Key Findings – Highlights

- The valuation is based on data collected up to 30 June 2015 and includes experience following the Welfare Reform policy and operational changes implemented in August 2012, October 2012 and July 2013.
- This fifth valuation provides us with:
  - An estimate of the total future cost over the lifetime of current beneficiaries
  - Analysis of changes over the year, and their impact on the future cost of benefit receipt
  - Detailed behavioural information about lifetime patterns of benefit receipt
  - Analysis of characteristics associated with higher risk of long-term benefit receipt
  - Break-downs of the estimated future cost by client group, by region, and by payment type
  - Projected future changes to the client base and the liability
- In every valuation, new information is incorporated back into the estimates, ensuring ever increasing accuracy and relevance over time.

Developments in 2014/15

- Welfare Reform introduced a number of significant operational changes. The principal operational change in 2013/14 was the national roll-out of a new service delivery model, introducing a differentiated service tailored to beneficiaries' level of support needs.
- As Welfare Reform policy and operational changes become embedded, the system is shifting from large policy reforms to a focus on continual improvement. This includes differentiating roles and strengthening practice by case managers, aided by centralisation of processing functions. In 2014/15 MSD's service lines, including Work and Income, merged into a broader Service Delivery arm. This enables better integration in providing service to clients.
- Disciplined innovation is an important part of the investment approach. Robustly-evaluated trials enable evidence-based decisions about which trials should be rolled-out.

The Numbers

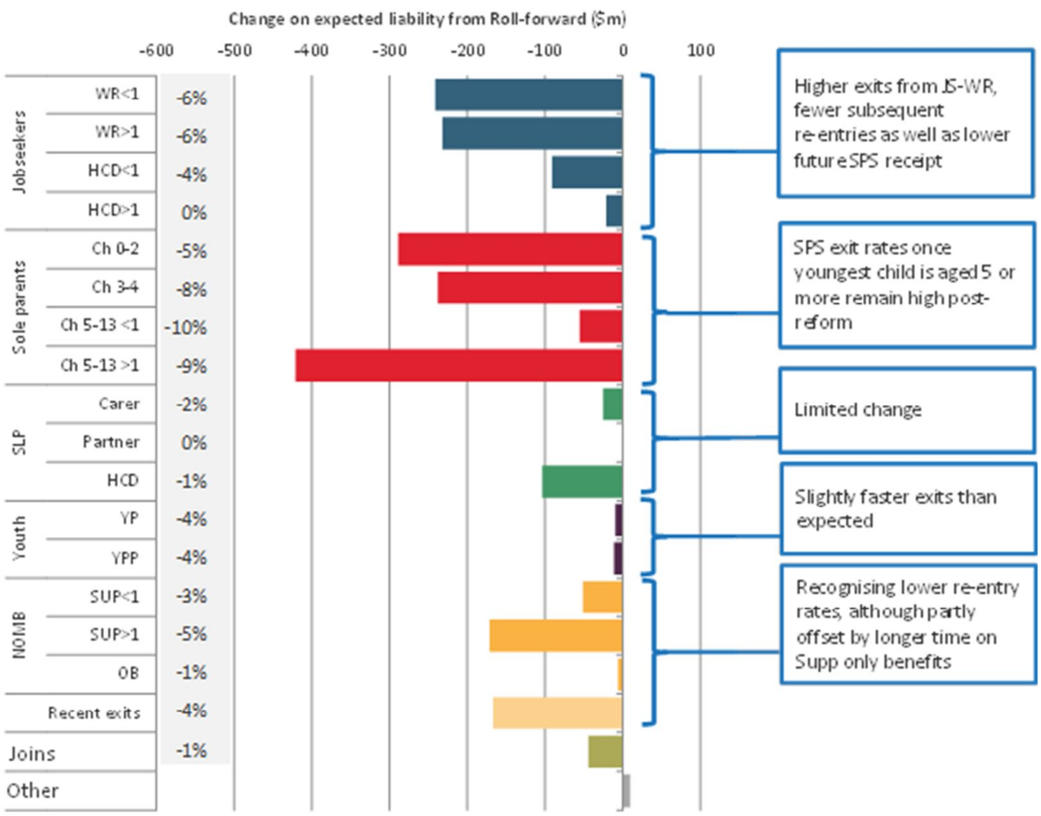
- The estimate of the liability in the benefit system as at 30 June 2015 is $68.4 billion.
- The total decrease in liability from 30 June 2014 is $0.6 billion — a reduction of about 1%.
- Lower than previously forecast CPI inflation and discount rates have resulted in a $2.0 billion increase in the liability.
- Also, slightly higher than previously forecast unemployment rates has resulted in an additional increase of $0.4 billion.
- A $1.0 billion decrease in liability was expected because the 2014 valuation forecast expected there to be more people exiting benefits than applying for benefits.
- Once factors outside of MSD's management control are removed, the liability decreased by $2.2 billion. These improvements are due primarily to more Sole Parents and Work-Ready Jobseekers than expected exiting benefits, and more sustainable exits from the benefit system.
- Benefit payments over the year were $26 million lower than forecast in the 2014 valuation, despite higher than expected unemployment rates.
- Compared to pre-reform baseline forecasts in the 2012 valuation, there has been a cumulative reduction in benefit payments of $1.3 billion over three years. About 70% of these savings can be contributed to Welfare Reform.
- Since 2012:
  - Jobseeker client numbers have reduced by 14%, with a relatively larger reduction among work-ready Jobseekers.
  - Numbers of SPS clients with youngest children between 5 and 13 are down 23%, while numbers of other SPS clients are 18% lower.
  - SLP numbers are 3% higher.
  - Youth segments have 2% more clients, with a large substitution from YPP to YP.

- Welfare Reform has reduced expected future time on main benefits by an average of 1.5 years for SPS clients over their working lifetime.
- Compared to the pre-reform benchmark valuation in 2012, current clients are expected to spend about 900,000 fewer years on benefits over their working lifetimes. More than three quarters of this reduction in future years on benefits can be attributed to policy and operational changes.

Breakdown of Liability Change under Management Influence

- Once factors outside of MSD's management control are removed, the liability decreased by $2.2 billion over the year. Over the four years since the 2011 valuation the accumulated liability decrease attributed to welfare reforms and operational changes is $12 billion.
- Each year valuation assumptions (e.g., exit rates) are updated as recent experience changes our expectations for the future. Hence, the $2.2 billion decrease is above and beyond improvements reflecting in assumptions for the previous valuation (30 June 2014).

Breakdown of $2.2 billion decrease in change due to experience, by segment as at June 2014

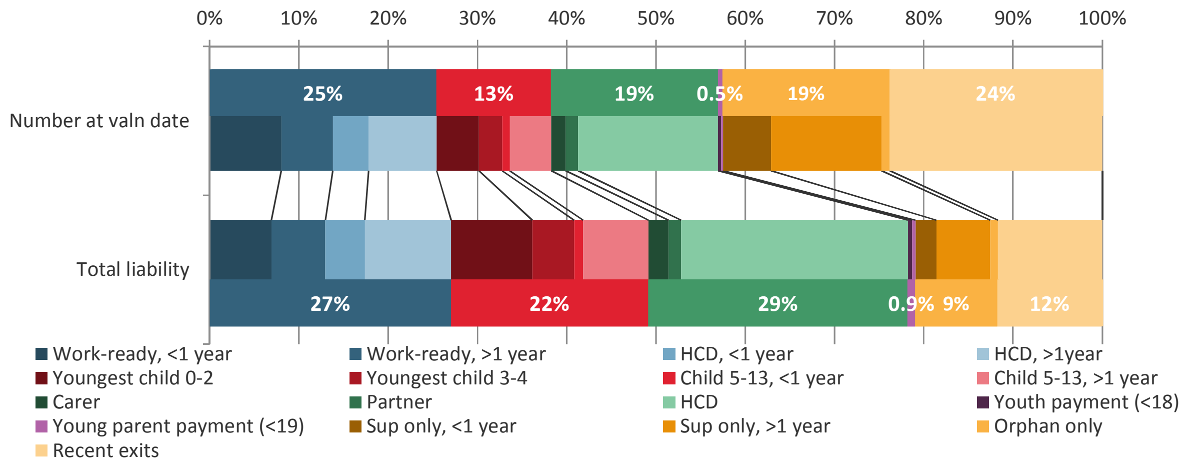


- Improvements are due primarily to more Sole Parents and Work-Ready Jobseekers than expected exiting benefits, and more sustainable exits from the benefit system.
- Youth clients are also exiting earlier than expected.
- Supported Living Payment clients' contribution was neutral.

Segments

- The analysis built into the report includes estimates that provide a life-time perspective on clients' transitions through the benefit system, with their full future cost attached to their status on the valuation date.
- The difference in average lifetime cost across segments means that some segments have a disproportionately large or small impact on total liability compared to the number of clients in that segment.
    - For instance, sole parents represent 13% of the clients valued, but 22% of the total liability.

Contributions of segments towards client numbers and liability total



Current client liability forecasts by client segment at 30 June 2015 and at the previous valuation. Results based on client's segment at each respective valuation date.

Top tier segment	Segment	2015 Valuation				2014 Valuation			
		Number at valn date	Total liability ($m)	Average lifetime cost ($k)	Average future years on benefit	Number at valn date	Total liability ($m)	Average lifetime cost ($k)	Average future years on benefit
Jobseeker Support	JS-WR <1 year	44,527	4,189	94	9.7	44,395	4,058	91	9.7
	JS-WR >1 year	32,242	3,672	114	10.3	34,337	3,911	114	10.5
	JS-HCD <1 year	22,374	2,678	120	10.5	22,106	2,523	114	10.4
	JS-HCD >1year	42,353	5,866	138	11.0	44,006	5,959	135	11.3
	Sub-total	141,496	16,405	116	10.4	144,844	16,452	114	10.5
Sole Parents	Youngest child 0-2	26,232	5,519	210	15.9	27,205	5,767	212	16.4
	Youngest child 3-4	14,681	2,840	193	14.6	16,325	3,227	198	15.3
	Child 5-13, <1 year	4,570	610	133	10.5	4,141	563	136	10.9
	Child 5-13, >1 year	25,950	4,441	171	12.8	28,876	5,072	176	13.4
	Sub-total	71,433	13,410	188	14.1	76,547	14,628	191	14.7
Supported Living	Carer	8,812	1,360	154	10.7	8,675	1,297	149	10.9
	Partner	8,041	872	108	8.4	8,098	853	105	8.5
	HCD	87,113	15,398	177	12.7	86,863	14,842	171	12.8
	Sub-total	103,966	17,630	170	12.2	103,636	16,992	164	12.3
Youth	Youth prog (<18)	1,923	294	153	16.7	1,829	251	137	15.2
	Young Parent (<19)	1,086	232	214	16.9	1,192	254	213	17.5
	Sub-total	3,009	526	175	16.8	3,021	506	167	16.1
Not On Main Benefits	Sup only, <1 year	29,907	1,405	47	6.5	32,556	1,488	46	6.5
	Sup only, >1 year	68,885	3,666	53	7.4	63,844	3,414	53	7.5
	Orphan only	5,289	510	96	7.3	5,107	486	95	7.5
	Sub-total	104,081	5,581	54	7.1	101,507	5,388	53	7.2
Recent Exits	Recent exits, <1 year	132,421	7,099	54	5.7	148,333	7,461	50	5.5
All segment sub-total		556,406	60,650	109	9.511	577,888	61,427	106	9.541
Expenses + Net loans			7,740				7,575		
Grand total			68,390				69,002		

- For Jobseekers the total liability is very similar to last valuation; the 2% increase in average liability is offset by a 2% decrease in numbers. This is viewed as a favourable result, given the increase in unemployment rates over the year. There has been a shift in numbers towards the lower duration segments for both Work-ready and HCD clients.

- As in 2014, Sole Parents have again seen the largest decreases in both absolute and relative terms. Across the four SPS segments, there has been a decrease of 8% in total liability, driven by significantly lower numbers and slightly lower average liabilities.

- Supported Living segments have seen both an increase in average cost and a slight increase in numbers, pushing up the overall liability for these three segments by 4%. The increase in numbers is in part due to some transfers from JS segments.

- The total liabilities attached to Youth segments are small compared to other segments due to very small numbers. However, outcomes for youth are very important due to their increased risk of remaining on benefits long-term, reflected in high average lifetime costs. There has been a significant increase in average future lifetime cost for Youth Payment beneficiaries (10% higher). Some of this relates to methodological change and the relatively high proportion of clients with CYF history in the segment this year. Numbers in this segment have also increased (5% higher). Partially offsetting this, numbers in Young Parent Payment have decreased by 9%. Note that estimation of future lifetime cost for these segments is subject to particular uncertainty.

- The number of clients in Supplementary only segments is 2% higher and their average future lifetime cost is up 3%. The increase in numbers partly reflects a slower transition rate out of the benefit system as well as SPS clients exiting main benefits and going onto supplementary benefits.

- Client numbers in Recent Exits are 11% lower than last year. This is a natural by-product of falling numbers of benefit recipients over the last few years (that is, there are fewer recent exits because there are fewer people on benefit to start with) and was expected with the large decrease in numbers following the reforms. The average future lifetime cost has increased 6.5%, caused by a number of factors:
    - 3.5% increase due to inflation and discount assumption changes
    - 0.5% increase due to actual benefit rate inflation over the year
    - 2.0% increase due to the changing composition of the segment, primarily related to differing benefit history.

New Insights

- This year's valuation introduces a cross-MSD and cross-agency view of drivers of entry and risk of long-term benefit receipt through new matched data on beneficiaries' history of contact with Child, Youth and Family, and Corrections.
- These are indicators of vulnerability in childhood and youth, and of criminal convictions in adulthood.
- The report shows that early entry is a partial proxy not only for intergenerational benefit receipt, but for broader family vulnerability including abuse and neglect in childhood and youth. Entering early is in turn associated with a considerably elevated risk of long-term benefit receipt in adulthood.
- The valuation also revisits some drivers such as intergenerational receipt; introduced in the previous valuation.
- The valuation also attempts to bring these risk factors together; exploring how the existence of one risk factor is associated with higher incidence of other risk factors. It also explores the relative influence of these factors on particular cohorts of interest.

It is important to note that any findings here are statistical findings of association rather than causation.

For example, although contact with CYF or having a conviction history is associated with high future welfare cost, it would be wrong to assume that the CYF contact or the prison time itself causes the increase in benefit dependency; the causes are likely to be a combination of factors including increased barriers to employment due to:

- the consequences of vulnerability during childhood and youth
- declaring a criminal history

Early entry

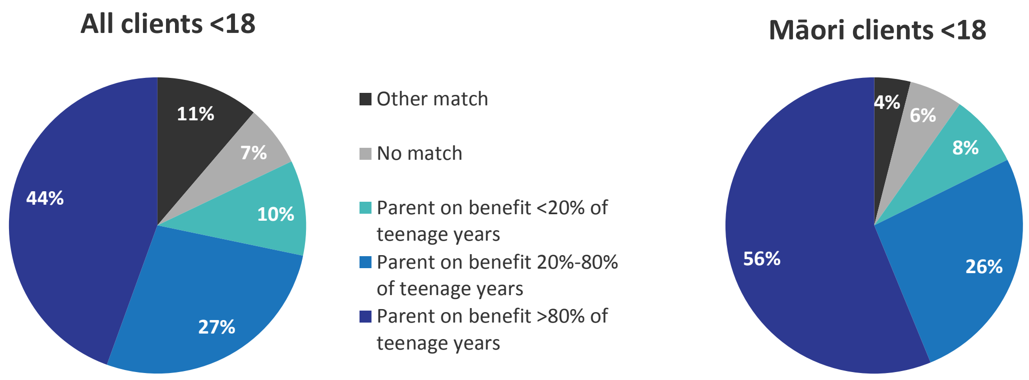
- The estimate that about 75% of the liability for all current clients is attributable to clients who first entered benefits under the age of 20 remains true.
- Despite the very small number of beneficiaries who enter YP/YPP each year, just over a third (34%) of the total liability is attributable to clients who first entered benefits via one of these youth segments (or their equivalents).
- Age at entry proves to be a powerful differentiator for future lifetime cost within age groups. The future liability for clients currently aged 35-39 but entering in the 16-19 age band (about $155,000) is almost 65% higher than those entering in the 20-24 band (about $94,000), more than double those entering in the 25-29 age band (about $77,000) and more than triple the average liability for those entering age 35-39 (about $43,000).

Intergenerational benefit receipt

- About three quarters of current clients aged 16 to 25 (for whom data is available) had a parent who received benefits during their childhood.
- 45% of the overall liability for all beneficiaries under age 25 is associated with children from families that received benefits for 80% or more of their teen years.
- These clients have an average lifetime cost $63,000 higher than for those whose parents did not receive main benefits.
- Of children born in 1993/94 and 1994/95 (who had at least one parent who received a main benefit), new analysis this year finds that over a third of these children had parents on benefit for more than eight years while they were under age 18.

- Almost half go on to enter the benefit system as young adults, with this figure highly dependent on the number of years the parent received benefits - 75% of children from intensive beneficiary families had received a benefit by age 23.

Intergenerational benefit receipt amongst clients in valuation cohort aged less than 18



Vulnerability in childhood and youth

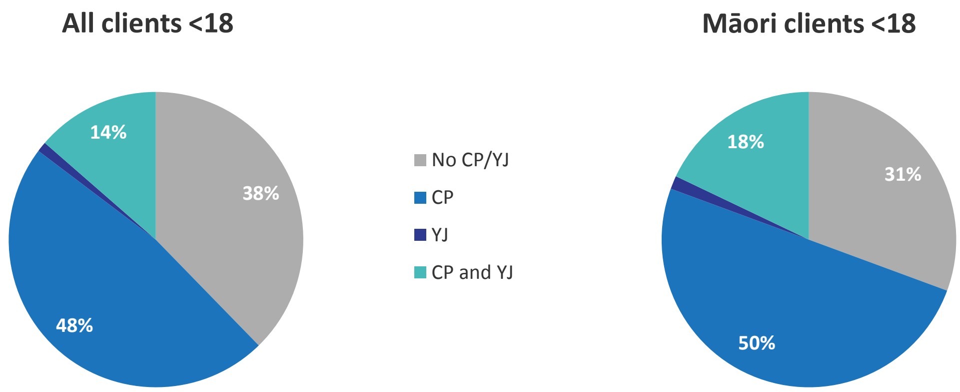
- Over a third of all current and recent beneficiaries aged 16 to 25 (for whom data is available) have some history of contact with CYF care and protection and/or youth justice services.
- People with CYF history make up about 15% of the general population, but 38% of the welfare population in their age cohort and a disproportionately large amount (47%) of their age cohort's current liability.
- Beneficiaries who are under 18 are also far more likely than other New Zealanders to have had a history of abuse, neglect and/or youth offending. Youth segments (YP/YPP) are very highly correlated with CYF interaction; two thirds of all beneficiaries in the youth segments (YP/YPP) have had some level of interaction with the CYF system.
- One key effect of CYF history on benefit dynamics is higher risk of early entry – which has already been established in previous valuations to be a very significant indicator of the risk of long-term benefit receipt.

- There is also an increase in average future lifetime welfare cost associated with CYF history; though this effect is smaller than the heightened entry risk. People in the 2015 valuation cohort with CYF history have an average future lifetime welfare cost that is $47,000 higher than those without such history. This effect is seen across all major segments except SLP.

- About 30% of this is directly attributable to the CYF history itself over and above other risk factors; the remainder (about 70%) reflects correlation with other risk factors such as intergenerational benefit receipt and early entry. For those with an event before age three this Care and Protection effect on benefit receipt is twice as large as those who have had a first event after age three.

- 6 out of 10 clients who are under 18 have had some level of contact with CYF, which is an indicator of abuse, neglect, or youth offending (7 out of 10 for Māori clients).

Child, Youth and Family history amongst clients in valuation cohort aged less than 18



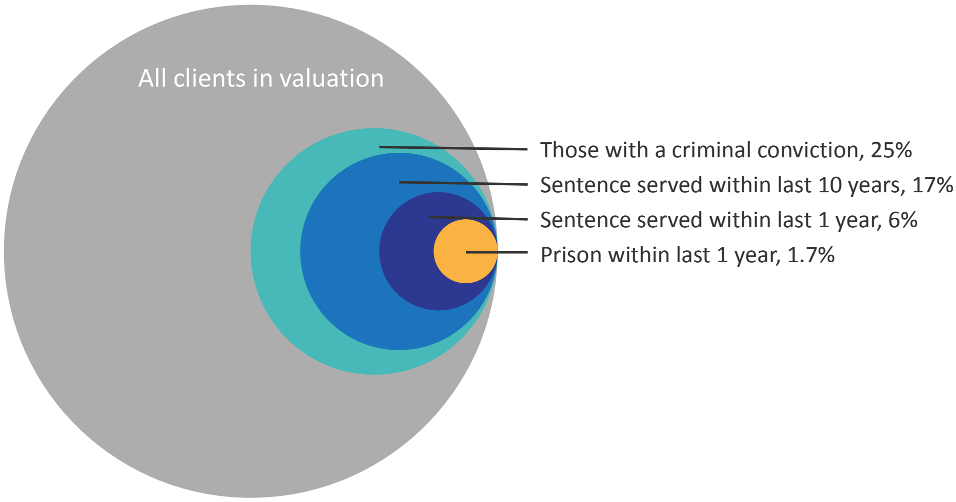
History of criminal convictions

- Offenders who have been convicted of a crime and served some type of criminal sentence are heavily over-represented in the welfare population.
- About a quarter of the 2014/15 beneficiary population have had a criminal conviction in their past; for males it is 4 in 10. One in ten welfare clients has been to prison and one in ten has been convicted of a violence-related crime.
- There is a strong statistical relationship between clients who have been convicted and served a sentence and long-term benefit receipt.
- People in the 2015 valuation cohort who have committed a crime leading to a sentence have an average future lifetime welfare cost that is over $37,000 higher than those without such history.
- About 41% of this is directly attributable to the circumstances of those having criminal histories (as measured by the existence of criminal convictions); the remainder reflects correlation with other risk factors.
- Benefit payments to current welfare clients with a past community or custodial sentence represent a third of the total current client liability – well over their 25% share of the welfare client population.

For all clients aged 22 to 24 (inclusive – for whom Youth Justice data and several years of adult Corrections data are available):

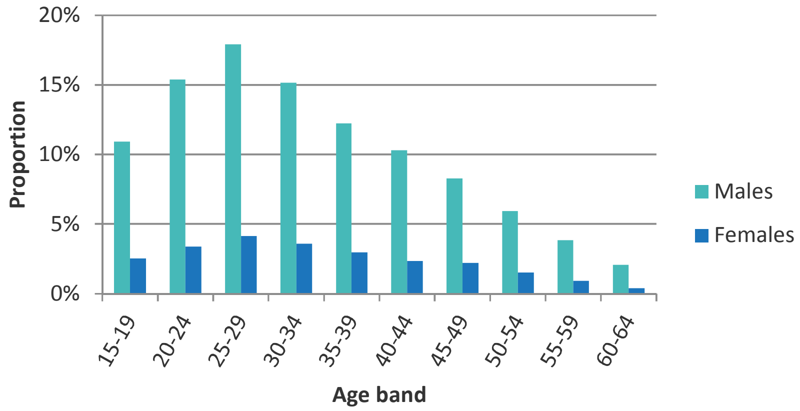
- About one in every ten have Youth Justice history and two in every ten have an adult criminal conviction
- About 70% of clients with Youth Justice history have an adult criminal conviction on record (five times the rate of those without Youth Justice history)
- About 36% of clients with an adult criminal conviction have a Youth Justice history too (nearly ten times the rate of those without an adult criminal conviction).

Criminal conviction history within the beneficiary population



- The incidence of criminal conviction history is not evenly spread amongst the welfare population. For instance, it varies markedly by age and gender.

Fraction of beneficiary population who served a criminal sentence sometime in 2014/15, by age and gender



- Current welfare beneficiaries with a past conviction are more likely to be receiving main benefits. Specifically, a beneficiary with a conviction is about 70% more likely to be in a JS segment. The skew is even more pronounced when focusing on clients who have recently served sentences.

Correlations amongst risk factors

- For clients aged less than 25, we now have a significant number of factors to understand their risk of long term benefit receipt. One important feature is that these factors correlate - that is, people with one risk factor tend to have higher incidences of other risk factors. For example:

- 36% of the cohort has some CYF history, but this rate is 1.6 times higher (56%) for the subset of the cohort with intensive family benefit history.

- Young adult beneficiaries with Care and Protection history are 1.7 times more likely to have had Youth Justice or criminal conviction history.

- Those from long-term beneficiary families are 1.5 times as likely to have a Youth Justice or conviction history.

- Observations:

  - All correlations are highly positive: Of the five selected factors, the incidence of one is always higher in the presence of another.

  - Intergenerational benefit receipt is very highly correlated with all the other risk factors: the subset of clients who have intensive history are much more likely to have Care and Protection history, criminal conviction or Youth Justice events, extensive JS benefit history. They are also disproportionately Māori.

  - The largest relative increase is the relationship between JS receipt and criminal/Youth Justice history: About 28% of the cohort have at least two years of JS receipt, but this figure is 56% amongst those with a criminal conviction or Youth Justice event. This is likely a two-way relationship, with unemployment increasing risk of committing crime and those exiting a corrections sentence being at higher risk of unemployment. Moreover, early experiences and/or anti-social traits may predispose some individuals towards poor social integration, reflected in high contact with both systems.

  - Very high correlations amongst Care and Protection history, crime and intergenerational risks: For instance, 59% of those with Youth Justice or criminal conviction history also have a Care and Protection interaction.

Youth segments – a detailed view

- In August 2012, MSD introduced a new approach to working with youth. The objective is to keep this high risk group in school, training or employment so as to improve their qualifications and reduce their reliance on working-age benefits. Key elements include a new focus on proactive outreach to youth Not in Education, Employment or Training (NEETs), an increased role for external providers (who are rewarded based on milestone payments), guaranteed childcare support for Young Parents and the use of incentive payments.

- Since August 2012 there has been a 20% increase in the number of YP clients, for the most part offset by a 20% decrease in YPP clients. This offsetting effect corresponds to about 400 more clients receiving YP, while 400 less are receiving YPP.

- While YP numbers are rising, this is not necessarily inconsistent with the policy objectives for this group (to improve qualifications and reduce reliance on working-age benefits).

- The increase in YP numbers appears to be partly a substitution effect; with lower levels of teen pregnancy, more of the high-risk young women who tend to come into contact with the benefit system at younger ages might be receiving YP instead of YPP. This change is particularly notable because YPP have the highest average lifetime cost of any client segment.

- Other contributing factors could include proactive outreach to youth NEETs; and longer benefit receipt in the near term while Youth complete qualifications.

- The composition of YP recipients is evolving over time. While the proportion of Māori clients and the level of intergenerational benefit receipt have been relatively stable, we see that:

  - The proportion of females receiving Youth Payment has increased from 55% to 57% over the past five years.
  - The proportion of YP clients with CYF history has grown dramatically from 40% to 52% over the past 5 years. This potentially reflects the way the new Youth Payment is targeted.
  - The proportion of clients with adult criminal convictions or Youth Justice history has fallen by about a third. This potentially reflects lower crime rates amongst these cohorts.

Youth segment welfare outcomes and transition rates

- The figure below shows Youth segment transition rates off benefits for different age bands and benefit types. YP clients who do not exit the benefit system typically move into JS-WR benefit at age 18, whereas YPP clients typically move to SPS at age 19.

For YP/JS-WR clients we observe that:

- Exit rates for 16-18 year olds on YP have reduced substantially since the introduction of the Youth Service. Again, this is not necessarily inconsistent with the aims of the program if clients remain in the programme (and therefor receive benefits) until completing qualifications.

- For former YP clients who do age into main benefits, exit rates for 18 to 18.5 year olds have increased slightly; about 30% of the cohort exit benefits in this six month period. It is an objective of the program to increase the rate at which YP leave benefits (with NCEA 2 or above qualifications) after reaching the end of the Youth Service.

- Exit rates for 18.5 to 21 year old clients on JS-WR have fallen over the past two years in particular. This fall was not fully recognised in last year's valuation, but has been allowed for this year. This has lengthened the expected future lifetime cost for YP clients who remain on benefit after age 18.5. A softening labour market (which typically affects younger clients more heavily) explains some, but not all, of this trend.

- For the YPP/SPS clients we observe that benefit exit rates have generally increased across all the age cohorts. Multiplying these exit rates together, we would now expect that for every 20 YPP clients on benefit at age 17, that 9 of them would exit benefits by age 21, compared to 6 of them based on June 2011 rates.

- The trends associated with the segments generally appear to be promising. For YP clients, the biggest change is the lower transfer rate to other benefits (particularly Sole Parent Support) by age 19.

- The proportion who are not on benefits by age 19 has grown from 47% (June 2010 cohort) to 55% (June 2013, the latest cohort for which we have full historical data).

- For YPP clients the proportion has grown from 10% to 15% over the same period, with a substantial drop in the number receiving SPS at age 20. The timing of these improvements is closely aligned with the introduction of the Youth Service.