into work. Evidence from the United Kingdom shows that mutual obligations can be highly successful: 'combining personalised support with work focused interviews and conditionality [mutual obligations] enhances take-up of the support and movements into work...The impact of conditionality [mutual obligations], plus this wider range of effective support available through Pathways, meant that the proportion of sick and disabled claimants joining some return to work activity increased'.⁷⁵

⁷³ Gregg, P (2008); Realising Potential: A Vision for Personalised Conditionality and Support; An Independent report for the Department of Work and Pensions.

⁷⁴ Ibid.

⁷⁵ Ibid.

The key to a successful approach to promote personal responsibility is to target interventions where they would be most effective. At the Welfare Working Group Forum, Professor Bob Gregory from the Australian National University noted: ‘Some proportion of the Income Support stock [welfare recipients] clearly chooses to access Income Support, some proportion has little choice ... You would like to have policy distinguish between these groups.’

*There are more lessons we can learn from the insurance industry for welfare*⁷⁶

Insurance and welfare systems both provide income protection to individuals who lose their capacity to earn income through exposure to adverse events such as personal injury or unemployment. Typical components of insurance are that it is a mechanism for managing risk (uncertainty), it involves the actuarial assessment of risk and its future cost; in return for a premium, the management of risk is shared by the insured and the insurer; if the risk eventuates, the insurer is obligated to provide agreed benefits.

Overall, insurance-based approaches are more likely to give rise to incentives on providers and individuals to reduce the chance of adverse events occurring, the consequences from that event if it does occur and the broader costs associated with the risk than welfare-based approaches.

Timing is critical when consideration is given to types of support to provide to people outside of paid work in both insurance and welfare. Support that is provided when people would find their way back into the workforce of their own accord does not add to improved outcomes. Support that is provided too late (sometimes later than six months) can lead to detachment from the workforce.

One model worthy of note (particularly for people with sickness and disability) is the approach of identifying people who are at high risk of prolonged periods outside of paid work and referring these people to appropriate interventions early in their benefit spell. Australia use the Job Seeker Classification Instrument to identify people at high risk of long spells of unemployment.⁷⁷

Transparent approaches to funding costs in insurance provides a sound basis for effectively managing total expected future costs. Transparency makes the commitment between the insured and the insurer clearer and supports a greater focus on key determinants of expected total future costs. In accident insurance, total expected future costs are driven by the number of long-term recipients. For example, an analysis carried out for the ACC Stocktake Group earlier this year showed that claims over \$20,000 accounted for less than 1 percent of total claims but 52 percent of payments made.

More transparent performance, linked to outcomes in the insurance industry justifies access to a full range of measures needed to achieve lower costs and better outcomes. For example, the ACC has the ability to directly purchase medical treatments from private providers in order to reduce the greater costs of income compensation through early return to work.

⁷⁶ This material directly draws on a draft paper prepared for the Welfare Working Group by Martin Jenkins and Associates, entitled: ‘Lesson from Insurance for Welfare’. This paper will be released following finalisation.

⁷⁷ See <http://www.deewr.gov.au/Employment/JSCI/Pages/overview.aspx> for further information.

It should be noted that there are some limits on the application of insurance to welfare. Particularly the adoption of insurance approaches would need to consider arrangements for income adequacy in 'non insurable' situations.

Aligning agency focus with policy goals

For policy to be effectively implemented, the effort and focus of those implementing that policy needs to be consistent with the outcome sought by the policy. This is particularly true when managing the diverse range of circumstances and levels of work capacity of people on benefit. One risk is if case managers focus on clients that are already strongly motivated to find work. This has been observed in other countries and results in 'cream skimming', where case managers put their efforts into the most work-ready clients; and 'parking', where those clients who are most difficult get no help. While the clients who are helped will be the most rewarding, and the happiest with work focused case management, they will usually be those where case management adds the least value because these are the clients who will find work of their own accord.

Broadly, the Work and Income key performance indicators reflect current policy settings and can be mapped onto objectives the Ministry of Social Development has been set by government.⁷⁸ They can be divided into two sets of objectives:

- indicators of efficient processes that measure how quickly and accurately benefit applications are managed; and
- indicators of work outcomes that measure how well the organisation is doing in supporting its clients into employment.

Indicators of efficient processes (how quickly and accurately benefit applications have been dealt with) apply to all clients. The indicators for work outcomes only include 'work-ready' clients or 'jobseekers'.

Table 5.1 provides evidence on how this has been translated into practice for people from different benefit groups.⁷⁹ Those on or applying for Unemployment Benefit are targeted with interventions that move them into paid work, including job search assistance, enrolment in 'Work4U' seminars to help with Curriculum Vitae writing and other job-related skills. In contrast, those on other benefits who take part in interventions are more likely to be in programmes that do not have a return to paid work as a focus. Thus, 73 percent of unemployment beneficiaries who participated in Work and Income programmes were involved in programmes that would help them off-benefit and into paid work, while less than 15 percent of those receiving non-work tested benefits participated in programmes that helped them into paid work.

⁷⁸ Ministry of Social Development Output Plan 2009/10 and communication to Welfare Working Group from Work and Income dated 7 May 2010.

⁷⁹ Derived from tables 4 and 21 in de Boer (2008) 'Aggregate impact of employment assistance on benefit expenditure: a bottom-up approach' CSRE unpublished.

Table 5.1: Participation in Interventions by Benefit Group, 2007

	Unemployment Benefit	Domestic Purposes Benefit	Sickness Benefit	Invalid's Benefit	No Benefit
Participants in Work and Income interventions	93,052	17,124	5,958	6,297	12,196
Proportion participating in Work and Income interventions that help them leave benefit	73%	8%	14%	7%	13%
Number participating in Work and Income interventions that help them leave benefit	67,928	1,370	834	441	1,585

Source: Ministry of Social Development – 2007 (predates the current economic crisis).

This analysis suggests that there could be significant benefits in directing more effort and resources towards those clients who would gain most from additional support to become work-ready who are not on the Unemployment Benefit.

Complex financial incentives in the system undermine a work focus for some

As the current benefit system is a targeted one, it is complex and for some people may not provide enough incentive to take-up a level of paid work sufficient to enable them to work to their work capacity.

There is a complex set of trade-offs in the design of the financial incentives embedded in the tax-benefit system. Economists typically refer to these trade-offs as ‘the iron triangle’. The classic trade-off is between income adequacy, work incentives and fiscal cost, where gains in one objective necessarily impact on the other objectives. Changing the profile of financial incentives improves the work incentives for some but will worsen them for others, and changing the profile will either promote part-time work (combined with benefit receipt) or full-time work (but undermine incentives to gain part-time work).

The key structure of the benefit system is that there is a main benefit, supplementary assistance and some people may be eligible for tax credits. Additional payments make up, on average, around 20 percent of the income of a person on a benefit (see Table 5.2). The largest additional payments by far are for accommodation costs, with a little over two-thirds of working age beneficiaries receiving an Accommodation Supplement and half of state house tenants having subsidised rents because they receive a working age benefit.⁸⁰

The rules for calculating the Accommodation Supplement and income-related rents are not the same, and they are extremely complicated.⁸¹ Broadly, they provide a supplement based on local housing costs, family size, tenure type and income level. In practice there is a great deal of variation between individuals. For instance, the maximum rate of

⁸⁰ Ministry of Social Development data. On 30 April 2010, 228,000 people on main benefit received Accommodation Supplement. On 31 March 2010, 33,000 Work and Income clients had ‘redirections of rent to Housing New Zealand Corporation’.

⁸¹ The difference between the Accommodation Supplement and Housing New Zealand Corporations’s Income Related Rents creates different incentives for tenants of state houses. There are also issues related to how state houses are allocated.

accommodation supplement varies from \$45 to \$225 per week depending on the size of the household and the location of the property.⁸²

Table 5.2: Average sources of benefit income 1996 to 2009

	Main Benefit ¹	Accommodation Supplement ^{1,2}	Additional Payment ^{1,3}	Loans (% of benefit income) ⁴
Unemployment	83%	15%	3%	2%
Sickness	78%	15%	7%	2%
Domestic Purposes	77%	18%	5%	3%
Invalid's	83%	8%	9%	1%
All	80%	15%	5%	2%

Notes: 1. Columns in these three columns sum up to 100 percent except where this has been affected by rounding

2. It is not possible to reconcile the Housing New Zealand and Work and Income data to reliably include income related rents, so this is excluded from the table.

3. The 'additional payments' column only includes Special Needs Grants, Temporary Additional Support/Special Benefit and Disability Allowance. A number of small payments have been excluded for simplicity. Inclusion of these small payments would merely reinforce the point that the system is complex.

4. Loans refer to the recoverable component of the Special Needs Grant and Benefit Advances (non-taxable assistance for one-off immediate needs).

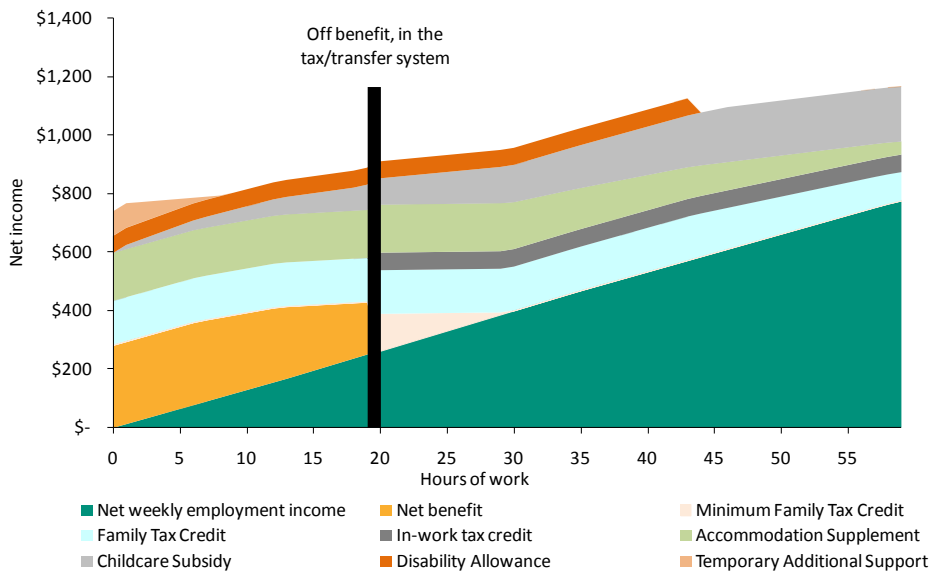
Source: Ministry of Social Development (2009) Statistical Report 2009 with additional data from Ministry of Social Development.

The additional payments and the Special Needs Grant and Benefit Advances loan scheme reduce the risk that beneficiaries face. In the main, these payments are for items like higher bills, emergency repairs, white goods and furniture, medical and dental charges. While these benefits are normally described as 'hardship payments', for those on a benefit they also reduce the financial risk around large costs that they face. The loss of this assistance when people leave the benefit system may deter some people from moving into work, because they will be exposed to a greater level of risk should adverse events occur.

The financial incentives in the system are also complex, which means that some people will be uncertain about how much they will earn and they will be more likely to choose options where they are certain of their income. The complexity in the system is shown in Figure 5.4. This shows the financial work incentives for a sole parent on Domestic Purposes Benefit in Auckland with one child who received some additional assistance for what has been assessed as a disability. The details are less important than the reality that very few people could confidently calculate their potential income for different hours of work.

⁸² See Work and Income Website for more details.

Figure 5.4: Hours of work and income for a sole parent with two children



Source: Ministry of Social Development, 2010.

5.5 Many people do not receive the support that they need outside of the benefit system

This paper has argued that there is a need for a greater focus on paid work for more people. Many people with support from outside the benefit system could successfully make transitions into paid work without the prolonged use of the benefit system. We now discuss key areas for support before people enter the benefit system.

The education system is failing some young New Zealanders

International and domestic evidence shows that people with higher levels of skills are more likely to be employed and more likely to be in more highly skilled and highly paid occupations when they are in employment.⁸³

In its workshops, the Welfare Working Group heard that the education system is not delivering for all of our young people. This is reflected in data that shows around 10 percent of 15 year olds are not in school.⁸⁴ Early disengagement has long-term consequences for young people. Evidence from across the OECD shows that leaving school without basic level qualifications often translates into a higher risk of young people not being in employment, education or training.⁸⁵

A significant group of people, many of them young adults or adolescents, enter the benefit system with a range of health and other social difficulties. These are likely to have resulted from dysfunctional childhoods and poor educational outcomes. In New Zealand, people

⁸³ Amongst many others see, MacCormack, J (2008); 'Working Smarter: Driving Productivity Growth Through Skills'; Treasury working paper 08/06. Nair, B, W. Smart and R. Smythe (2007), 'How Does Investment in Tertiary Education Improve Outcomes for New Zealanders?', Social Policy Journal of New Zealand: Issue 31. OECD (2009). Education at a Glance: OECD indicators 2009. Paris: OECD.

⁸⁴ Rea, D., & Callister, P., The Changing Nature of Young People's Transitions in New Zealand (2009), Institute of Policy Studies, Victoria University Wellington, p.7. These figures are from the 2006 census and pre-dates recent efforts to improve attendance.

⁸⁵ OECD (2007); *Jobs for Youth: New Zealand*; OECD, 2007.

with no qualifications had an unemployment rate over 53 percent higher than those whose highest qualification was a school qualification.⁸⁶ About one-third of beneficiaries indicated that they had no formal school qualifications or less than three years of secondary schooling.⁸⁷

Māori students are almost twice as likely as other New Zealanders to leave school early.⁸⁸ In March 2010, 16.7 percent of Māori and 14.3 percent of Pacific people aged 15 to 24 years were not in education, employment or training (compared to 9.3 percent of young people of New Zealand European descent).⁸⁹

When we consider the skills and capacities of our working-age population it is worth noting that skill development is a life-long, self-reinforcing process. It happens not only in formal education, but also in the home, the community and the workplace, MacCormack argues that public policy approaches to skills and productivity must take a broad view about skills and capacities and look beyond simple measures of qualifications.⁹⁰

Heckman's work in this area emphasises that early childhood learning sets the scene for later educational and life outcomes.⁹¹ Heckman argues that there is a process of learning whereby skills beget skills and learning begets learning. There has been a significant recent focus on the early years in New Zealand. In New Zealand there is evidence that early intervention strategies, though they can come with significant short-term costs, can be an effective way of making a difference. High intensity home-based interventions such as Family Start and high quality early childhood education can help improve outcomes for vulnerable children and families.

MacCormack argues that there are a number of key areas for focus in the educational system. A first relevant area of focus is addressing New Zealand's 'tail' of underachievement in schooling by maximising the quality of teaching. A second relevant area is placing greater emphasis on improving secondary school retention, school leavers' qualifications and the transitions into tertiary education and training. A third area is increasing flexibility in senior secondary schooling and post-school transitions to meet all young people's education needs.

Until a few years ago, New Zealand tertiary education policy focused on increasing participation. By tying funding to the numbers of students enrolled, the system provided a strong incentive for tertiary education institutions to attract and retain students. This resulted in the creation of new courses that were dictated by students' demand rather than relevance for the labour market, with the result that courses in some areas did not lead to national qualifications.⁹²

⁸⁶ OECD (2009); *Education at a Glance*.

⁸⁷ Based on Ministry of Social Development administrative data derived from either JOBZ4U and SOLO, which record details for clients that are work testable or not currently looking for work. This data is used as an indicator only.

⁸⁸ Based on data presented in *Retention of students in Senior Secondary Schools (2010)*, Ministry of Education, Wellington.

⁸⁹ Youth Labour Market Fact Sheet - March 2010, Department of Labour, Wellington.

⁹⁰ MacCormack, J (2008); *Working Smarter: Driving Productivity Growth Through Skills*; Treasury Working Paper 08/06.

⁹¹ Heckman, J (2000); 'Policies to Foster Human Capital' ; Working Paper number 28, Harris School of Public Policy studies.

⁹² OECD (2007); *Jobs For Youth – New Zealand*.

The Youth Transition Service is one response that is assisting some of the most at risk young people. However, a more cohesive approach that integrates secondary school, communities and vocational pathways is needed. Improvement is needed in the matching by training providers of skills training to jobs available in local labour markets.

The Youth Guarantee is another response, targeted at 16 and 17 year olds who are at risk of disengaging from education or training. The Youth Guarantee will give students who are more motivated in non-school settings an opportunity to re-engage with learning and gain skills for future employment. It provides them with an opportunity to participate in a range of vocational programmes, at selected private training establishments, institutes of technology and polytechnics.

Dale Williams at the Welfare Working Group forum noted that Apprentice Support and the Trade Training Centres had been particularly successful in Otorohanga. These two initiatives provide pastoral care and additional support to young people, and ensure that training is developed and approved by employers.

People's first contact with government may not be with the benefit system

A message that we have heard in our consultation with the community has been that services across government (the benefit system, health, education and wider social services) are critical and inter-related. Initiatives already under way that aim to bring services together include Whānau Ora and the Ministry of Social Development led Community Link initiative.

In the last five years, there has been much greater recognition of the need to coordinate services for high-needs clients who enter the benefit system. The Integrated Service Response provides intensive support to these clients, with a specialist case manager coordinating support from a number of agencies. In the last two years, this has become more formalised through the establishment of a number of Community Link sites within Work and Income offices (around 30 out of the 140 offices). These enable a number of social agencies, including non-government agencies, to be physically located in one place.

The aim of the integrated approach is to enable agencies to work together on outcomes for individuals and their families and whānau. For those people who have high needs and who receive support from multiple agencies, the integrated approach can address core problems and improve outcomes across a range of measures over time. Having the client at the centre of the delivery process and customising the services around them (the wrap-around approach) is a model gaining wider acceptance, especially for people with multiple needs.

Whānau Ora

Māori have consistently called for more whānau-based approaches to the social and economic challenges in New Zealand. Many urban Māori and iwi social services have developed effective whānau services. The Whānau Ora: Report of the Taskforce on Whānau-Centred Initiatives recognised that different contracting arrangements with government agencies have impeded the further development of whānau services. Whānau Ora is a government initiative that aims to remove this barrier and facilitate the provision of Whānau Ora services that are integrated and actively support all dimensions of whānau wellbeing – social, cultural, economic, and physical.

Workplaces are central to most people's lives

One of the less discussed risks in government provision of social assistance is that it reduces some of the costs to employers of employee ill-health and disability. There is a potential to use the knowledge and experience of employers to improve health and increase the chance that people stay in the workforce.

In the ACC's accredited employer scheme employers have the option of being accredited to provide their own equivalent of ACC's cover and paying lower levies to the ACC. A number of large organisations, including ACC itself, are better doing this because it rewards them for early intervention when employees have problems.

In his presentation to the Welfare Working Group forum, Dr Prinz from the OECD suggested that employers needed to be part of the solution to the growing challenge presented by Sickness and Invalid's Benefit receipt in New Zealand. Dr Prinz suggested that employers needed to face both stronger incentives and obligations to both retain and hire workers with illness and disability, and receive better tools and supports to make that achievable.

An alternative approach, implemented in the Netherlands in the public disability insurance system in 2003 is that employers have to pay for most of the costs of the first five years of disability benefit receipt of their former workers for people on Invalid's Benefit and Sickness Benefit. This mirrors ACC-style experience-rated premiums. This system change was a key explanatory factor for the recent sharp fall in the rates of inflow into disability benefits in the Netherlands.

It is increasingly being recognised that having people off-work results in reduced productivity. There is growing evidence that health and well-being programmes bring many benefits to firms. Strong policies can increase the attractiveness of the firm to employees and hence lower absenteeism and staff turnover, and it can increase engagement of staff thereby lowering accidents and injuries and boosting productivity.

PriceWaterhouseCoopers found considerable evidence from literature reviews and over 50 United Kingdom-based case studies that health and well-being programmes have a positive impact on intermediate and bottom-line benefits. Intermediate business benefits include reduced sickness absence, reduced staff turnover, reduced accidents and injuries, reduced resource allocation, increased employee satisfaction, a higher company profile, and higher productivity.

PriceWaterhouseCoopers (2008) as cited in Black (2008).⁹³

There is no single health and wellbeing programme that is successful for all firms in all contexts. Programmes need to be designed to ensure that they meet employee needs, that they engage both employees and senior management, and that they are aligned with business aims and goals. The most common barrier identified by firms to the take-up of health and wellbeing programmes is a lack of information.⁹⁴

⁹³ PriceWaterhouseCoopers (2008); *Building the Case for Wellness*.

⁹⁴ Black, C (2008); *Working for a Healthier Tomorrow; Review of the Health of Britain's Working Age Population*.

5.6 Employers, the labour market and a work focus

The New Zealand economy has been a strong producer of jobs over the past 25 years, as it has responded to rising participation of women, significant structural change in the labour market and a variety of external and internal trends and events. Since the establishment of the Household Labour Force Survey in 1985-1986, 545,000 additional jobs have been created in the labour market.

New Zealand's employment rate (64 percent of the working age population are in employment) is one of the highest in the OECD. New Zealand's unemployment rate in the March 2010 quarter is 6 percent, which is the tenth lowest in the OECD. The strong employment performance in the late 2000s was also marked by growing labour shortages. In the period 2004-07, about one-fifth of firms stated that a lack of available staff was the major constraint on their business.

A critical component of supporting people into work is ensuring individuals are ready for the jobs that employers are willing to offer. Employers need reliable, honest and committed workers. Many beneficiaries have failed at school and have gone directly on to a benefit. Many long-term beneficiaries have little self-confidence and self-esteem, and lack the ability to present themselves well to employers.⁹⁵

Allied Workforce experiences with beneficiaries

Allied WorkForce has had first-hand experience in employing people who are on various government benefits. These range from employing people on the Unemployment Benefit, providing up-skilling training programmes to unemployed people via the Ministry of Social Development Cadet Max programmes, through to the management of ACC rehabilitation as an accredited employer in the ACC rehabilitation Partnership Programme.

They have identified that the most difficult candidates and accident management cases come from families who live week-to-week in homes reliant on benefit. They have also observed that many beneficiaries see benefit receipt as an entitlement and an option, rather than a short-term step up to a job and self-respect. Furthermore, they note that many beneficiaries do not pass pre-employment criteria for drug testing and security screening as conducted under employers' specific policies.

Allied Workforce has found the key to preventing long-term dependency on any benefit is managing the expectation, the illness or the injury from the very first day, with all key players working from the same page. They also believe that a key to success is providing structure. They insist on family involvement, a regular working week, regular cash flow, skill development and pride. Allied Workforce also notes that employment legislation (personal grievance laws, the ever-increasing minimum wage, and the now defunct youth rates) can be counter-productive to the interests of those they seek to help.

Many employers see significant risks in employing beneficiaries (see box above). They cannot afford the downtime and costs involved with difficult employees or the high risks associated with some beneficiaries with significant issues. A promising model in New Zealand of Government working with employers is the Industry Partnerships model. Industry Partnerships involves Work and Income forming partnerships with industries and

⁹⁵ Hull, S (2010) *Allied Work force Experience with Beneficiary, ACC and Running MSD Funded Training Programmes*, a paper presented at the Welfare Working Group forum in June 2010.

employers that have skill and labour shortages. These relationships help Work and Income to identify the skills employers need from potential new employees when they need them.

There is clear evidence that when people disengage from the labour market joblessness is higher.⁹⁶ Conversely, when more people enter the labour market the number of jobs increases. The OECD argue strongly that improved job search and engagement in the labour market (including by those not in the workforce) leads to higher employment. This suggests that more job opportunities will flow if the quality of the workforce can be improved to better match the needs of employers.

*In the long term, labour demand responds to increases in effective labour supply ...In the shorter term...programme participants will displace non-participants, but, if programmes achieve a sustained increase in effective labour supply, their displacement effects can be expected to fade over time.*⁹⁷

5.7 Summary

An absence of a focus on work for many people within the benefit system is outdated, and does not reflect the fact that many sole parents and disabled people can and want to work.

The benefit system contains a wide variety of disincentives and barriers to paid work, and is a major contributor to poor employment outcomes. The benefit system does not have an expectation to look for work for most people, there are few obligations to take personal responsibility to address barriers to employment, the benefit system does not have a robust means of assessing capacity to work, there is inadequate support for most people to move off benefit, there are few means of enabling employers to employ high risk individuals from the benefit system, there are financial disincentives and perceived risks to moving into paid work, and the benefit system does not have clear enough performance incentives to guide effective delivery

A number of other important areas are also contributing to long-term benefit receipt. In particular there are many children in multiply disadvantaged families whose life chances would be improved with more integrated service delivery. The schooling system is failing to address the needs of many at risk young people.

⁹⁶ Layard, R., Nickell, S. and Jackman, R. (1991); *Unemployment*, Oxford University Press, Oxford conclude: 'in fact, demand can easily be changed. What puts a limit on feasible demand is feasible supply. Labour market policy only works if it affects the economy's supply potential [people available for and seeking work]. And if it does that it cannot fail to have an effect, since in the long run the supply side rules (1991, p. 477)'. Productivity Commission (2002); *Independent Review of the Job Network*; conclude that: 'the movement of vacancies over time relative to the number of unemployed (the Beveridge curve) provides the clearest evidence on the role played by search effectiveness in determining unemployment.' As unemployment increases it would be expected that there would be more people chasing fewer jobs, so that vacancy rates would be anticipated to decline [if search effectiveness was not important]. However, in most OECD countries, there have been considerable changes in the rate of unemployment at given vacancy rates [highlighting the importance of search effectiveness].'

⁹⁷ OECD (2005); *OECD Employment Outlook*.

Tell us what you think

- Q8: Should there be more of a focus on paid work for sole parents?
- Q9: Where appropriate, should there be more of a focus on paid work for people managing with a sickness or disability?
- Q10: Does the benefit system do enough to encourage personal responsibility?
- Q11: Should the scope and nature of the current benefit categories be retained?
- Q12: Does the complexity and structure of supplementary payments create disincentives to paid work?
- Q13: How can Work and Income and other delivery agencies better support people into paid work?
- Q14: Are there lessons from an insurance approach for the benefit system?

Section 6. Fiscal costs and future sustainability

6.1 Current costs to taxpayers

The benefit system is a major cost for New Zealand taxpayers. Table 6.1 provides a breakdown of this expenditure, and shows that government spent \$6.5 billion on benefits in 2008/09. Over \$0.4 billion was spent on administration, employment and support services.

Table 6.1: Government spending on benefits

	2008/09 (\$ billion)
Main benefits	
Unemployment Benefit	0.586
Sickness Benefit	0.613
Invalid's Benefit	1.260
Domestic Purposes Benefit	1.530
Other payments	
Accommodation Supplement and Income Related Rents	1.501
Disability Allowance	0.390
Childcare Assistance	0.159
Other benefits ¹	0.436
Total spending on benefit payments	6.476²

Notes: 1. This consists mainly of other benefits (Widow's Benefit, Independent Youth Benefit and Orphan's and Unsupported Child Benefit) and third tier payments. 2. Numbers may not add up because of rounding.

Sources: Ministry of Social Development Annual Report, Core Crown Expense Tables, Budget Economic and Fiscal Update 2010.

Total annual expenditure on the benefit system is significant because of the significant proportion of the population on benefit overall. However it is particularly high because of the number of people on benefit for long durations, and in some cases, almost permanently.

The numbers in the table above show the total fiscal cost in 2008/09. However it is also important to look at the large overall cost per person using the benefit system. The Ministry of Social Development estimates the total cost of a person currently on a benefit will be around \$141,000 over the course of their life. This takes into account the fact that a person currently on benefit is a fiscal cost in the current year, but will often remain or return to benefit in future years. The estimated per person cost varies by the benefit type. For example, a person currently on Domestic Purposes Benefit is estimated to cost \$161,000 in the future, and a person on Invalid's Benefit is estimated to cost \$192,000.

Table 6.2: Future liability estimates (real 2009 dollars)

	Cost per person (\$)	Total Cost (\$ billion)
Benefit group		
Invalid's Benefit	\$192,000	\$16.7
Sickness Benefit	\$140,000	\$8.1
Unemployment Benefit	\$65,000	\$3.6
Domestic Purposes Benefit	\$161,000	\$17.1
Other key groups		
16-24 years	\$156,000	\$10.6
25-34 years	\$182,000	\$13.3
Average	\$141,000	\$50.1

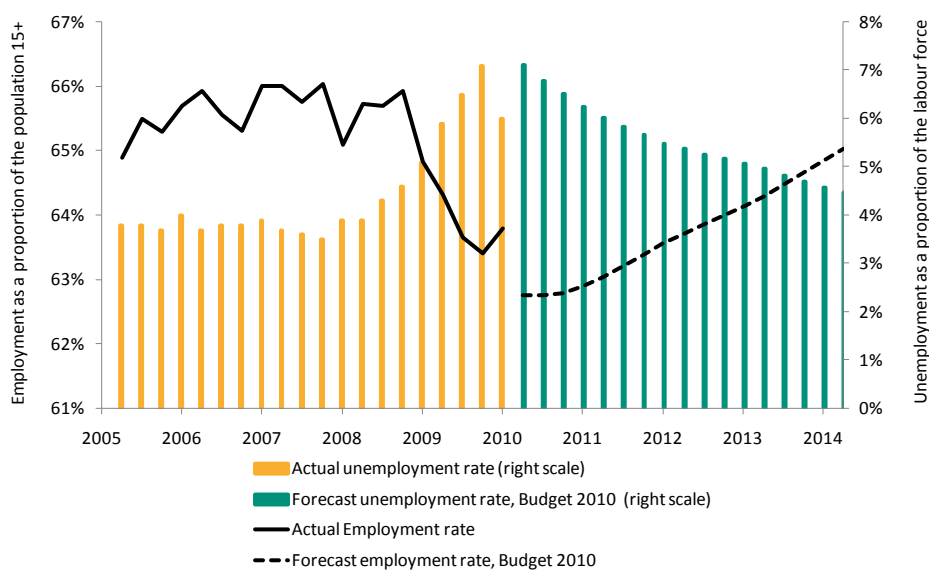
Source: Ministry of Social Development modelling of future liability (scenario B) in 2009.

6.2 The costs of benefit receipt over the coming years

The costs of benefit receipt have increased due to the recession but current forecasts suggest that overall expenditure on benefits as a proportion of GDP will start to decline from 2011.

The New Zealand economy contracted throughout 2008 and early 2009. As a proportion of the working age population, employment fell 2.6 percentage points from its pre-recession peak of 66 percent and the unemployment rate increased from 3.5 percent of the labour force to 7.1 percent of the labour force. Growth in the labour market resumed in late 2009, shortly after the economy began growing again. The recovery from recession is expected to be gradual.

Figure 6.1: Employment and unemployment rates, actual and forecast



Source: Statistics New Zealand, Treasury 2010 Budget Economic and Fiscal Update. Note The labour market has been stronger than expected in the first half of 2010, and this will be reflected in future forecasts.

The contraction in the labour market has led to an increase in the number of people claiming benefits. Between March 2008 and March 2010 the number of people on benefit increased by over 76,000, more than double the decline in the previous two year period.

Not only has the number of people claiming unemployment benefits increased sharply, but there are also significant increases in the numbers of people claiming other benefits, and in particular Domestic Purposes Benefit and Sickness Benefit. The increase in these other benefits reflects the fact that these individuals were unemployed, as well as being sole parents or having a health condition.

Table 6.3: Changes in numbers on benefits, before and after the recession

Main benefits	Change from March 2006 to 2008	Change from March 2008 to 2010
Unemployment Benefit	-28,931	47,453
Sickness Benefit	-1,522	11,807
Invalid's Benefit	7,062	4,315
Domestic Purposes Benefits	-7,454	13,767
Widow's Benefit	-1,194	25
IYB	-519	409
Other	-1,350	-1,539
Total	-33,908	76,237

Source: Ministry of Social Development administrative data (2010).

With employers expected to require more labour over the years ahead it is important to consider how benefit policy settings can best support increased employment, good social outcomes, and a growing economy, and how to avoid lengthy spells of heightened benefit receipt. During previous recessions, many individuals entered the benefit system and remained there for prolonged periods of time. The ability of the New Zealand economy to recover will depend critically on ensuring that people do not get stuck in the benefit system.

6.3 Benefit receipt over the coming decades

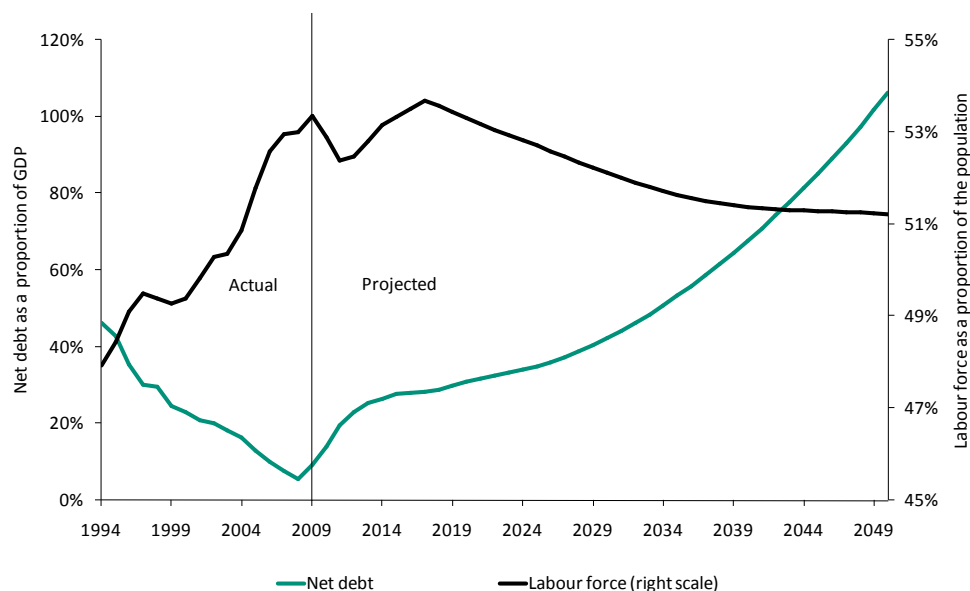
As well as the immediate issues over the next few years, it is also important to consider the overall costs and effectiveness of the benefit system over coming decades.

In this timeframe, the future economic and fiscal sustainability of the New Zealand benefit system needs to be placed in the context of the impacts of an ageing population. As a consequence of a growing proportion of the population over 65 years of age, there will be a smaller proportion of the population in paid work, and government will be spending more on healthcare and superannuation. Over coming decades existing levels of long-term benefit dependency will be difficult to sustain because of the need for more workers and more tax-payers.

Projections from Treasury's Long-term Fiscal Model show that over the next 40 years the proportion of those in the population who are available to work will fall. At the same time government debt will be rising. However, it is important to understand that these are projections not forecasts. Forecasts try to work out what will happen, where as projections are based on long-run trends. Projections use historic trends and extrapolate these into the future, capturing their interaction with changes in the population.

The Long-term Fiscal Model projections convey a sense of the broad direction that the government's accounts are headed in, the details around the precise level of debt, revenue or spending are less important. The projections here show that debt is rising at the end of the projection period, which means the government is spending more than it is gathering in tax revenue.

Figure 6.2: Actual and forecast net debt and labour force to population ratio



Source: Data from Long-term Fiscal Model, 2010.

Future benefit receipt scenarios

Since the mid 1970s, growth in the prevalence of benefit receipt has occurred among all age groups. It is this increase at all ages, rather than changing age structure of the population, that has driven the long-term growth in the prevalence of benefit receipt.

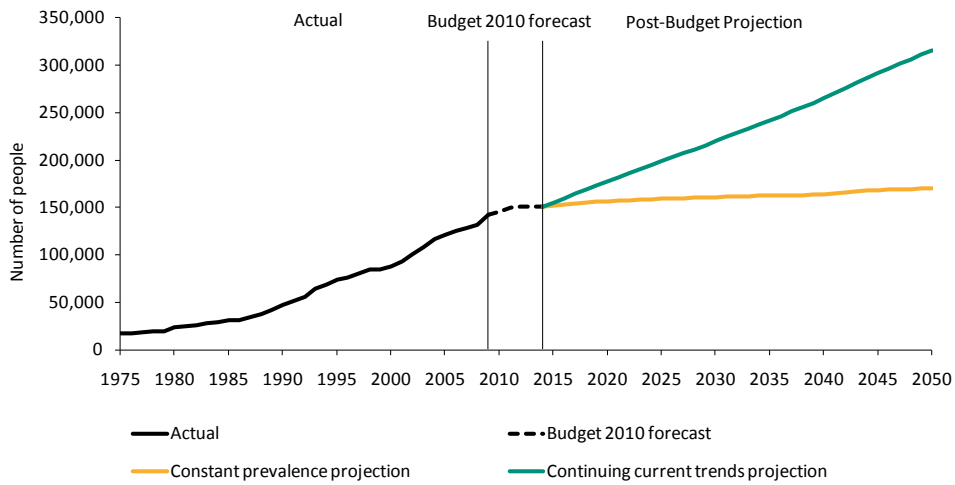
Historically, a wide variety of factors have contributed to the increasing prevalence of benefit receipt. These include increasing rates of sole parenthood, changes in the labour market, and changes in policy setting such as the age of eligibility for New Zealand Superannuation.

In order to consider what might happen in the future, we have developed the following two scenarios about expenditure on main benefits:

- the 'constant prevalence' scenario – which has age and gender specific rates of benefit receipt remaining at 2009 rates (the assumption of the Long-term Fiscal Model);
- the 'current trends' scenario - where the number of sickness and invalids beneficiaries increases in line with historical trends from 2014, while age and gender specific rates of other benefit types remain at their 2009 levels.

Figure 6.3 shows actual and projected sickness and invalids benefit numbers under these two different scenarios.

Figure 6.3: Actual and projected Sickness Benefit and Invalid's Benefit numbers

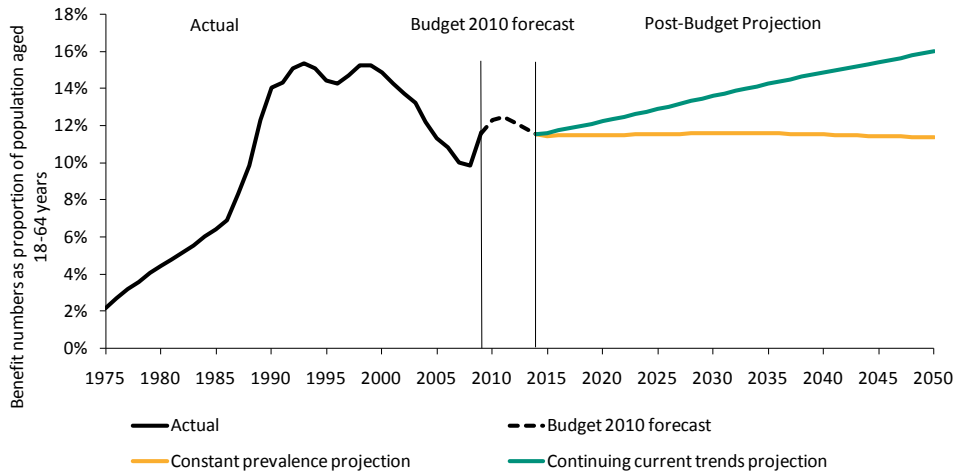


Note: The 'continuing current trends' projection assumes that age specific growth in Sickness Benefit and Invalid's Benefit receipt increase by 1.4 percent every decade. The 'constant prevalence' projection assumes age-specific rates of receipt remain at forecast 2014 levels.

Source: Data from Long-term Fiscal Model 2010.

Figure 6.4 shows that under the current trends scenario, the rising number of sickness and invalid's beneficiaries lifts total beneficiary numbers to a similar proportion of the population as in the first half of the 1990s. Such a large proportion of the population receiving benefits would not be socially sustainable, given the large personal, family and social costs that we observed in sections 4 and 5.

Figure 6.4: Projected rates of total benefit receipt under different scenarios



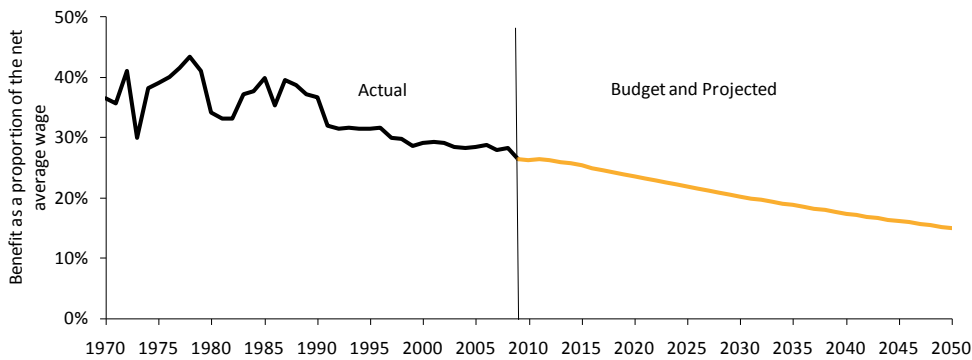
Source: Data from Long-term Fiscal Model 2010.

Under the current trends scenario the higher number of Sickness and Invalid's Beneficiaries results in higher spending on benefits, which would increase net debt by around 10 percent. In addition, if these beneficiaries would otherwise be in work, then national output and income will be lower. The Long-term Fiscal Model estimates that GDP would be around 5 percent lower by 2050. This is likely to be a significant under-estimate given the evidence in previous sections.

Another important implication of the 'current trends' scenario is that there would be a limited ability to cope with a major economic shock. For example, a worldwide economic recession in 2029 that led to a rapid increase in unemployment of the order of 6 percent of the working age population would mean that 20 percent of the working age population were receiving a benefit. With higher debt and a smaller economy the government would have less scope to use fiscal policy to help stimulate the economy.

The long-term fiscal model assumes that benefits are increased by the rate of inflation (assumed to be 2 percent per year), while GDP is assumed to grow as a result of the combined effects of productivity and labour force growth. Under both scenarios average benefit payments fall as a proportion of average wages – implying that the extent of relative poverty increases through time under both scenarios. This effect may reduce the projected growth in benefit numbers, as well as drive increased expenditure on supplementary payments.

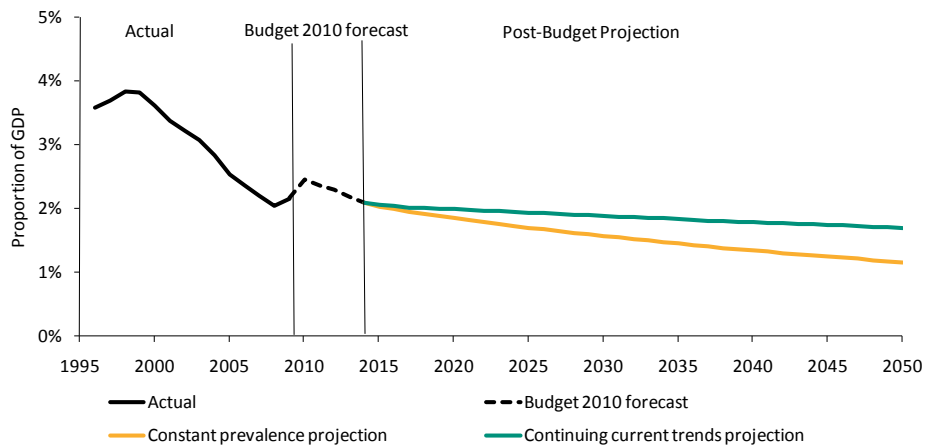
Figure 6.5: Actual and projected average benefit payments to average wages



Source: Data from Ministry of Social Development Annual Statistical Report and Long-term Fiscal Model 2010.

The fiscal impact of the two scenarios is shown in the Figure 6.6. If it is assumed that there is no change in the indexation arrangements, then as can be seen, government expenditure on benefits as a proportion of GDP falls under both scenarios. These projections need to be considered in the context of the government's deteriorating fiscal position.

Figure 6.6: Actual and projected expenditure on main benefits as a proportion of GDP



Note: These forecasts are for the costs of main benefits only, and not other payments.

Source: Data from Long-term Fiscal Model 2010.

The overall impacts of future benefit receipt scenarios

Table 6.4 summarises the overall impacts of the two scenarios. As can be seen, the 'current trends' scenario implies a high level of people receiving benefits, lower growth, and results in declining rates of benefit compared to average wages.

Table 6.4: Impact of scenarios

Scenario	Impacts
'Current levels' scenario – constant rates of benefit receipt	Benefit receipt at current levels Increasing relative poverty Falling government spending relative to GDP Some ability to respond to economic shocks
'Current trends' scenario – sickness and invalids benefit receipt increases	Increasing rates of benefit receipt Increasing relative poverty Reduced economic growth Slight decline in government spending on benefits as a proportion of GDP Limited ability to cope with economic shocks

Overall our assessment is that without policy changes, it is very likely that the overall rates of benefit receipt will continue to increase in line with previous trends over the coming decades. In the context of the pressures from an ageing population, the benefit system will become increasingly difficult to sustain both socially as well as economically. By way of contrast, reducing the extent of long-term benefit dependence over the coming decades would allow more support for those individuals for whom work was not truly an option.

6.4 Summary

The benefit system is a major cost for New Zealand taxpayers. In 2008/09 the government spent \$6.5 billion on benefits. At an individual level, each person on benefit represents a significant future cost to government. We expect that the average person currently on benefit will cost \$141,000 over future decades.

As New Zealand emerges from the impact of the recession, it will be vital that people do not become trapped in the benefit system. Looking further into the future, if current trends continue, there would be 16 percent of the working age population on a benefit by 2050. This would be unsustainable, particularly in the context of an ageing population, and would reduce the government's ability to respond to a serious economic downturn.

In the future, providing better support for those who reasonably cannot work for long periods of time will require less people to be on benefit.

Tell us what you think

Q15: Do you agree that the current benefit system is socially and economically unsustainable?

Section 7. Conclusion: A future-proofed benefit system requires a change of focus

7.1 Overview

A significant number of New Zealanders are receiving a means-tested benefit on an almost permanent basis. These numbers are likely to continue growing over the coming years, partly as a result of the recent economic downturn.

We know that paid employment has a range of positive benefits for individuals and their families. Not only does paid work offer greater financial rewards, but there is evidence that it offers greater social connectedness, and can also stop some young people offending. The converse is that being out of work brings a range of detrimental effects. It erodes confidence and motivation, makes individuals vulnerable to financial hardship, and most importantly leads to worsening health outcomes.

These negative effects are particularly concerning for young people who are much more likely to face a life of poor outcomes if they start their adult lives on benefit. There are also intergenerational effects of being out of work long-term. A large number of people on benefit long-term also lead to higher costs to taxpayers, and past evidence suggests that it will restrict the economy's ability to grow when employers face labour shortages.

Many people on benefits want and can work. But current benefit settings are not focused on supporting many into work. In particular, the benefit system does not require those on Sickness, Invalid's and Domestic Purposes Benefit to look for work, and it does not place the same emphasis on preparing them for work.

A number of policy changes are needed to reduce long-term benefit receipt. A particular area for attention is the need to stem the flow of at-risk young people into the benefit system. We also see many aspects of the benefit system giving people incentives to stay on benefit rather than moving into paid work.

A key principle is that for most people, paid employment is the best means to achieve long-term financial and personal well-being. Therefore, work should be the goal for most working-age New Zealanders who have contact with the benefit system.

7.2 We would like to know what you think about the issues

This paper has looked at the nature, causes and consequences of long-term benefit receipt. Our next paper will turn to considering potential policy options for reducing long-term benefit receipt and enabling more people to secure employment. However to help us do that, we would like hear from you.

The Welfare Working Group has asked questions at various points through the paper based on the issues. These questions are summarised below. You can answer these questions online at:

<http://bit.ly/telluswhatyouthink>

Alternatively, you could email or send this document back to us at:

welfareworkinggroup@vuw.ac.nz
Welfare Working Group, PO Box 600, Wellington 6140, New Zealand

The invitation to respond to our questions is open until Friday 17 September 2010.

7.3 What we are interested in hearing about

The Welfare Working Group has been asked to make recommendations to Government about how to reduce long-term benefit receipt. This document has set out our assessment of the key issues. We would like to know if you agree with this assessment. We are seeking your views on the nature, consequences and causes of long-term benefit receipt and practical suggestions for change. Towards the end of the year we will be publishing a document on potential options, and we will also be seeking your views on these.

7.4 The issues

The Welfare Working Group has identified seventeen issues about the nature, consequences and causes of long-term benefit receipt that they consider to be important when thinking about the benefit system. These issues are:

- Issue 1 The current benefit system is outdated*
- Issue 2 Most beneficiaries are receiving benefits with little focus on paid work focus*
- Issue 3 Many New Zealanders are relying on benefit income for long periods*
- Issue 4 The benefit system has 'locked in' many people*
- Issue 5 Current policy ignores the importance of paid work to well-being*
- Issue 6 Long-term benefit receipt is concentrated in certain groups*
- Issue 7 The impact of long-term benefit receipt is disabling for individuals, communities, and families or whānau, increasingly across generations*
- Issue 8 The extent of long-term benefit receipt imposes costs of employers*
- Issue 9 There is significant hidden unemployment*
- Issue 10 The sole parent work expectation is out of step with contemporary norms*
- Issue 11 Incentives in the benefit system are poor*
- Issue 12 There are weak signals about the value of investing early to avoid the costs of long-term benefit dependency*
- Issue 13 Service delivery is fragmented*
- Issue 14 The education system is failing some young New Zealanders*
- Issue 15 Employers need to be more actively engaged in solutions*
- Issue 16 Benefit payments are a major cost to taxpayers*
- Issue 17 On current trends, the economic and social cost of the benefit system is unsustainable*

A number of questions flow from these issues. These questions are posed below for you to consider.

7.5 Questions to consider

- Q1: What do you think the goals or objectives of the benefit system should be?
- Q2: Are there aspects of the benefit system that are outdated and have not kept place with the changing nature of work and families?
- Q3: What aspects of the current benefit system are working well and should be retained?
- Q4: What aspects of the benefit system contribute to long-term benefit receipt?
- Q5: What impacts do you see from long-term benefit receipt on individuals, families and whānau, communities and the economy?
- Q6: What do you see as the main barriers to employment for people on a benefit?
- Q7: What are the barriers to employers hiring long-term beneficiaries and also investing in workplace health programmes?
- Q8: Should there be more of a focus on paid work for sole parents?
- Q9: Where appropriate, should there be more of a focus on paid work for people managing with a sickness or disability?
- Q10: Does the benefit system do enough to encourage personal responsibility?
- Q11: Should the scope and nature of the current benefit categories be retained?
- Q12: Does the complexity and structure of supplementary payments create disincentives to paid work?
- Q13: How can Work and Income and other delivery agencies better support people into paid work?
- Q14: Are there lessons from an insurance approach for the benefit system?
- Q15: Do you agree that the current benefit system is socially and economically unsustainable?
- Q16: Are there important issues that are in the Terms of Reference for the Welfare Working Group that you think we have not covered in this paper?

Appendix A Welfare Working Group Workshops

The Welfare Working Group held 27 workshops were held across New Zealand in May and June 2010. A list of the groups we talked to and where we consulted them is below.

Participant	Date
Family Services National Advisory Committee, Wellington	5 May 2010
Business New Zealand, Wellington	6 May 2010
Council of Trade Unions, Wellington	6 May 2010
Social service providers, Westport	10 May 2010
Talley's Fisheries, Westport	10 May 2010
Disabled Persons Assembly, Christchurch	10 May 2010
Youth providers, Mangere	13 May 2010
DRC Trust and Disabled People, Whakatane	17 May 2010
Sole parents, unemployed and former beneficiaries, Whakatane	17 May 2010
Private Health Organisation, Whakatane	17 May 2010
Long-term sickness and invalid's beneficiaries, Whakatane	18 May 2010
Minister of Social Development & Employment's NGO Group, Wellington	19 May 2010
Youthline, Auckland	19 May 2010
Refugees and Migrants, Mt Roskill	19 May 2010
Refugee and Migrant service providers, Mt Roskill	19 May 2010
Health and Disability providers, Royal Oak	21 May 2010
Education and training providers, Ellerslie	24 May 2010
Domestic Purposes Benefit clients, Henderson	25 May 2010
Wellington City Council, Wellington	26 May 2010
Wellington City Mission	26 May 2010
Downtown Community Ministry, Wellington	26 May 2010
Social service providers, Kaitaia	1 June 2010
Youth Justice, Kaitaia	1 June 2010
Social service providers, Whangarei	1 June 2010
Ministry of Social Development's Beneficiary Advocates Group, Wellington	3 June 2010
Social service provider, Cannon's Creek	22 June 2010
Beneficiaries, Cannon's Creek	22 June 2010

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