

# Long-Term Benefit Dependency: The Issues

Summary 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.

*Paula Rebstock  
Chair of the Welfare Working Group*

# **Welfare Working Group**

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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 Welfare Working Group is examining long-term benefit dependency

The Government has asked the Welfare Working Group to conduct a wide-ranging and fundamental review of New Zealand's welfare system. We have been asked to make practical recommendations that will improve the economic and social outcomes for beneficiaries and New Zealand as a whole.

The scope of our review includes:

- how long-term benefit dependence can be reduced and work outcomes improved, including for sole parents;
- how to promote opportunities and independence from benefit receipt 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 Corporation (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 Accident Compensation Corporation Accounts.

We have been mindful to consider and discuss issues from different perspectives. We have felt it important to identify the perspectives and experiences of people who are receiving benefits. We have also sought to ensure the perspectives of employers and other taxpayers are reflected in our discussion.

Although the Welfare Working Group's task is to focus on improving New Zealand's benefit system, the system cannot be viewed in isolation. No matter how well we respond to this challenge, strategies to reduce long-term benefit dependence can succeed only within a broader focus on raising living standards by improving productivity and economic growth.

A growing dynamic economy, with a flexible labour market generating high levels of employment, is an essential foundation for successful social policies. Policies to encourage workforce participation so New Zealand makes best use of its human potential must be central to a programme for improving living standards. Upskilling and, where necessary, retraining must go hand in hand with job creation, so people are not shut out of well-paying jobs in a modern economy.

## 1.2 Content of this paper

This paper summarises the issues the Welfare Working Group has identified following its consideration of the benefit system and its outcomes for New Zealanders. Key issues are highlighted at the end of each section.

*This review is about improving social and economic outcomes for New Zealanders.*

*The Welfare Working Group has considered views from a range of perspectives.*

**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.

### 1.3 Detailed discussion paper is available

A discussion paper examines in detail the issues summarised in this paper. That paper is available from <http://ips.ac.nz/WelfareWorkingGroup/Index.html>

### 1.4 Relevance of Social Security Act 1964 to the benefit system

The overall structure of the benefit system is governed by the Social Security Act 1964. Section 1A(a) of the Act, which was inserted by amendment in 2007, defines a key purpose of the legislation as to help people to support themselves and their dependants while not in paid employment; to help people to find or retain paid employment; and to help people for whom paid work may not be currently appropriate because of sickness, injury, disability, or caring responsibilities to support themselves and their dependants. Other provisions in the Act allow for financial support to alleviate hardship and the imposition of work-related requirements on people seeking or receiving financial support.

The Welfare Working Group has given close consideration to the purposes in the current Act, including its recent 2007 amendments. It was necessary to review the Act to establish whether issues arose from the Act's statement of purpose, whether it was outdated and whether it was contributing to the problem of long-term benefit dependency. We have concluded that the Act's purpose is still relevant to the benefit system, but that more must be done to put the Act's principles into practice.

### 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

*The Welfare Working Group has concluded that the current Social Security Act's purpose and principles are still relevant.*



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.

*The Welfare Working Group's principles for the benefit system recognise that paid work and/or wider participation are fundamental to the well-being of working-age New Zealanders.*

***Box 1: Some people need permanent or long-term support and cannot reasonably be expected to be in paid work***

Any expectation of paid work for people receiving a benefit needs to take account of the person's capacity to engage in employment. In a variety of circumstances the benefit system provides long-term or permanent support and an expectation to undertake paid work is inappropriate, for example, for people with severe impairments because of ill-health or disability, or for people caring for severely disabled children. As well as providing income support to these people, the benefit system has an important role in providing additional assistance to enable them to participate in their communities. In some cases, assistance to undertake some paid work may also be valuable.

*Some people need longer-term support and additional assistance to participate in their communities.*

## Section 2. Aims of the benefit system

The benefit system sits within the wider welfare system that includes transfer payments made through the tax system, New Zealand Superannuation, and other services such as education, health, and housing that are funded by the taxpayer.

The aim of the benefit system is to protect people from major adverse events that mean it is not possible for them to undertake paid work, temporarily or permanently. These events include being made redundant, failing to find a job after leaving school, becoming sick and unable to work, having to care for a child without the support of a partner, or caring for someone who might otherwise be in hospital.

*The benefit system provides people with income support and help to find a job, where appropriate.*

The benefit system provides support in two ways. The system provides people with income support if they are not in employment, and it helps people to find a job, where that is appropriate.

State-provided welfare is a feature of all developed countries. In most of these countries 'conditions' or 'obligations' are attached to the payment of income support. These conditions often include an obligation on the person to look for employment. Obligations are necessary to ensure the benefit system does not encourage the wrong sorts of behaviour.

### 2.1 Changes in the demographic, social, and economic landscape

Since the benefit system was established in 1964, the demographic, social, and economic landscape in New Zealand has changed dramatically. This change has coincided with the long-term increase in the number of people receiving a benefit. Significant changes include:

- the labour market has become more flexible with a decline in career jobs and a risk in part-time employment;
- the nature of households changing, with a large increase in the proportion of households headed by sole parents (about 28 percent of families with children are headed by a single adult); and
- the participation of women in the paid workforce, particularly those with children, increasing dramatically (about 50 percent of sole parents and 68 percent of partnered women with children are now in some form of paid work).

*Major demographic, social, and economic changes have occurred since the 1970s.*

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

## Summary of issues: Section 2

### ➤ **The current benefit system is outdated**

The benefit system has failed to keep pace with social, demographic, and economic change. Current policies do not reflect modern norms and presume some individuals cannot undertake paid work.

## Section 3. Benefit receipt

*Currently, 356,000 or one in eight working-age New Zealanders is on a benefit.*

*Nearly 80 percent of beneficiaries receive non-work-focused benefits.*

Despite the clear focus on employment in the Social Security Act 1964, most people receive benefits that have no or only a weak focus on employment. They are not expected to participate in employment or are given much assistance to find a job. Furthermore, in many cases, policy settings also provide disincentives to move off a benefit.<sup>1</sup> This section examines the extent of benefit receipt in New Zealand and identifies the people most likely to be beneficiaries for long periods.

There are 356,000 working-age adults on a benefit in New Zealand. This is one in eight people of working age.<sup>2</sup> Nearly 80 percent of beneficiaries do not have a work expectation attached to the receipt of their benefit: primarily the Domestic Purposes, Widows, Sickness, and Invalid's Benefits. The Unemployment Benefit is the main work-focused benefit, and recipients receive active assistance to encourage an early placement in paid work.

### 3.1 Short-term and long-term benefit receipt

Most benefit experiences are short term. However, in any given year some people will have several short spells on a benefit, possibly moving between different benefits.

People who receive work-focused benefits tend to leave the benefit system more quickly than those receiving benefits that are not work focused. One in three people who come into the benefit system on to an Unemployment Benefit stay less than six months on the benefit.<sup>3</sup> In contrast, one in eight people on an Invalid's Benefit or Domestic Purposes Benefit leaves within six months.

There is no accepted definition of 'long-term' benefit receipt. However, we have defined long-term as a period of more than six months. We know from an analysis of the patterns of benefit receipt (as one or multiple spells) that six months' receipt captures all groups at risk of spending a long time on a benefit. This does not mean a policy focus that begins at six months – evidence from the health field suggests interventions to address beneficiaries' health problems may need to be made within a much narrower timeframe.

*Of the working-age population, 170,000 have been on a benefit for at least five out of the last ten years.*

### 3.2 Many New Zealanders rely on benefit income for long periods

One of the most striking features of the pattern of benefit receipt is the number of people relying on benefit income for long periods. In June 2009, at least

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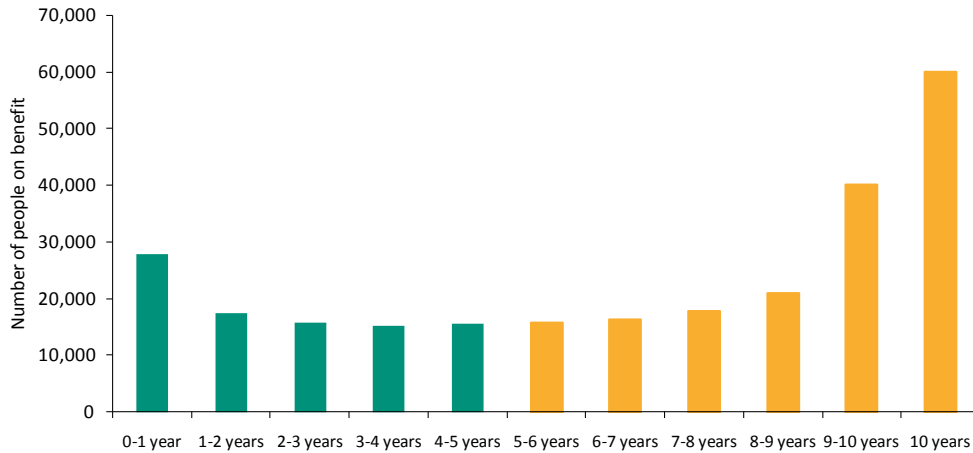
<sup>1</sup> The Social Assistance (New Work Test, Incentives and Obligations) Amendment Bill proposes work-test requirements. A part-time work test would apply from September 2010 to people on the Domestic Purposes Benefit (Sole Parent) and Emergency Maintenance Allowance whose youngest child is six or older. From May 2011, those on the Sickness Benefit who have been assessed as being able to work part time (15–29 hours a week) would have an obligation to look for suitable part-time work.

<sup>2</sup> Unless otherwise specified, working age people are between 18–64 years of age.

<sup>3</sup> These durations are calculated over the next ten years from Ministry of Social Development cohort data.

170,000 beneficiaries had spent five or more of the last ten years on a benefit.<sup>4</sup> Around 60,000 had spent at least ten years on a benefit, and 100,000 had spent at least nine of the last ten years on a benefit (Figure 3.1).

**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.

Across benefit categories, of the recipients who spent at least five years on a benefit, 38 percent were on the Invalid's Benefit and 30 percent were on the Domestic Purposes Benefit. Unemployment Benefit accounted for only 7 percent of all people who spent at least five of the following ten years on a benefit.

### 3.3 Younger and older people spend longer in the benefit system

People aged 16–17 years and people aged 50–59 years have the greatest probability of long-term benefit receipt of all age groups (Figure 3.2).

Analysis of cohort data shows that half of the 16–17-year-olds who entered the benefit system spent at least five out of the next ten years on a benefit. These young people are most likely to have come into the system from the Independent Youth Benefit (provided if their family circumstances have broken down) or are mothers on the Domestic Purposes Benefit. Another group of young disabled people go onto the Invalid's Benefit.

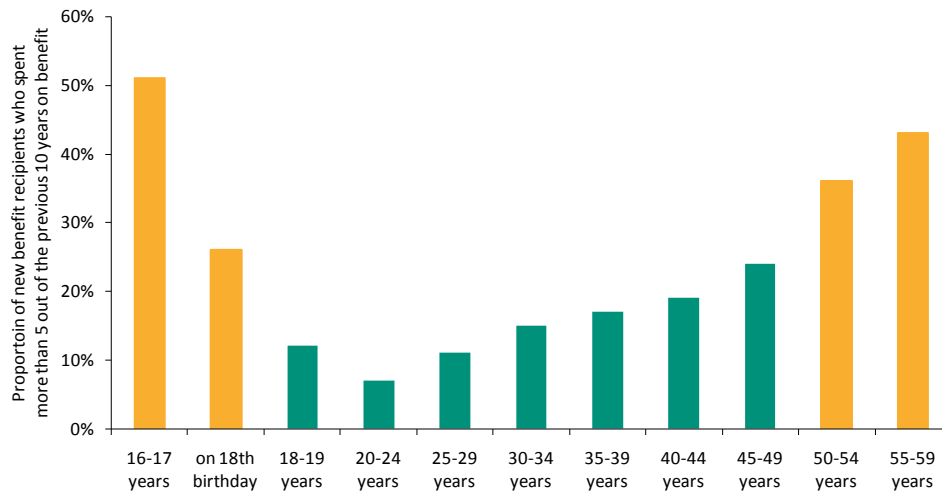
*Half the teenagers who entered the benefit system before they were 18 spent at least five of the last ten years on a benefit.*

Teenagers are a small group of entrants each year (around 5,700 enter as 16–17-year-olds and around another 4,600 enter on their 18th birthday).<sup>5</sup> However, because they stay for long periods, they represent a considerable proportion of those on a benefit at any one time. For example, an estimated one-third of current Domestic Purposes Benefit recipients were teenagers when they had their children. Most of these teen parents will have gone onto the Domestic Purposes Benefit.

<sup>4</sup> This data is for 28-64 years olds only. These numbers record the total time spent on a benefit in the last ten years, potentially across multiple spells of benefit receipt.

<sup>5</sup> Data from the 1993 cohort in the Ministry of Social Development Benefits Dynamic Data Set: Ministry of Social Development (2010), Unpublished Report.

**Figure 3.2: Those most at risk of staying a long time when they enter the system, June 1999-June 2009**



Source: Ministry of Social Development Dynamics Dataset.

*More than one in three beneficiaries over 50 years of age spent more than five years out of the next ten on a benefit.*

Young people entering the benefit system often come from dysfunctional backgrounds, including past Child, Youth and Family care.<sup>6</sup> Once adults, these young people often flow into other benefits, commonly the Domestic Purposes, Sickness, or Unemployment Benefit. Often these young people will have multiple personal problems – low educational attainment and disengagement from the workforce.

The evidence from Figure 3.2 shows that as people age (beyond 20-24 years) their probability of staying on a benefit for long periods increases. More than one in three beneficiaries aged 50-59 years spent more than five years out of the next ten years on a benefit. These beneficiaries are more likely to receive the Sickness or Invalid’s Benefits.

*In 1960, only 2 percent of working-age people were on a benefit. In 2010, the figure has risen to 13 percent.*

### 3.4 Number of people on benefits has increased sharply

In 1960, only 2 percent (1 in 50) of the working-age population were receiving benefits. By April 2008, after a decade of strong employment growth, around 10 percent of the working-age population (around 278,000 people) were receiving a benefit.<sup>7</sup> At the same time, roughly one in five of New Zealand’s children were living in benefit dependent families.

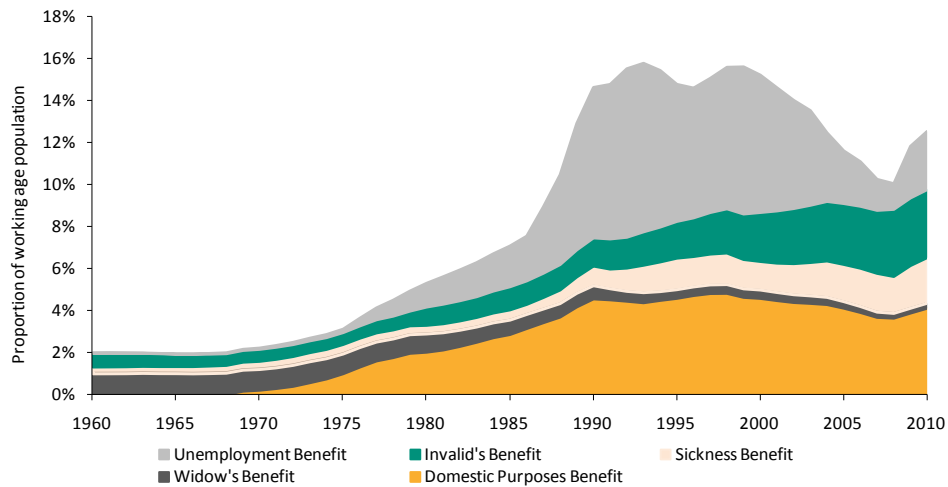
The latest recession has seen the proportion of working age people on a benefit rise further to 13 percent (Figure 3.3).

As it stands today, most long-term beneficiaries are on the Domestic Purposes, Invalid’s or Sickness Benefit. The total number on these benefits has grown steadily since the early 1970s.

<sup>6</sup> D. Welsh and M. Wilson (2010) ‘Lifecourse factors associated with time spent receiving benefit in young adulthood: A note on early findings.’ Unpublished working paper, Ministry of Social Development.

<sup>7</sup> This total includes partners.

**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.

### 3.5 The benefit system has 'locked in' many people since the late 1970s

The growth in beneficiary numbers in the last 50 years appears surprising in light of the fact other trends would suggest a decline in numbers. For example, benefit levels have fallen relative to average wages and New Zealanders are generally healthier than they were in the past.

So what lies behind this long-term trend?

#### Growth in Domestic Purposes Benefit receipt

The establishment of a comprehensive Domestic Purposes Benefit enabled more women with children to live independently of a partner. From its introduction in 1973 until 1990, the numbers on this benefit rose steadily.<sup>8</sup> In the 1990s, policy changes and a strong labour market saw an increase in employment among sole parents and a small decline in the numbers on the benefit. Currently, approximately 28 percent of all families with children are headed by a sole parent, around two thirds of whom are receiving a benefit.

#### Growth in Sickness Benefit and Invalid's Benefit receipt

The long-term growth in the number on the Sickness and Invalid's Benefits cannot be explained by deteriorating health among the population. For example, a comparison of New Zealand health surveys shows that between 1996 and 2006 people on average reported better physical functioning scores and better role limitation scores.<sup>9</sup> Overall, general health has been improving with steadily

*The growth in Sickness Benefit and Invalid's Benefit receipt is not explained by deteriorating health in the population.*

<sup>8</sup> In 1968, a more limited Domestic Purposes Benefit had been introduced for women who could demonstrate hardship.

<sup>9</sup> Ministry of Health (2008) *A Portrait of Health: Key Results of the 2006/7 New Zealand Health Survey* Wellington, Appendix 6. Surveys are five yearly and have occurred in 1996, 2001, and 2006.

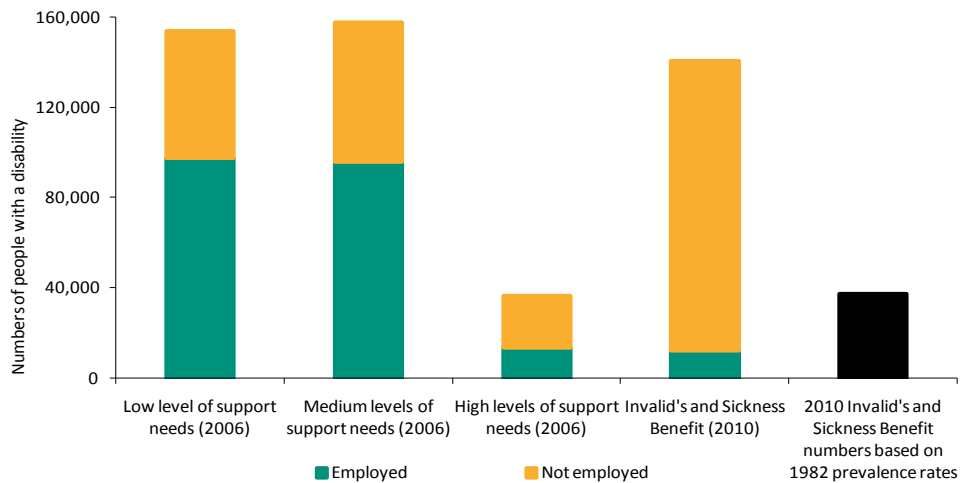
If the number of Sickness Benefit and Invalid's Benefit recipients had grown with the population from 1982, there would be around 40,000 recipients in 2010; instead, there are around 140,000.

improving levels of life expectancy and health expectancy across all major population groups.<sup>10</sup>

The proportion of the working-age population receiving a Sickness or Invalid's Benefit has risen steadily from about 1 percent in the 1970s to 5 percent in 2008, before the recession. The growth in these benefits was at all ages, suggesting the changing age structure of the population played very little role in the overall increase. Policy changes in other areas such as the rise in the age of eligibility for New Zealand Superannuation, changes in the accident compensation scheme, and the deinstitutionalisation of disabled people have played a small role.<sup>11</sup>

Figure 3.4 shows that when the 1982 Sickness Benefit and Invalid's Benefit numbers are adjusted only for the population increase between 1982 and 2010, we would expect to see around 40,000 people on these benefits. When compared with the reported levels of disability in the population, this suggests many people are receiving benefits who report medium or low levels of support needs in the New Zealand Disability Survey.<sup>12</sup> A large proportion of these people may have mental health conditions that do not restrict daily tasks, but affect work capacity.

**Figure 3.4: 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.

<sup>10</sup> Health expectancy is the number of years a person could expect to live in good health if current mortality and morbidity rates persist.

<sup>11</sup> M. Wilson and K. McLeod (2006) 'Understanding the growth in Invalid's Benefit receipt in New Zealand.' *Social Policy Journal* 29: 127-45.

<sup>12</sup> Statistics New Zealand (2008) *Disability and the Labour Market in New Zealand in 2006*. Wellington: Statistics New Zealand. Respondents have been assigned a rating 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 of (medium needs refers to less than daily) of a range of equipment and support.



There is evidence that the growth in numbers on the Sickness and Invalid's Benefits has, in large part, been driven by more people being diagnosed with psychological conditions and musculoskeletal conditions.<sup>13</sup>

### 3.6 Benefit system has locked in people on non-work-focused benefits

A period of economic restructuring in the 1980s saw a large rise in unemployment. Job losses had impacts across all benefit categories. In the longer term, the impact was seen particularly in Domestic Purposes, Sickness, and Invalid's Benefits as significant numbers of people were 'locked in' to a benefit and became permanently discouraged from trying to re-enter the labour market. A proportion will have become sick while on the benefit. However, the benefit system may have contributed to this 'locking in' by enabling people to move from the Unemployment Benefit to the other non-work-focused benefits that did not actively promote or assist participation in paid work.

The experience of the period of strong employment growth after 2000 supports this picture of the 'locked-in' effect. From 2000 until the recession in 2008, the numbers on the Unemployment Benefit fell rapidly. Although total working-age benefit numbers fell overall, the numbers on Sickness and Invalid's Benefits generally continued to rise.

The numbers on the Domestic Purposes Benefit have risen since the 2008 recession, returning to their 1998 levels. The concern is that these groups are also being adversely affected by the current economic cycle, and without more active support to return to work, will become 'locked into' the benefit system. This could see a further 'ratcheting up' of numbers.

*Many people entered the benefit system in the 1980s, and many seemed to have difficulty leaving despite strong employment growth after 2000.*

*The groups 'locked in' to the benefit system are those who receive little active assistance.*

#### Summary of issues: Section 3

➤ **Most beneficiaries are receiving benefits with little focus on paid work focus**

Despite the clear focus on paid employment in the legislation, most people receive benefits with little or no focus on paid work. They are not expected to participate in paid employment and are not given much assistance to find a job. Furthermore, in many cases, current policy settings also provide disincentives to move off the benefit.

➤ **Many New Zealanders are relying on benefit income for long periods**

Over 170,000 people currently on a benefit have spent at least five years out of the past ten years on a benefit.

➤ **The benefit system has 'locked in' many people**

The failure of the benefit system to adequately assist people into employment has become clearer in recent decades. Over the last 30 years, many people have entered the benefit system, and remained there for long periods, and some remained almost permanently.

<sup>13</sup> M. Wilson and K. McLeod (2006) 'Understanding the growth in Invalid's Benefit receipt in New Zealand.' *Social Policy Journal* 29: 127-45.

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

### 4.1 Introduction

Current welfare policy does not encourage most beneficiaries to find a job and is at odds with evidence that shows that participation in paid work is important to people's long-term mental and physical health and social and economic well-being. Being out of work has adverse impacts and increases the risk of poverty, especially for families with children.

*Participating in paid work is important to a person's mental and physical health and their social and economic well-being.*

For the purposes of this paper, 'work' means employment in the paid workforce. This reflects the expectation that for the vast majority of working-age New Zealanders, paid work is the best means of providing long-term financial security for themselves and their families or whānau. At the same time, the valuable contribution that is being made by people doing unpaid work, such as caring for children and other dependants and volunteer work is also important for people, their families or whānau, and their communities.

In a recent comprehensive review of work and health policy in the United Kingdom, Dame Carol Black concluded that:<sup>14</sup>

*For most people, their work is a key determinant of self-worth, family esteem, identity and standing within the community, besides, of course, material progress and a means of social participation and fulfilment.*

This review, along with other wide-ranging evidence, is part of a growing consensus emphasising the importance of work to individual and family well-being.

### 4.2 Being in work matters to health and well-being

A recent position statement by the Royal Australasian College of Physicians concluded that 'for most individuals, working improves general health and wellbeing and reduces psychological stress'.<sup>15</sup> In addition to providing income, employment provides social contact. The workplace is often where new skills are learned and where new employment opportunities are found.

People who are out of work and on a benefit have a higher risk of poverty,<sup>16</sup> social dislocation, and deteriorating overall health. A review of the link between work

*Being in paid work has a variety of health and other benefits.*

<sup>14</sup> C. Black (2008). *Working for a Healthier Tomorrow: Dame Carol Black's review of the health of Britain's working age population*. London: TSO, p. 4.

<sup>15</sup> RACP and Australasian Faculty of Occupational and Environmental Medicine (2010) *Realising the Health Benefits of Work: A position statement*. Sydney: Royal Australasian College of Physicians, p. 7.

<sup>16</sup> Poverty measures are based on whether household income, adjusted for family size, falls below a threshold of 60 percent of median household income (see B. Perry, (2009) *Household Incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2008*. Wellington: Ministry of Social Development). There are other poverty measures.

and health found that while ill health undoubtedly increases the risk of unemployment, there is strong evidence that being without paid work is itself harmful to health.<sup>17</sup> This is reflected in higher mortality, poorer general health, and poorer mental health. Long periods on a benefit are likely to cause existing health conditions to deteriorate or new health conditions to arise. Conversely, there is a broad consensus that many people who have been unwell, especially those with common health problems, should be encouraged and supported to remain in or return to work quickly, because work can promote recovery and rehabilitation, participation in society, and independence.<sup>18</sup>

*Being out of paid work has adverse health, economic and social outcomes.*

### 4.3 Being in paid work brings extra income

The primary reason that most people work is to financially support themselves and their family or whānau. Not surprisingly, people in paid work are generally better off financially than those out of work, and earnings rise with qualifications. While many people on a benefit may enter employment on lower than average wages, earnings can be expected to increase as experience in employment grows. People in employment gain skills and work-related experience. A New Zealand study of beneficiaries who moved from a benefit into work found that there was real earnings growth over time. Two years after entering work, monthly earnings in real terms were on average 8.5 percent higher than when they started in work.<sup>19</sup>

### 4.4 Being out of paid work raises the risk of poverty

A lack of paid work raises the likelihood of children being in poverty. Nearly 60 percent of all children living in poverty are in households where no adults are in paid work. A further 10 percent of children living in poverty are in households with no adults working full time (Figure 4.1).<sup>20</sup>

Sole parent families are a large proportion (about 75 percent) of all families who are not in paid work.<sup>21</sup> In contrast, less than 20 percent of households with children where there is an adult working full time are in poverty.

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<sup>17</sup> G. Waddell and A. Burton (2006) *Is Work Good for your Health and Well-being*. Great Britain: Department of Work and Pensions.

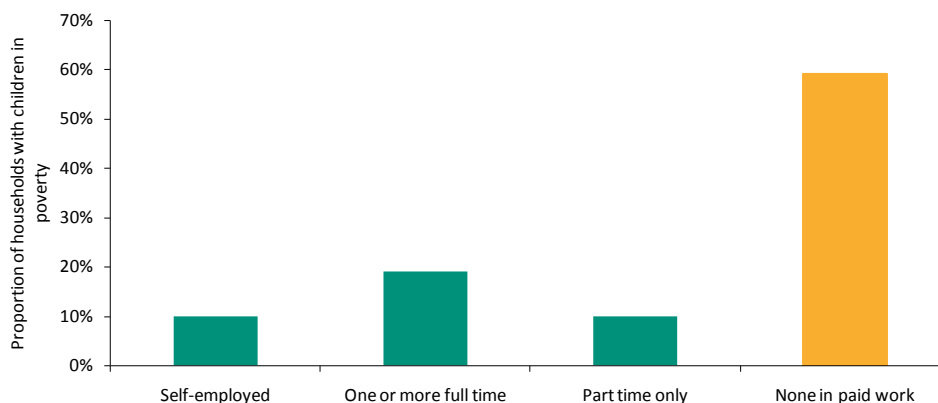
<sup>18</sup> G. Waddell and A. Burton (2006) *Is Work Good for your Health and Well-being*. Great Britain: Department of Work and Pensions.

<sup>19</sup> S. Dixon and S. Crichton (2007) 'The longer term employment outcomes of people who move from a benefit to work.' *Social Policy Journal of New Zealand* 31(July).

<sup>20</sup> The poverty measure is defined as having household income less than 60 percent of the median household income (before housing costs).

<sup>21</sup> S. Singley and P. Callister (2004) *Polarisation of Employment 1986–2002: New Zealand in the international context*. Working paper 06/04. Wellington: Ministry of Social Development.

**Figure 4.1: Proportion of households with children in poverty by household type, 2008** <sup>22</sup>



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.

Higher rates of child poverty in New Zealand are associated with the low employment rates of sole parents.

Higher rates of child poverty in New Zealand are associated with the low employment rate of sole parents, particularly when compared with employment rates of New Zealand women with partners and sole parents overseas. About 50 percent of New Zealand sole parents are employed, but in other countries the employment rate for sole parents is as high as 80 percent. Over two-thirds of New Zealand mothers who have partners are in employment.

A recent Organisation for Economic Cooperation and Development (OECD) paper estimated that New Zealand could reduce its child poverty rate by 25 percent if it could lower its share of jobless households to the level of countries where this share is the lowest.<sup>23</sup>

#### 4.5 Absence from the labour market makes it harder to return

Over one-third of people who enter the benefit system are on a benefit five years later.

People out of work for long periods are likely to find it harder to return to work, as skills and confidence erode. The evidence on the association between the time spent on a benefit and the likelihood of leaving and remaining off a benefit is strong.<sup>24</sup> While half of those who enter the benefit system are off-benefit by the end of the first year, only an additional 9 percent are off-benefit by the end of the second year (Figure 4.2). After the fifth year, very few additional people are off-benefit.<sup>25</sup> Over one-third of the people who enter the benefit system are still on a benefit five years later.

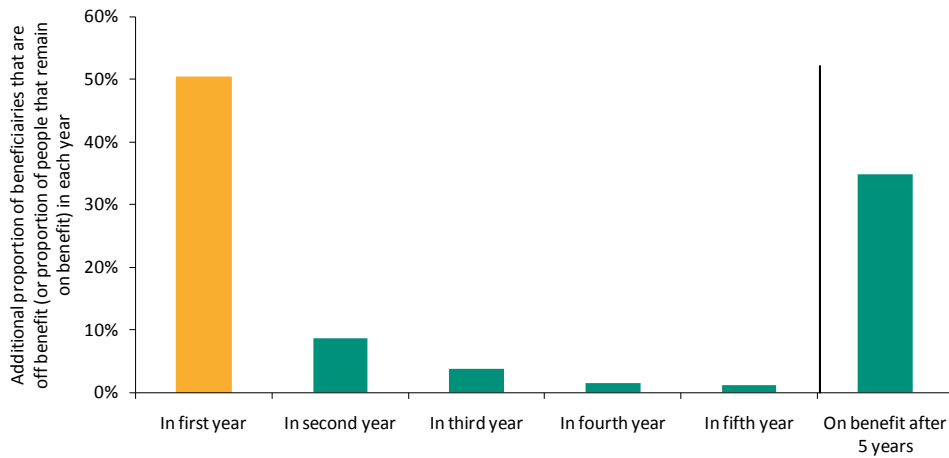
<sup>22</sup> Poverty line is 60 percent of household income before housing costs, adjusted for family size.

<sup>23</sup> P. Whiteford and W. Adema (2007) *What Works Best in Reducing Child Poverty: A benefit or work strategy?* OECD Social, Employment and Migration Working Papers 51. Paris: Organisation for Economic Co-operation and Development.

<sup>24</sup> The degree to which the declining rate at which people find work as duration on benefit lengthens is the result of the most disadvantaged remaining jobless longer or whether joblessness is itself harmful to the chances of employment remains an open question. When the observed characteristics of people are controlled for, the steep decline in the exit rates with unemployment remains. There is a strong effect from previous spells on unemployment lowering the probability of exit from the current spell. See N. Carroll (2006) 'Explaining unemployment duration in Australia.' *The Economic Record* 83(262): 287–302.

<sup>25</sup> M. Wilson (1999) 'The duration of benefit receipt: New findings from the Benefit Dynamics Data Set.' *Social Policy Journal of New Zealand* 36.

**Figure 4.2: The proportion of additional people off benefit each year**



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

In the case of sickness, the chance of never returning to work rises steeply as the time off work due to illness lengthens. An analysis showed, on average, if a person is off work for 45 days due to illness, the chance of their ever going back to work is 50 percent, and this falls to 35 percent if the absence is longer than 70 days (10 weeks).<sup>26</sup> This suggests the initial period on a benefit may be critical for people with a health condition.

#### 4.6 Long periods on a benefit income are associated with deprivation

There is powerful evidence to suggest that a long period spent on a benefit, and hence a low income, is associated with a range of adverse social and economic outcomes, especially for young adults and children. These adverse outcomes may be transmitted across generations and become entrenched in communities.

A short period of low income does not necessarily result in long-term deprivation. However, evidence suggests persistent periods on a low income significantly increase the risk of deep deprivation, reflected in financial stress, low living standards, and poor housing.<sup>27</sup>

#### 4.7 Long-term benefit receipt has adverse impacts on children and their parents

There are currently around 222,000 children living in households relying on a benefit (around one in five children). Recent analysis has shown that one in five children spent at least seven years of their childhood (up to the age of 14) in households that rely on benefit income.<sup>28</sup> Most of these children are in households receiving the Domestic Purposes Benefit.

*Persistent periods on a low income is associated with long-term deprivation.*

*One in five children spent at least seven years of their childhood in a family or whānau that relied on benefit income.*

<sup>26</sup> RACP and Australasian Faculty of Occupational and Environmental Medicine (2010) *Realising the Health Benefits of Work: A position statement*. Sydney: Royal Australasian College of Physicians.

<sup>27</sup> R. Berthoud, M. Bryan, and E. Bardasi (2004) *The Dynamics of Deprivations: The relationship between income and material deprivation over time*. Research Report 219. Department of Work and Pensions.

<sup>28</sup> M. Wilson and D. Soughtton (2009) 'Children in families support by main benefits: An update.' *Social Policy Journal of New Zealand* 36.

*New Zealand research shows that the children of teen mothers are more likely to have adverse outcomes than those of mothers who delay having children.*

There are currently nearly 100,000 sole parent beneficiaries and nearly 180,000 children in these families. Sole parent families on a benefit are at high risk of poverty.

In 2009, one in three Māori children lived in a household below the poverty line, twice the rate of European/Pākehā children. This high poverty rate reflects the high proportion of Māori sole parent families who are on a benefit.<sup>29</sup>

Children from poor households have unfavourable outcomes compared with children from more advantaged households over a wide range of measures. A low level of income is strongly associated with poor outcomes for child health. Children growing up in poorer households are more likely to live in overcrowded houses, have poorer access to good nutrition, have worse educational outcomes, have higher rates of hospitalisation, and have more restricted access to primary health services.

Teen parents are likely to come from low socioeconomic backgrounds, dislike school, and have low expectations of the future.<sup>30</sup> Teen parents are much more likely to be Māori than non-Māori. Pacific teens are also more likely to be sole parents than the population as a whole.

New Zealand research has shown that the children of teen mothers are more likely to have adverse outcomes than those whose parents delay having children. When compared with children of later child-bearers, about half of the children of teen mothers in the Dunedin Longitudinal Study had adverse outcomes. These outcomes included having left school early (more than 2.5 times more likely), being unemployed for 12 months or more (two times more likely), offending violently (just under three times more likely), and being teen parents themselves (more than 2.5 times more likely).<sup>31</sup>

#### **4.8 Youth are particularly at risk from adverse impacts**

Poor experiences in childhood can translate into a range of negative outcomes for young adults, including aggressive behaviour, mental health problems, and low educational attainment.<sup>32</sup> These in turn increase the risk of long periods of unemployment as young adults and consequently very low income levels by young middle-age. Studies link unemployment in ages 16–24 to a range of negative and social outcomes. These outcomes may include criminal behaviour,

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<sup>29</sup> B. Perry, (Forthcoming) *Household Incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2009*. Wellington: Ministry of Social Development.

<sup>30</sup> A. Harden, G. Brunton, A. Fletcher, A. Oakley, H. Burchett, and M. Backhans (2006) *Young People, Pregnancy and Social Exclusion: A systematic synthesis of research evidence to identify effective, appropriate and promising approaches for prevention and support*. London: EPPi-Centre, Social Science Research Unit, Institute of Education, University of London. Retrieved 15 July 2010, from <http://eppi.ioe.ac.uk/cms/Default.aspx?tabid=674>.

<sup>31</sup> S. R. Jaffee, A. Caspi, T. E. Moffitt, J. Belsky, and P. A. Silva (2001) 'Why are children born to teen mothers at risk for adverse outcomes in young adulthood? Results from a 20-year longitudinal study.' *Development and Psychopathology* 13: 377–97.

<sup>32</sup> D. Welsh and M. Wilson (2010) 'Lifecourse factors associated with time spent receiving benefit in young adulthood: A note on early findings.' Unpublished working paper, Ministry of Social Development.

alcohol and other drug abuse, and suicidal thoughts.<sup>33</sup> In contrast, research shows that, particularly for young people, getting a job reduces the likelihood of criminal offending.<sup>34</sup>

Teen parents experience a range of poor outcomes. Very early parenting (before age 18) is associated with the greatest risk of disadvantage. There is greater risk of inadequate housing, depression, low self-esteem, benefit dependence, and high levels of family and relationship conflict (domestic abuse).<sup>35</sup>

Many young people on a benefit have existing disadvantages that require concerted effort and considerable resources to address. Policies that enable them to move easily across on to benefits (Domestic Purposes, Sickness, and Invalid's Benefits) that have no work expectations or assistance attached, build on existing disadvantages and can consign them to social dislocation and low income. Ensuring some form of engagement occurs – either in work or education – is essential. Leaving them unattended will likely result in high personal, social, and fiscal costs.

#### 4.9 Impacts are concentrated across generations and in communities

The adverse impacts of long-term benefit receipt can be felt across generations of family or whānau. There is evidence that growing up in a benefit-dependent family is associated with a higher chance of the next generation being on a benefit.<sup>36</sup> Australian evidence suggests that as many as a third of young people on a benefit came from families where there had been long-term benefit receipt, compared with one in ten from middle income families. Young people who have been raised in a benefit-dependent family are more likely to engage in a variety of risky behaviours, including crime and illegal drug taking.<sup>37</sup> Many participants in our workshops have noted that some families or whānau have relied on a benefit for generations and that this pattern is entrenched.

Where long-term benefit receipt is concentrated within certain families or whānau or communities, there is a risk that relying on benefit income becomes normalised. This 'culture of welfare dependency' is likely to arise where there are few signals that an alternative is expected or possible. Areas where over 20 percent of the working-age population are on a benefit include the Far North, Papakura, Opotoki, Gisborne, Wairoa, Whanganui, and Horowhenua. In addition, the impacts of large concentrations of benefit recipients can include extra stress on community organisations and reduced purchasing power in the local economy.

*Young people who have been raised in a benefit-dependent family are more likely to engage in a variety of risky behaviours, including crime and illegal drug taking.*

*There is evidence that growing up in a benefit-dependent household is associated with a higher chance of the next generation being on a benefit.*

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<sup>33</sup> D. M. Fergusson, L. J. Horwood, and L. J. Woodward (2001) 'Unemployment and psychosocial adjustment in young adults: causation or selection?' *Social Science & Medicine* 53(3): 305–20.

<sup>34</sup> L. Kazemain and S. Maruna (2009) 'Desistance from crime', in M. D. Krohn, A. J. Lizotte, and G. P. Hall (eds) *Handbook on Crime and Deviance*. Dordrecht: Springer, Chapter 15, pp. 277–95.

<sup>35</sup> D. Loxton, J. S. Williams, and L. Adamson (2007) *Barriers to service delivery for young pregnant women and mothers: Report to the National Youth Affairs Research Scheme (NYARS)*. Australian Government Department of Families, Community Services and Indigenous Affairs. Retrieved 5 July 2010 from [www.deewr.gov.au/Youth/Programs/NYARS/Pages/06-09Publications.aspx](http://www.deewr.gov.au/Youth/Programs/NYARS/Pages/06-09Publications.aspx).

<sup>36</sup> T. Maloney, S. Maani, and G. Pacheco (2003) 'Intergenerational welfare participation in New Zealand.' *Australian Economic Papers*, September.

<sup>37</sup> D. Cobb-Clarke (2010) Presentation to the Welfare Working Group Forum.

#### 4.10 Benefit receipt is very high among Māori

*An estimated 27 percent of all working-age Māori are on a benefit.*

An estimated 27 percent of all working-age Māori received a benefit in 2006. This compares with 12 percent in the total population. For young Māori women, the extent of receipt is very high. In 2006, over 40 percent of Māori women aged 20–29 were beneficiaries. Most Māori women on a benefit receive the Domestic Purposes Benefit. Māori have also been adversely affected by the economic recession, with the unemployment rate for Māori increasing from 12.6 percent in June 2009 to 16.4 percent in June 2010.<sup>38</sup>

There is a high rate of long-term benefit receipt among Māori. From a 2009 analysis of people aged 28–64, of Māori adults on a benefit, it is estimated that 26 percent of Māori women and 17 percent of Māori men in this age group had spent five or more years out of the last ten years on a benefit.<sup>39</sup>

The disadvantage arising from long-term benefit receipt is felt strongly in the Māori community. Rates of benefit receipt are very high among Māori whānau and in some towns and parts of cities where many Māori live.

*Among Māori on a benefit, an estimated 26 percent of women and 17 percent of men spent five or more of the last ten years on the benefit.*

The extent of benefit receipt among Māori has been an important issue raised in our workshops and consultations. Key themes have been the negative impact of very high levels of benefit receipt is having in some Māori communities and the impact benefit receipt is having on whānau and rangatahi (young people) in particular. The strategies to address these problems will need to be responsive to Māori. More recognition is needed that responsibility for the well-being of individuals is often shared across a whānau.

Many prominent Māori leaders, from as far back as Sir Apirana Ngata, have identified that the welfare system has had a destructive impact on Māori by incentivising physical separation from whānau, failing to recognise the resources within the whānau that support individuals, undermining the accountability of individuals to their whānau, and creating inter-generational poverty.

#### 4.11 Pacific people are more likely to be on a benefit

*Pacific women and men aged over 55 have high rates of benefit receipt.*

In 2006, more than 15 percent of Pacific people were on a benefit compared with 12 percent of the total working age population. Pacific women are more likely to receive a benefit than Pacific men. Pacific women and men aged over 55 are more likely to be on a benefit than other groups in the Pacific population. The recession has also adversely affected Pacific people, with the unemployment rate increasing from 12.6 percent in June 2009 to 16.4 percent in June 2010.<sup>40</sup>

The challenges around improving education, health, housing, and benefit outcomes for Pacific people require different approaches to effectively engage the Pacific community. Gerardine Clifford from Taeaomanino Trust told the

<sup>38</sup> Statistics New Zealand (2010); *Household Labour Force Survey: June 2010 quarter*.

<sup>39</sup> Data from the 1993 cohort in the Ministry of Social Development Benefits Dynamic Data Set. Ministry of Social Development (2010) Unpublished.

<sup>40</sup> Statistics New Zealand (2010); *Household Labour Force Survey: June 2010 quarter*.



Welfare Working Group Forum held in June 2010 that, ‘for Pacific and Māori who come from a collective culture, personalisation can be a synonym for isolation’.

With this collective approach in mind, responses that are grounded in Pacific people’s families and communities and address the specific needs they face are important to making further progress. These responses should encompass the collective and spiritual contexts underpinning Pacific cultures and be based in community-developed and -led services and programmes. Where possible, this should involve using Pacific people to deliver services.

#### 4.12 Benefit dependency costs employers

In New Zealand’s recent period of strong employment growth, there was evidence of a significant mismatch in the labour market. This was reflected in large numbers of people staying on a benefit at the same time as firms were finding it difficult to recruit labour. Between 2004 and 2007, when one in ten working-age New Zealanders was on a benefit, a survey of business found that 15 percent of firms found it hard to find labourers and production and transport workers and 13 percent found it difficult to fill clerical, sales, and service worker roles.<sup>41</sup>

*In 2008, when 10 percent of the working-age population was on a benefit, many firms found it difficult to fill vacancies.*

Labour shortages appeared across all regions in the period immediately before the current recession, even those with high levels of benefit prevalence. For example, in Gisborne, 30 percent of employers reported that it was increasingly difficult to get labour. At the same time, 18 percent of the working-age population were receiving a benefit in that region.

Quite apart from being a lost opportunity for those on a benefit, this situation represents a cost to the wider economy by constraining the ability of businesses to grow. In New Zealand, this labour shortage was often resolved with labour from overseas.

The OECD argues that improved job search skills and greater engagement in the labour market (including by those not in the workforce) leads to higher employment overall. 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.<sup>42</sup>*

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<sup>41</sup> Statistics New Zealand (2008) Business Operations Survey

<sup>42</sup> OECD (2005) *OECD Employment Outlook*. Paris: Organisation for Economic Co-operation and Development.

#### Summary of issues: Section 4

➤ **Current policy ignores the importance of paid work to well-being**

Current policies which do not encourage the majority of beneficiaries to find a job is at odds with evidence that shows participation in paid work is important to mental and physical health, and social and economic well-being.

➤ **Long-term benefit receipt is concentrated in certain groups**

- Young people aged 16–18
- Older people aged 50–59
- Single women with children
- Māori
- Pacific people.

➤ **The impact of long-term benefit receipt is disabling for individuals, communities, and families or whānau, increasingly across generations**

Long-term benefit receipt has a range of adverse outcomes for individuals, families and whānau and communities. These impacts are strongly concentrated on children and teenagers. High benefit receipt can mean whole communities are affected, and where benefit receipt is entrenched, the impact may be transferred across generations.

➤ **The extent of long-term benefit receipt imposes costs of employers**

Long-term benefit receipt contributes to a mismatch between the needs of employers and the readiness of potential employees. Long periods on a benefit cause people to become detached from the labour market and poorly motivated. This imposes costs and risks on employers and undermines economic performance.

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

### 5.1 The importance of a greater focus on paid work

The current division in the benefit system between those on work-focused benefits (such as the Unemployment Benefit) and benefits with little work focus (such as the Domestic Purposes, Sickness, Invalid's, and Widow's Benefits) is based on an assumption that people on the latter benefits cannot be in paid work. This section presents evidence that this assumption is out of date and that many people on non-work-focused benefits can and do want to work.

The conclusion is that policy settings need to be broadened to include a work focus for these groups. Features of the benefit system and in other policy areas that need to change so beneficiaries can more easily participate in paid work are also identified in this section.

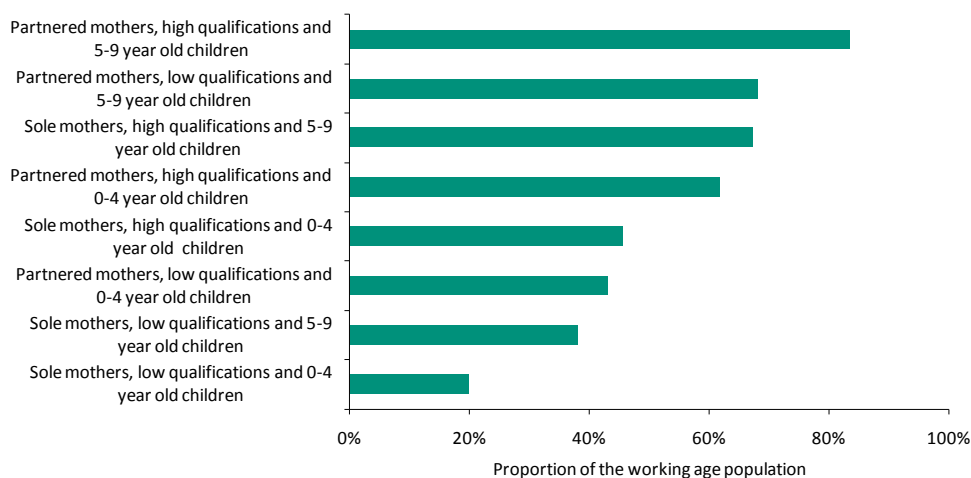
#### *Employment for parents is increasingly the norm*

In the Welfare Working Group's workshops, many sole parents said they wanted to be in paid employment in order to have more control over their future, be a good role model, and provide better for their children. About one in four people on Domestic Purposes Benefits are actively looking and/or available for work.<sup>43</sup>

In New Zealand today, it is the norm for most mothers to also be in paid work. About two-thirds of all partnered mothers with children are in employment, while about 50 percent of sole parents are in paid work.

*Two-thirds of partnered women with children are in employment, while 50% of sole parents are in employment.*

**Figure 5.1: Employment rates for different groups of mothers**



Source: Statistics New Zealand (2006 Census).

<sup>43</sup> Statistics New Zealand (2009) *Income Survey*. Wellington: Statistics New Zealand.

Educational qualifications and age of child have an impact on the likelihood of mothers being in paid work – for both sole parents and partnered women (Figure 5.1). Over 80 percent of partnered women with high qualifications and whose youngest child is aged over five are in employment. In contrast, only 40 percent of sole parents with similar aged children but low qualifications are in employment.

There are some groups of sole parents for whom an expectation of being in paid work is inappropriate; for example, those caring for severely disabled children or very young children. For sole parents, access to reliable, accessible and affordable childcare is a crucial part of the employment decision.

Despite considerable expansion in childcare provision in recent years, issues with childcare availability still remain. 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.<sup>44</sup>

*The OECD concludes that being in childcare can be positive for most children.*

#### ***OECD conclusions about the impact of childcare on child wellbeing<sup>45</sup>***

The impact of childcare on child well-being remains an area of considerable debate, but the OECD concludes that:

- out-of-home care can have positive effects, given an average quality of childcare, for children whose parents are mentally ill, are 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 for many children, in addition to the benefits of learning how to socialise and co-operate with others; but
- significant amounts of non-parental care before age two may limit breastfeeding and reduce parent–child attachment.

#### ***Value of work for disabled people is increasingly acknowledged***

We also heard from our workshops how important paid work is for disabled people.

Many disabled people or those with health impairments are in employment. Nearly three in five disabled people requiring low or medium levels of support are in employment. Of the 35,000 people with permanent and severe conditions that restrict the daily activities they can undertake, around one in three are in employment.

<sup>44</sup> Statistics New Zealand (2010) *New Zealand Childcare Survey 2009*. Wellington: Statistics New Zealand.

<sup>45</sup> OECD (2009) *Doing Better for Children*. Paris: Organisation for Economic Co-operation and Development.

A recent survey by Statistics New Zealand found a significant number of people on Sickness (22 percent) and Invalid's (11 percent) Benefits were available for and/or actively looking for work.<sup>46</sup>

For disabled people and those with illnesses, the relationship between the medical condition and vocational fitness (capacity to work) can be complex. One in three people on the Sickness or Invalid's Benefit have a psychological or psychiatric illness, another one in eight have a musculoskeletal problem, and these conditions have been the major drivers of Invalid's Benefit receipt in recent times.<sup>47</sup>

*One in five of people on Sickness Benefit and one in ten on Invalid's Benefits are looking or available for work.*

The medical consensus is growing that many people with moderate health conditions are better off in work. However, there is no direct measurement of the range and severity of health conditions among the New Zealand beneficiary population. In the United Kingdom, 'common health problems' – those found generally in the population as a whole – account for two-thirds of sickness absence and long-term incapacity.<sup>48</sup>

## 5.2 Supporting more people into work from the benefit system

The number of people relying on benefit income is not just driven by social, health, and economic factors, but also by policy settings, the organisations that manage welfare and individuals in the benefit system, as well as the behaviour of individuals. Features of the current benefit system create barriers to beneficiaries taking up paid work. This section reviews the key features of the system that are fundamental to supporting people into paid work or present obstacles to people entering work.

### *Significant hidden unemployment is in the system*

New Zealand's system of income support is based around categories of eligibility (for example, unemployment, sole parenthood, sickness, and disability). An 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. A sole parent, for example, will not be counted as unemployed unless they are on an Unemployment Benefit.

People who are entering the benefit system have incentives to be placed on benefits with a weaker work focus. As a person moves from the Unemployment Benefit to the Sickness Benefit to the Invalid's Benefit, the work obligations get weaker, the case management becomes more passive, and the rates of assistance get more generous. This lack of work focus (and support) can lead to people becoming disengaged from the labour market and spending extended periods on a benefit.

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<sup>46</sup> Statistics New Zealand (2009) *Income Survey*. Wellington: Statistics New Zealand.

<sup>47</sup> M. Wilson and K. McLeod (2006) 'Understanding the growth in Invalid's Benefit receipt in New Zealand.' *Social Policy Journal* 29: 127–45.

<sup>48</sup> G. Waddell and A. Burton (2006) *Is Work Good for your Health and Well-being*. Great Britain: Department of Work and Pensions.

In reviewing disability provisions across its member countries, the OECD concludes 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'.<sup>49</sup> Many of the circumstances where people move across benefits demonstrates need, but sometimes the system responds by providing less support.

Looking at flows across the benefit system in New Zealand, in the year to 30 March 2010, there were 37,219 transfers between benefits. There were around 9,000 transfers from the Unemployment Benefit to the Sickness Benefit and around 8,000 moves in the opposite direction. There were around 5,500 moves from the Sickness Benefit to the Invalid's Benefit and around 1,000 moves in the opposite direction.

One short-term outcome of extending a work focus to more people on a benefit could be that measured unemployment would rise. This would occur as more people on non-work benefits begin looking for work and are available for work (the official measure of unemployment). On the other hand, over the long term as this group locates and sustains employment at greater rates, measured employment, labour force participation, and gross domestic product would all rise.

### *Gateways to categorical payments need to be well managed*

In New Zealand, general practitioners must provide a medical certificate to establish a person's eligibility for the Sickness or Invalid's Benefit. These assessments often put doctors in a difficult position with their patients.

*Agreement is widespread that medical assessments result in large number of people with partial work capacity being deemed unable to work.*

The current medical assessment of illness used in the New Zealand system is based on a test of incapacity for work. However, there is widespread agreement internationally that medical assessments of incapacity tend to result in large numbers of people with partial work capacity being deemed unable to work.<sup>50</sup> Missing from the current approach is a comprehensive assessment process that measures a person's capacity. There is also international evidence of considerable variation in assessments, and this has led some countries to make more use of independent assessors of work capacity.<sup>51</sup>

Providing health practitioners with more information about the health risks of long-term work absence and the services available to assist with addressing employment issues is seen as part of improving the management of this process.<sup>52</sup> A pilot scheme – Better@Work – run by the Accident Compensation Corporation

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<sup>49</sup> OECD (2003). *Transforming Disability into Ability: policies to promote work and income security for disabled people*, Paris: Organisation for Economic Co-operation and Development

<sup>50</sup> OECD (2009) *Sickness, Disability and Work: Keeping on track in a downturn*. Paris: Organisation for Economic Co-operation and Development. The New Zealand benefit system allows individual recipients to define their own residual capacity to work; both Sickness and Invalid's beneficiaries can work part time.

<sup>51</sup> OECD (2009) 'Sickness, disability and work: Keeping on track in the economic downturn – Background paper.' Paper for Organisation for Economic Co-operation and Development high-level forum in Stockholm, 14–15 May 2009.

<sup>52</sup> RACP and Australasian Faculty of Occupational and Environmental Medicine (2010) *Realising the Health Benefits of Work: A position statement*. Sydney: Royal Australasian College of Physicians.

is trying to change general practitioner behaviour towards increasing certification of workers as fit for selected duties where appropriate rather than fully unfit by default.

### *Passive provisions for sole parents do not support employment*

Despite the fundamental shift towards labour market participation for women (and mothers) since the 1960s, New Zealand's sole parent provisions have remained largely unchanged.

New Zealand is now out of step with other countries in terms of the low employment rates of sole parents and its approach to sole parent benefits. Most countries have a work search or work activity requirement for sole parents from a much younger age of children than is the case here (currently when the youngest child leaves school).<sup>53</sup> Australia and the United Kingdom have work expectations for sole parents once the youngest child is around primary school age.

The countries with the lowest rates of child poverty tend to be those that have high rates of sole parent employment. These countries – Denmark, Finland, Sweden, Norway, France, and Austria – generally focus on a return to work for sole parents when children are quite young (anywhere between a few months and five years) and have generous childcare provisions.

Increasingly active approaches are being used internationally to assist sole parents (and those on incapacity benefits) into employment. In Australia and the United Kingdom, personalised case management is combined with compulsory activities such as developing plans to enter paid work.

New Zealand's experience shows that when the benefit system takes a more active approach with sole parents, there are positive results. Between 1998 and 2008, a variety of policies, including work-testing, personal planning, expansion of childcare assistance, and Working for Families, were introduced. Combined with a strong labour market, these policies saw numbers on the Domestic Purposes Benefit decrease, especially between 2004 and 2008.

### *Early intervention in health impairments can be critical*

For those who enter the benefit system because of illness, the current policies do not take steps to ensure they get well and may even contribute to their getting sicker. Being in employment can speed recovery.<sup>54</sup> The current benefit system has little focus on ensuring that people on the Sickness and Invalid's Benefits receive immediate and effective assistance to address their health needs. This fails to take account of the strong evidence that early intervention to address health problems is critical to ensuring a successful return to work.

*New Zealand is now an outlier internationally in terms of its approach to sole parent benefits and its low employment rates.*

*In the OECD, the countries with the lowest child poverty rates have high sole parent employment.*

*A failure to intervene early to address people's health conditions means many people get sicker while on the benefit.*

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<sup>53</sup> The Social Assistance (New Work Test, Incentives and Obligations) Amendment Bill proposes work-test requirements. A part-time work test would apply from September 2010 to those on the Domestic Purposes Benefit (Sole Parent) and Emergency Maintenance Allowance whose youngest child is six or older. From May 2011, those on the Sickness Benefit who have been assessed as being able to work part time (15–29 hours a week) would have an obligation to look for suitable part-time work.

<sup>54</sup> G. Waddell and A. Burton (2006) *Is Work Good for your Health and Well-being*. Great Britain: Department of Work and Pensions.

Several countries have made benefits conditional on participation in rehabilitation or job support measures, with the overall concept being 'rehabilitation before disability'. In the Netherlands and Sweden, for example, long-term sickness beneficiaries must participate in rehabilitation activities before they can claim the longer-term incapacity benefit.<sup>55</sup>

The Accident Compensation Corporation is trialling an early intervention and intensive case management workplace rehabilitation service, with the aim of ensuring an early return to work for workers with injuries. The Better@Work pilot involves a co-ordinated response across health care professionals and case managers to support workers back into work.

### *There is insufficient focus on personal responsibility and empowerment*

Any approach to reduce long-term benefit receipt and promote employment needs to empower people to take personal responsibility for their choices and support them into independence.

The three important components to promoting personal responsibility are mutual obligation (also known as conditionality), monitoring and management, and empowerment.

Mutual obligations are rules that ensure entitlement to benefits is dependent on a person satisfying certain conditions. Job search requirements are a common obligation for receipt of a benefit. Monitoring and management can be used to ensure obligations are being met. Sanctions are a form of management that may be used if beneficiaries fail to meet their obligations.

Empowerment involves the provision of support along with mutual obligations to help people make the transition into paid work. This approach is being used effectively in the United Kingdom. By combining personalised support with work-focused interviews, the conditionality of income support (mutual obligation) has enhanced the take-up of the support and movement into work.<sup>56</sup>

### *Lessons from the insurance industry for welfare*

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.<sup>57</sup>

Overall, insurance-based approaches are more likely than welfare-based approaches 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.

*Three important components to promoting personal responsibility are mutual obligations, monitoring, and empowerment.*

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<sup>55</sup> P. A. Kemp (2008) 'The transformation of incapacity benefits', in M. Seeleib-Kaiser (ed) *Welfare State Transformations: Comparative perspectives*. England: Palgrave Macmillan.

<sup>56</sup> P. Gregg (2008) *Realising Potential: A vision for personalised conditionality and support*. An independent report for the Department of Work and Pensions. London: TSO.

<sup>57</sup> This material draws directly on a draft paper prepared for the Welfare Working Group by Martin Jenkins and Associates, entitled 'Lessons from insurance for welfare'. This paper will be released once it is finalised.



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 a disability or health impairment) is the approach of identifying people who are at high risk of prolonged periods outside of paid work and referring these people to approach interventions early in their benefit spell. Australia uses the Job Seeker Classification Instrument to identify people at high risk of long spells of unemployment.<sup>58</sup>

*Transparent approaches to funding costs in insurance provide a sound basis for effectively managing total expected future costs.*

Transparent approaches to funding costs in insurance provide 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 Accident Compensation Corporation Stocktake Group in 2010 showed that claims over \$20,000 accounted for less than 1 percent of total claims, but 52 percent of payments made.

By acting early to minimise the cost of its long claims, insurance-based approaches can also minimise wider economic and social costs. For example, the Accident Compensation Corporation can directly purchase medical treatments from private providers to reduce the greater costs of income compensation through early return to work.

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

### ***Aligning Work and Income's focus with policy goals***

Effective policy implementation means that those carrying out the policy (in this case Work and Income) need to have the right motivation (incentive) to achieve expected policy outcomes. One risk with the current approach is if case managers focus on clients already strongly motivated to find work. While it may be rewarding, focusing on these clients adds the least value if they can find work with little assistance.

Some of Work and Income's key performance measures, which reflect current policy settings, show a clear focus on clients with the fewest barriers to employment. The key delivery objectives are for 'work-ready' clients, although it applies to clients on all benefit types.

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<sup>58</sup> For more information go to the Department of Education, Employment and Workplace Relations website: <http://www.deewr.gov.au/Employment/JSCI/Pages/overview.aspx>.

Table 5.1 shows how this translates into differential access to help into work, with three-quarters of people on the Unemployment Benefit who access Work and Income support receiving help that moves them into work. Far fewer on other benefits access support, and those that are supported are mostly doing activities that do not have a return to paid work as a focus.

**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 recession).

### **Complex financial incentives in the system undermine a work focus**

Because the current benefit system is a targeted one, it is complex. For some people it may not provide enough incentive for them to take up a level of paid work sufficient to take them off the benefit and that is commensurate with their work capacity. Some supplementary payments enhance the security of benefit income over work income, which discourages a move out of the benefit system.

There is a complex set of trade-offs in the design of financial incentives embedded in the tax–benefit system. The fundamental trade-off is between income adequacy (the benefit level), the incentive to return to work (making ‘work pay’), and fiscal cost. Gains in one objective directly impact on the other objectives. For example, an attempt to encourage part-time work (combined with benefit receipt) may lower the return to full-time work (other things being equal).

Three examples of how the complexity and disincentive to move off the benefit operate in the current benefit system are as follows.

First, complex calculations and the withdrawal of supplementary assistance can be a disincentive to move off the benefit. This is especially the case for housing assistance, which beneficiaries may receive through an Accommodation Supplement or as a Housing New Zealand tenant through income-related rents. Most beneficiaries receive one of these forms of housing assistance. The rules for calculating the Accommodation Supplement and income-related rents are not the same and are extremely complicated.<sup>59</sup>

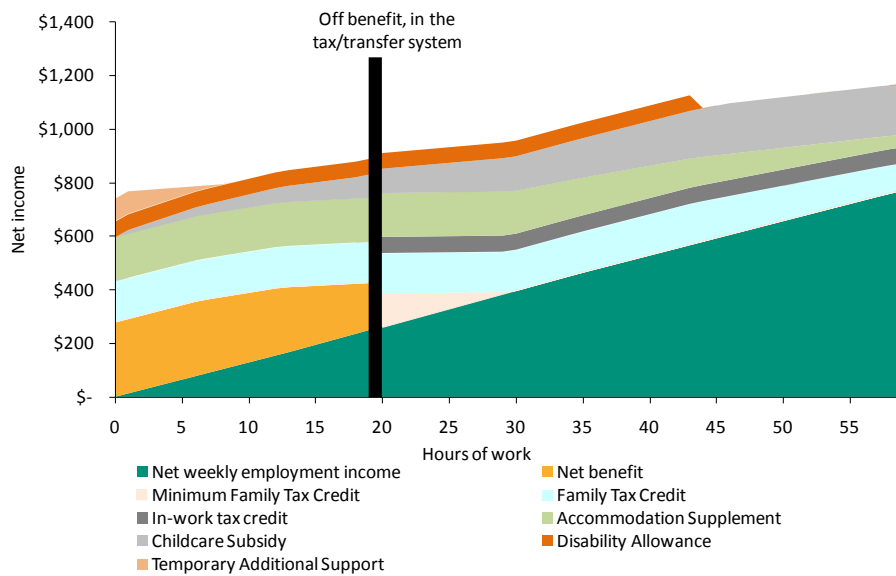
*By reducing the risk that beneficiaries face, hardship payments and loans may make it riskier to leave the benefit.*

<sup>59</sup> The difference between the Accommodation Supplement and the income-related rents formula creates different incentives for state house tenants. There are also issues related to how state houses are allocated.

Secondly, hardship payments and interest-free loans may reduce the risk that beneficiaries face, and make it harder for them to leave the benefit.<sup>60</sup> In the main, these payments are for items like higher bills, emergency repairs, white goods and furniture, and medical and dental charges. These would be items other people would pay for with savings or by taking out insurance. The loss of this assistance may deter some people from moving into work, because they will be exposed to a greater level of risk should adverse events occur.

The third example relates to complex financial incentives, which means some people will be uncertain about how much they will earn so will be more likely to choose options where they are certain of their income. The complexity in the system is shown in Figure 5.2. This shows the work incentives for a sole parent on the Domestic Purposes Benefit living in Auckland with two children and receiving a variety of additional assistance, including a Disability Allowance, Accommodation Supplement, Childcare Subsidy, and Temporary Additional Support.<sup>61</sup> The details are less important than the reality that very few people could confidently calculate their income for different hours of work.

**Figure 5.2: Hours of work and income for a sole parent with two children**



*Multiple layers of assistance combine to create a complex benefit-work trade-off.*

Source: Ministry of Social Development, 2010.

<sup>60</sup> These 'third tier payments' include Temporary Additional Support, as last resort payment to meet essential costs, Special Needs Grants, which give recoverable and non-recoverable one off assistance (e.g. for food and emergency medical costs), advance payment of benefits and recoverable assistance payments (loans) for one-off immediate needs.

<sup>61</sup> A childcare subsidy helps with childcare costs. The Disability Allowance is a payment that recognises the extra costs of having a disability. Temporary Additional Support is a temporary hardship payment. The In-Work Tax Credit, Family Tax Credit, and Minimum Family Tax Credit are paid through the tax system to families who meet certain hours' requirements.

### 5.3 Many people do not receive the support they need outside the benefit system

Not all remedies to the problems or barriers faced by beneficiaries lie in the benefit system. Other agencies have a role in assisting beneficiaries to address obstacles to getting into work. Employers also have a key role.

*Over 10 percent of 15–24-year-olds are not in education, training, or employment. The rate for Māori young people is nearly 17 percent and is 14 percent for Pacific youth.*

#### **The education system is failing some New Zealanders**

In its workshops, the Welfare Working Group heard that the education system is not delivering for all of New Zealand's young people. This is reflected in the fact that around 10 percent of 15-year-olds are not in school.

Early disengagement from school and the poor educational outcomes that result are a concern. Often the disengagement begins as early as primary school. This disengaged group of young people often end up not in education, employment, or training (referred to as NEET). In March 2010, around 11 percent of all 15–24-year-olds were not in education, employment, or training. Young Māori have higher rates of disengagement – 16.7 percent of 15–24-year-olds are not in education, employment, or training. The rate for Pacific youth is also higher than for all young people at 14.3 percent.

More focus needs to be brought to preventing the disengagement of young people at the key transition points in their education – especially between primary and secondary school, and on leaving secondary school. Improving the quality of teaching, increasing secondary school retention, and providing a greater range of options within secondary schools (for example, between academic and vocational approaches) have all been suggested as significant issues in the New Zealand educational system. 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.

Disengagement from school of young people is often the result of wider problems in the family. Addressing the problems of dysfunctional families early, before they negatively impact on children, remains a major challenge. This needs a concerted effort from education, health, social services, families or whānau, and community organisations. High-intensity home-based interventions (Family Start is a New Zealand model) and high-quality childhood education are known to improve outcomes for vulnerable children and families. The importance of pastoral care within the education system to help address alcohol and other drug issues and other problems of disadvantaged youth is also being emphasised.

### 5.4 Service delivery is fragmented

A message that we 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 interrelated.

The concentration of disadvantage among long-term beneficiaries means many will require assistance from a variety of agencies. By and large, the current model

*Disadvantaged young people need to be better managed and supported in the benefit and training systems, because left unattended they will be associated with high social, economic, and fiscal costs.*

of social service delivery separates out different functions to different delivery agencies – the benefit system operates alongside education, health, housing, and other social services. Limited co-ordination occurs across services for people who have multiple disadvantages and need assistance from more than one agency.

The Community Link-Integrated Response provided in some Work and Income offices is a relatively new initiative that aims to provide better co-ordination across several social agencies.

Improved integration of health services with the benefit system is needed to ensure early assistance for those with illness or disability. We heard in the workshop consultation from some disabled people who required high levels of support about the difficulties of navigating between services provided by the health and benefit systems.

The functional approach to delivery limits the ability of agencies to provide cost-effective outcomes in these cases. More importantly, the fragmentation of services imposes costs on the recipients who have to go to multiple agencies to get the assistance they need. 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 is a government initiative to integrate services that actively support all dimensions of whānau well-being – social, cultural, economic, and physical. This approach is building on a concept of having the whānau at the centre of the delivery response and providing customised support. This programme is in the early stages of implementation.

## 5.5 Employers need to be more actively engaged in solutions

There is scope for employers to be more involved in enhancing the productivity of their workers by better managing health issues and being more involved in programmes to bridge the skills gap.

Before the current recession, the New Zealand labour market showed it had capacity to create jobs for willing workers. Several employers we spoke to said they were not necessarily looking for highly skilled workers, but for those who are 'ready' and committed to work.

However, many employers see significant risks in employing beneficiaries. They cannot afford the downtime and costs that can be involved with employees who present with low commitment or other difficulties. Allied Workforce is a large employer who has experience with employing people who have come from the benefit system. It told us that many beneficiaries do not pass pre-employment criteria for drug testing.

At the same time, the benefit system reduces the risk that employers face in terms of meeting the costs of employee ill health and disability. As the taxpayer picks up the costs of sickness and disability payments, employers have less incentive to manage these costs. However, employers are often well placed to help address the health issues their workers face.

*Customised individual-focused services are needed for those with multiple disadvantages.*

*Employers have a role to play in recognising the productivity benefits from investing in health and well-being programmes for employees.*

Increasingly, the business case for the more active involvement of employers in managing the health of their employees is being recognised. Health and well-being programmes operated in businesses have been found to have a positive impact on the bottom-line both directly and indirectly.<sup>62</sup> By supporting employee health and well-being, employers can gain benefits by reducing employee turnover and increasing productivity.<sup>63</sup> The Accident Compensation Corporation's accredited employer scheme provides a financial incentive for participating employers to ensure workers who have been injured get the help they need quickly and get back on the job sooner.

For many businesses, taking on employees who are seen as riskier may require some form of support be given to mitigate some of that uncertainty. The Industry Partnerships programme attempts to bridge the gap between the skills of beneficiaries and those required by employers. The cost of improving the skills of potential workers is shared between the Government and employers. Non-government agencies that work with beneficiaries to improve their work skills may also contribute by reducing the uncertainty employers perceive they face in employing those who have been on a benefit.

#### Summary of issues: Section 5

- **There is significant hidden unemployment.**
  - Many people who are out of paid work have the capacity and want to be in paid work. Many are not classified as unemployed in the benefit system or provided with enough work-focused support.
  - Twenty-six percent of Domestic Purposes Benefit recipients are actively looking and/or available for work.
  - Twenty-two percent of people receiving the Sickness Benefit and 11 percent receiving the Invalid's Benefit are available and/or actively looking for work.
- **The sole parent work expectation is out of step with contemporary norms**
  - The current lack of expectation of paid work and limited assistance to find work for sole parents, reflects outdated assumptions within the benefit system – especially that women with children should not work.
  - The benefit system is disabling. There is an inadequate assessment of work capacity, lack of early intervention, and labelling of people as 'invalid'.

(Continued over)

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<sup>62</sup> PriceWaterhouseCoopers, cited in C. Black (2008) *Working for a Healthier Tomorrow: Dame Carol Black's review of the health of Britain's working age population*. London: TSO.

<sup>63</sup> Chartered Institute of Personnel and Development, cited in C. Black (2008) *Working for a Healthier Tomorrow: Dame Carol Black's review of the health of Britain's working age population*. London: TSO.

➤ **Incentives in the benefit system are poor**

- The benefit system does not promote personal responsibility.
- Complex financial incentives discourage a level of paid work commensurate with work capacity and sufficient to take people off a benefit.
- The nature of supplementary assistance and hardship payments makes it risky for people to leave the benefit system.
- Expectations of the delivery agency are unclear.

➤ **There are weak signals about the value of investing early to avoid the costs of long-term benefit dependency**

Unlike an insurance-based system, the benefit system has weak incentives for people 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.

➤ **Service delivery is fragmented**

The delivery of services by multiple agencies means people with multiple and complex needs are often not provided individualised or beneficiary-centred support.

➤ **The education system is failing some young New Zealanders**

Too many young people are leaving school with no qualifications and ending up on a benefit, rather than being in education, employment, or training. There are problems at key transition points in education and with vocational pathways.

➤ **Employers need to be more actively engaged in solutions**

- The benefit system does little to support employers to engage long-term beneficiaries who may have a range of disadvantages.
- There is insufficient support or engagement with employers about the productivity benefits of providing health and well-being programmes for their employees.

## Section 6. Fiscal costs and future sustainability

The extent of benefit receipt in New Zealand also imposes costs on the community as a whole through a substantial fiscal cost and labour market impacts.

### 6.1 The benefit system is a major cost 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)
<b>Main benefits</b>	
Unemployment Benefit	0.586
Sickness Benefit	0.613
Invalid's Benefit	1.260
Domestic Purposes Benefit	1.530
<b>Other payments</b>	
Accommodation Supplement and Income Related Rents	1.501
Disability Allowance	0.390
Childcare Assistance	0.159
Other benefits <sup>1</sup>	0.436
<b>Total spending on benefit payments</b>	<b>6.476<sup>2</sup></b>

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 a benefit overall. However, it is particularly high because of the number of people on a benefit for long durations.

Table 6.2 shows the total fiscal costs per year. However, when the total cost of the benefit receipt is estimated over time, the fiscal cost for each individual experience on a benefit is large. The Ministry of Social Development estimates the total cost of each person currently on a benefit to be around \$141,000 over the period they remain on a benefit. The total future costs for all those currently on a benefit amounts to around \$50 billion.



**Table 6.2: Future liability estimates (real 2009 dollars)**

	Cost per person (\$)	Total Cost (\$ billion)
<b>Benefit group</b>		
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
<b>Other key groups</b>		
16-24 years	\$156,000	\$10.6
25-34 years	\$182,000	\$13.3
<b>Average</b>	<b>\$141,000</b>	<b>\$50.1</b>

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

*When the total cost of current benefit receipt is estimated over time the cost is \$141,000 per person and \$50 billion in total.*

## 6.2 If current trends in benefit receipt continue, the social and economic costs will be unsustainable

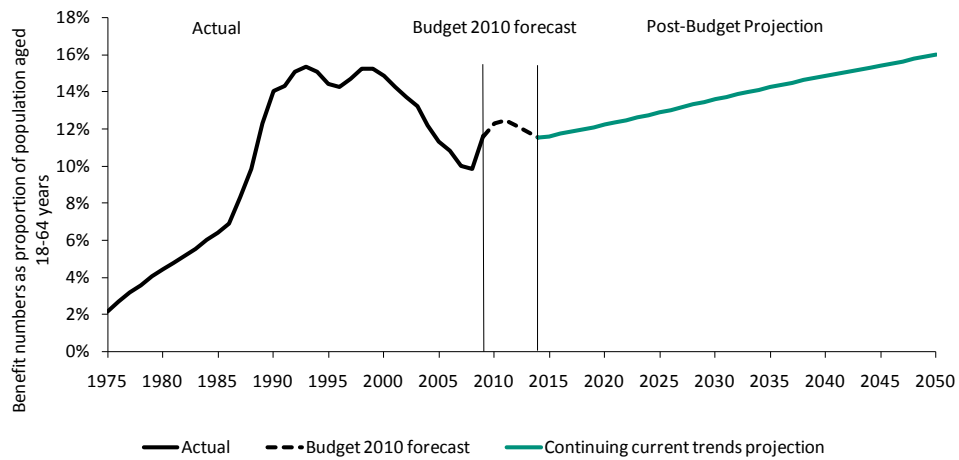
Economic cycles mean people will need to access the safety net provided by the benefit system. However, the previous decade of strong employment growth exposed serious flaws in the benefit system, as relatively few long-term benefit recipients were able to take advantage of the employment opportunities by re-entering work. A failure to address this trend in receipt is likely to result in a continuous 'ratcheting up' of numbers with each downturn in the economy.

In the future, existing levels of long-term benefit receipt will be difficult to sustain because of the economic and fiscal impacts of population ageing.

Looking to the future, if current trends in benefit receipt continue unabated, 16 percent of the working-age population could be receiving a benefit by 2050 (Figure 6.1). The social and economic cost of this will be unsustainable. If we do nothing, future policy makers will face a difficult choice between increased rates of poverty (reducing the relative level of benefits to average wages) or significant increases in government spending and taxes.

*If current trends in benefit receipt continue unabated 16 percent of the working age population could be on a benefit by 2050.*

**Figure 6.1: Projected rates of total benefit receipt**



Source: Data from Long-term Fiscal Model 2010.

This would occur when the ratio of working-age to retired people is decreasing significantly, and the Government will be spending more on health care and superannuation. The fewer people in employment and paying tax and the more people on a benefit, the less sustainable this future cost becomes.

The ability to provide a higher income and care for people with limited or no capacity to be in paid employment will also depend on there being fewer people receiving a benefit.

### Summary of issues: Section 6

➤ **Benefit payments are a major cost to taxpayers**

In 2008/09, expenditure on benefit payments totalled close to \$6.5 billion. The future cost of current benefit receipt is \$140,000 per benefit and \$50 billion in total.

➤ **On current trends, the economic and social cost of the benefit system is unsustainable**

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

### **7.1 Requirements for an effective and sustainable benefit system**

A benefit system that is effective and sustainable for the modern social and economic context needs to:

- have a strong, proactive focus on enabling people to engage in paid work, underpinned by the principle that paid work is of fundamental importance to well-being;
- provide early and effective assistance to empower those who have the capacity to work to stay actively engaged with the labour market and participate in paid work (this is critical for people who are impaired by illness or disability);
- provide meaningful long-term income support to people who are unable to work because of severe impairments and assistance to enable them to participate in their communities;
- deliver assistance and services to support individuals and their families or whānau in a way that is responsive to their needs and provides cost effective outcomes;
- prepare young people for the modern labour market and address problems facing at-risk youth, especially at the transition points at which young people are most at risk of becoming disengaged;
- give careful consideration on how best to assist those who are disadvantaged in the labour market before they enter the benefit system. These disadvantages may be because of skills, child-care, location, health, disability or other constraints. This may require prompt additional investment and more effective support from other agencies, non-government organisations, and employers, but also action on the part of individuals to improve their opportunities. In some areas – education, training, housing, child-care changes in policy and provision of services may be required to adequately address problems in these sectors; and
- engage with employers to address their needs for skilled and ready workers and support employers to better manage the risks of ill health and disability among their workers.

## 7.2 Tell us what you think

### *We would like your feedback*

The Welfare Working Group has asked questions throughout the detailed document of which this paper is a summary. These questions are listed below. We are interested in your response to these questions.

The questions are also available on the Welfare Working Group website at <http://bit.ly/telluswhatyouthink>

We encourage you to use the document on the website to provide your views. Then:

- submit the document online;
- email the document to [welfareworkinggroup@vuw.ac.nz](mailto:welfareworkinggroup@vuw.ac.nz) ; or
- post the document to:

Issues Paper  
Welfare Working Group  
PO Box 600  
Wellington 6140  
New Zealand

The deadline for your response is **Friday, 17 September 2010**.

### *What we are interested in hearing about*

In thinking about how you respond to the questions, it is important to remember that the Welfare Working Group's task is to consider how to reduce long-term benefit receipt, rather than whether benefit levels are 'adequate' or reasonable. Consequently, the working group will not:

- make recommendations on the levels of benefits;
- consider changes to the Working for Families scheme; and
- review New Zealand Superannuation (because the focus is on working-age New Zealanders).

### 7.3 Questions for your response

- 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?

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