

The Causes of Innocent Overpayment Debt

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THE CAUSES OF INNOCENT OVERPAYMENT DEBT

INTRODUCTION

Over the last four years innocent overpayments have been the fastest increasing debt category. The major reasons for this debt being established are unknown, as are the causes of the increase. This paper attempts to identify the causes of innocent overpayment debt establishment and also to explain why this type of debt has been increasing. This information may be useful in informing initiatives to prevent some innocent overpayment debt being established.

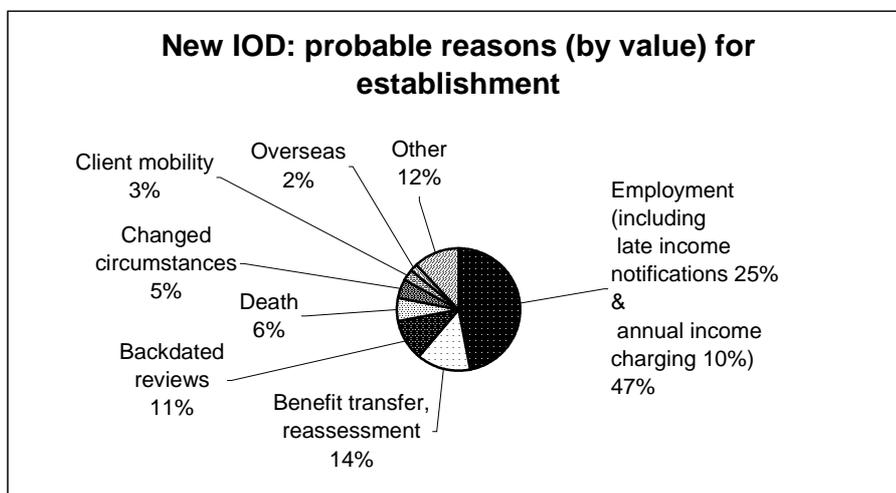
Executive Summary

Innocent overpayment debt (IOD) has been increasing as a proportion of total benefit debt in recent years. This paper analyses SWIFTT (Social Welfare Information Today Tomorrow) data from July 2000 to June 2001 to determine why IOD occurs and why it has been increasing.

Because of the complexities of SWIFTT the analyses in this paper are reasonably limited and it would probably not be fruitful to attempt further or more detailed analysis. SWIFTT contains both “recycled” and “new” IOD. This paper analyses new IOD that was established for the first time during the year July 2000 to June 2001.

Subjective reasons for IOD establishment were gathered through discussions with the Beneficiaries Advocates Group and Ministry of Social Development (MSD) staff. These were then tested through data analysis using SWIFTT data. In addition, a three week prospective survey of IOD establishment was carried out in the Sydenham MSD office and provides a useful comparison with the SWIFTT data.

Screen action analysis was used in analysing the SWIFTT data to determine, to the extent possible, the likely reasons for the establishment of all IOD. These are shown in the pie chart below. A high proportion of the reasons identified for IOD establishment involves changes in a client’s situation, whether this be starting full-time work, earning part-time income, going overseas or transferring benefits and so on.



Employment of clients, whether part- or full-time, temporary or permanent, is associated with approximately 47% of IOD establishment (including 25% associated with late income notifications by clients working part-time, and an estimated 10% from annual income charging). Other significant associations are benefit transfer, granting or reassessment 14% and backdated reviews 11%. Therefore these three top categories are associated with approximately 72% of IOD.

That employment is associated with the most IOD establishment is of concern as MSD policy emphasises placement of clients in work. Placing clients in work increases the likelihood that an IOD will be established. An IOD may be established if a client does not notify MSD of their income or changes in circumstances, or if the information is conveyed but is not used correctly or in a timely way by MSD, or because of system restrictions.

Analysis by number of days overpaid indicates that approximately 28% of IOD comprises small debts of up to two weeks' benefit overpaid. Approximately 22% of IOD comprises large debts of at least 26 weeks overpaid. Hence small and large debts make up about 50% of IOD by value.

Contrary to expectations, IOD establishment does not appear to have a regional pattern. There is, however, a marked seasonal pattern throughout the country in which the highest values of IOD are established in February and especially March in virtually all regions. Surprisingly, the lowest values of IOD in virtually all regions are established in April. It was not possible to determine whether any benefit types are over-represented in IOD establishment.

It is likely that 6% of total new IOD is associated with death of a client. However, 46% by number of debts of New Zealand Superannuation new IOD represents up to seven days overpayment. (It is assumed that most of these debts are likely to be associated with the death of a client.) These 15,797 small debts have an aggregate value of \$484,473 and an average value of \$31. These small debts are often written-off in a labour-intensive process as the client has no estate. Further, these debts may cause antagonism towards MSD within the family of the deceased client. There is a case for a policy change to prevent these many small IODs arising.

The detailed findings in this report are listed below:

Finding 1: The proportion of new IOD related to employment is likely to be in the region of 47% (obtained work 9%, late income notifications 25%, annual income charging 10%, excess income/assets 3%). MSD's focus is to get clients into work, whether temporary or permanent, part-time or full-time, and increased amounts and numbers of IODs are likely to accompany this policy.

Finding 2: It is likely that many small debts result from late income notifications and that these amount to approximately 25% of new IOD by value. Because of the high volume of income notifications at the beginning of the week, it is assumed that most of this IOD is probably due to late notifications by clients rather than staff slowness in actioning notifications.

Finding 2a: Income notification and the subsequent charging involves an interaction between MSD clients and staff. Available data does not allow the quantification of whether staff are incorrectly charging and the extent to which this may be happening, or whether clients are reporting their income late. As in Finding 2 above, it is assumed that late income notifications are in general due to late reporting by clients. The extent of incorrect income charging of variable income and its impact on total new IOD may or may not be large but, because of the implications for abatement associated with this issue, it can have a significant impact on individual clients' benefit amounts.

Finding 3: It is likely that approximately 14% of IOD by value is established due to a client transferring to another benefit, being granted a benefit, or having a benefit reassessed.

Finding 4: Contrary to expectations, analysis suggests that backdated reviews are very commonly performed and it is assumed that difficulty occurs in isolated or localised cases. Backdated reviews are a business process that may identify the existence of an overpayment and so lead to the establishment of an IOD. Backdated reviews are likely to be associated with about 11% of IOD establishment by value.

Finding 5: It is likely that an unknown proportion, less than 22% of IOD by value, is due to annual income charging. Individual debts in this category may be large. Logic suggests that at least an estimated 10% of this is due to annual income charging. This amount has been incorporated in the proportion of new IOD arising from employment.

Finding 6: It is likely that 6% of total new IOD is associated with death of a client. 46% of New Zealand Superannuation new IOD by number of debts represents up to seven days overpayment. It is assumed that most of these debts are likely to be associated with the death of a client. These 15,797 small debts have an aggregate value of \$484,473, and an average value of \$31. These small debts are often written-off in a labour-intensive process as the client has no estate.

Finding 7: Changes in circumstances are likely to be associated with a small proportion of IOD establishment in the region of 5% of IOD by value.

Finding 8: It is likely that about 3% of IOD is related to client mobility and resulting Accommodation Supplement overpayment.

Finding 9: It is likely that about 2% of new IOD is due to clients going overseas.

Finding 10: It is likely that less than 1% of IOD is due to imprisonment of a client.

Finding 11: Throughout the country a seasonal pattern of IOD establishment exists in which the highest months for debt creation by value of debt are February and March, with March the highest month for the year in virtually all regions. April is the month associated with the lowest IOD creation by value in virtually all regions. Regional factors do not appear to be significant in IOD establishment.

Finding 12: The mechanics of SWIFTT and the complexities of the benefit system are such that some IOD is inevitable. Further, quantification of exact levels of new, as opposed to recycled, IOD is very difficult.

Finding 13: It is likely that a small but unknown proportion of new IOD is due to either client or MSD error.

Finding 14: The matter of writing off debts is under review. There is a case for writing off the small debts arising from death or for a policy change to prevent these many small IODs arising.

Areas for future work

SWIFTT has a great deal of churn in which high volumes of IOD are established and offset on the same day, and in which high volumes are transferred out of SWIFTT and back again daily. Because of the complexities of SWIFTT the analyses in this paper are reasonably superficial and it would probably not be fruitful to use SWIFTT to attempt further analysis.

This paper has highlighted several areas in which detailed data is not available because of SWIFTT's limitations. These will be the subject of future work and will determine:

- the exact value of IOD per client, a more accurate statistic than average IOD which is used in this paper, or debtor days, which were not used due to time constraints. As this is not easily achieved from SWIFTT data, survey methods may be required. Further work may also involve replicating some of the analyses in this paper using "debtor days" rather than "numbers of debts"
- the total number of clients receiving each type of benefit in a period being studied. This will enable analysis of whether IOD is established at a higher rate for any benefit type
- the circumstances or reasons that lead to IOD establishment. Survey methods may be required as this information cannot be accurately determined from SWIFTT
- the proportion of new IOD associated with clients being employed, whether part-time or full-time, temporary or permanent
- whether each new IOD arose through client or staff error. This would enable more accurate targeting of interventions to prevent IOD establishment. This information would require a survey of clients
- the proportion of new IOD established in association with annual income charging, and
- the number and value of IOD related to benefit payments pending the outcome of a claim to ACC.

Possible System Enhancement Arising

It seems that when a beneficiary transfers to another benefit, the second tier or supplementary benefits may not be adjusted for the change of circumstances that has led to the transfer. If the supplementary benefit is not adjusted overpayments may result. Anecdotal evidence suggests that when this happens the overpayment may not be discovered for some time, during which time a large IOD may accumulate.

An example of this phenomenon is when a child leaves the care of a client. The client may transfer from the DPB to the Unemployment Benefit, but any supplementary benefits such as Orphan's/Unsupported Child Benefit and Child Disability Allowance may not be adjusted accordingly. The average value of new IODs for Unsupported Child Benefit is \$189 (1,214 debts), and for Orphan's Benefit \$913 (71 debts). The overall average value of new IODs is \$91.

A system enhancement at the time of a benefit transfer to remind MSD staff of the existence of a supplementary benefit may help prevent large IODs accumulating for clients with supplementary benefits.

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METHODOLOGY

Definition

“Innocent” is one of seven breach (debt) codes used in the MSD database Social Welfare Information for Tomorrow Today (SWIFTT) and is the default debt establishment code. If the code of a debt is changed this is generally done by Benefit Control on the day the debt is established. Breach codes are changed in this way after debt establishment for about 1% of debts. Innocent debt established through office error is likely to be coded as “innocent” and to remain as such when the error is discovered and rectified. Innocent debt generally results from a benefit overpayment, hence the name “innocent overpayment debt (IOD)”. “Innocent” effectively means “non-fraud” but should not be interpreted to mean “no fault”.

Possible factors in the recent increase in IOD

Possible factors in the increase in IOD, as opposed to reasons for IOD establishment *per se*, include benefit reform and external factors. In recent years benefit reform has focused on getting clients into work. Hence clients may have several casual or temporary jobs per year and have variable income. Starting work or having variable income probably increase the likelihood of incurring an IOD. Further, in 1996 part-time work testing for DPB clients whose youngest child is aged between six and thirteen was introduced, increasing clients’ demand for casual and temporary work which may also involve variable income.

Possible relevant external factors include increased labour market mobility in recent years involving increased seasonal, casual and temporary work. These factors may increase the possibility of debt establishment as clients move off and on benefits more frequently.

Further, changes in coding policy over time may have increased the proportion of IOD established by Benefit Control teams.

While bearing these factors in mind, the remainder of this paper focuses on possible reasons for IOD establishment *per se*.

Method

Subjective reasons for IOD establishment were obtained from discussions with a number of people, including the Beneficiary Advocates’ Group, Terry Buffery (National Office Unit Manager Debt, MSD), Mike O’Rourke (Decision Support Analyst, MSD), regional Debt Liaison Officers, National Office Help Desk staff and MSP Social Assistance Policy analysts.

MSD Decision Support Analysts analysed all SWIFTT data from 1 July 2000 to 30 June 2001 in attempts to determine how innocent debt arises and, where possible, to test the subjective reasons identified through discussion. Further, a debt liaison officer surveyed IOD information from the Sydenham MSD office for a three-week period.

This paper draws together the subjective and objective analyses and draws some conclusions about the likely major causes of IOD. Relevant background information gathered during these investigations is introduced in the Appendix.

IOD data is available from SWIFTT both by “total value of debts” and by “number of debts.” “Number of debts” is of limited use as clients commonly, if not usually, have multiple debts. Because of this shortcoming in analysing by number of debts, the main findings in this paper are based on analysis of IOD by value. This paper mentions the average value of individual IOD in places, but this also is of limited use because of the problem that clients have multiple debts.

The concept of “debtor days” was explored but was not used due to time constraints. If a client has at least one debt established on a particular day, this becomes a “debtor day”. This statistic is a useful proxy for “value of debt per client” which cannot be directly determined from SWIFTT. The major shortcoming with the debtor days statistic is that it fails to overcome completely the problem that a client may have more than one debtor day per year, with some clients having several. Its advantages are that:

- if a client has several debts established at once, a relatively common occurrence, only one debtor day is recorded. This partially deals with the problem of multiple debts per client
- it enables fairly accurate analysis of the size of debts established when a client begins work.

Where quoted, the average value of debts found in the Sydenham survey is accurate, and is generally accompanied by mention of the number of debts established per person. However, it is likely that some Sydenham clients had existing debts at the beginning of the survey so that debts created during the survey are additional.

The Sydenham survey data is in general analysed by numbers of clients. While it can be analysed by value or number of debts, time did not permit this. The Sydenham survey data is likely to differ from the rest of the country due to the South Island’s differing demography, so it should not be interpreted as representative. However, it is included as a useful comparison with SWIFTT data and in no case is survey information used as a basis for findings. All numerical findings are based on SWIFTT data.

Derivation of “new IOD”

Because of the mechanics of SWIFTT, IOD follows clients in and out of SWIFTT as they move on and off benefits. This creates a complex picture with large amounts of IOD churning through SWIFTT daily. This paper attempts to remove the effects of this churning and to analyse IOD that, from the client’s point of view, has been newly established during the year studied, as opposed to IOD that may have been established in clients’ previous periods of receiving a benefit, whether in the year being studied or a previous year (recycled IOD).

In addition, a proportion of new IOD is recovered by the SWIFTT system during the day of its establishment (“system recovered new IOD”). This will often occur through offsetting effects, for example when a client transfers between benefit types with one benefit debited and another credited.

The analysis in this paper is based on effective new IOD, which excludes recycled IOD and system recovered new IOD. Effective new IOD is referred to throughout the paper as “new IOD”. These categories are shown in Table 1 below.

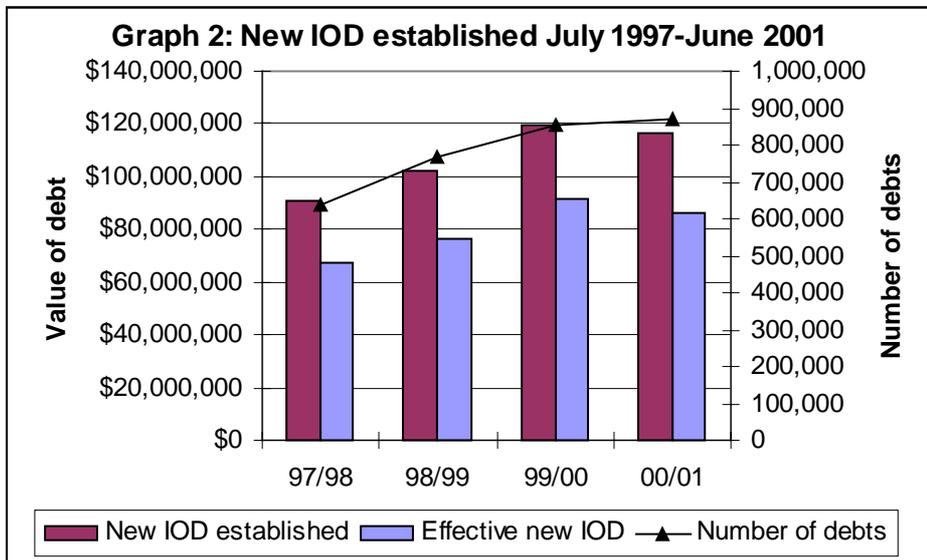
Table 1: Derivation of effective new IOD July 2000-June 2001

Category of IOD	Value
Total IOD	\$295,154,976
Recycled IOD	-\$179,731,209
System recovered new IOD	-\$37,298,962
Effective new IOD	= \$78,124,805

Trends in new IOD establishment

As shown in Graph 2¹ below, new IOD establishment has been increasing over the last four fiscal years, both in number and value. The graph shows that IOD is made up both of new IOD established, which from the client’s point view is new debt they have accumulated in a year and system recovered new IOD, which occurs due to debits and credits made in the SWIFTT system.

The proportion of “system recovered new IOD” has remained constant over the last four fiscal years. This suggests that the increase in new IOD is driven by increases in the value and volumes of effective new IOD itself, rather than by any changes in the value of system recovered new IOD.



Reasons for new IOD establishment: data analysis

Where relevant the SWIFTT new IOD data is used in this paper to validate or invalidate the subjectively identified reasons for IOD establishment. In the tables

¹ Note that the data on which Graph 2 is based contains small percentages of data “without dates” (assumed to be recycled – see Appendix 1) and “to be written off” which have been excluded from data comprising “new IOD” used in the remainder of this paper. It is assumed that this methodological difficulty does not invalidate the basic finding of Graph 2.

below, differences occur between the percentage of new debt by value and by debtor days where the category of IOD is associated with a high number of small debts, or by a smaller number of large debts.

While from this data it is difficult to identify new debt associated with employment, any of the screen actions marked with * may be associated with employment.

Screen action analysis of total new IOD

Screen actions were analysed as a proxy for reasons for IOD establishment. More than one screen action by MSD staff is commonly performed per client on the day of new IOD establishment. Hence a system of prioritisation² was used so that only one screen action was recorded per client per day of new IOD establishment. Where multiple screen actions occurred, this prioritisation took into account the most and least likely reasons for IOD establishment and effectively represents assumptions about the reasons for the IOD being established.

This prioritisation method of analysis is likely to be less than perfectly accurate but the margin of error cannot be estimated.

Prioritised screen action analysis of total new IOD indicated that the primary possible reason for new debt establishment was benefit cancellation, which is in turn explored separately below. The major findings from the prioritisation analysis were:

Benefit cancellation	27% of new IOD by value
Adding income	21%
Debt added manually	17%
Backdated review	11%
Benefit suspension/resumption	11%.

The complete findings, with additional analysis by number of debts and average value of debts, are shown in Table 3.

Table 3 Total new IOD: Possible reasons for IOD establishment

Prioritised screen action on day of IOD establishment	% of new IOD (by value of debt)	% of new IOD (by number of debts)	Average value of IODs
*Benefit cancellation	27%	17%	\$145
*Adding income	21%	37%	\$52
*Debt added manually	17%	6%	\$243
Backdated review	11%	8%	\$125
*Suspension/resumption	11%	11%	\$96
*Other screen actions	4%	7%	\$49
*Changes to supp. benefit (non AS)	3%	4%	\$67
Granting of a benefit	3%	2%	\$145
*Change to AS	3%	7%	\$37
*Benefit reassessment	1%	1%	\$101
Child exclusion	1%	1%	\$69
Benefit transfer	1%	1%	\$43
Total	100%	100%	

² The order of priority was, with highest priority first: benefit cancellation, benefit transfer, income add, AS change, suspend/resume, benefit grant, child exclusion, benefit reassessment, supplementary changes, manual debt add, backdated review, others. Hence, if on the day of IOD establishment for a client, screen actions for a backdated review and adding of income occurred, prioritisation would result in adding of income being associated with the debt, as this has a higher priority than backdated review.

* debt established on the day of this screen action may be associated with employment.

Analysis of cancellation or suspension/resumption as possible reasons

Benefit cancellation was the primary screen action (by value), and was associated with 27% of new IOD establishment (see Table 3). Benefit suspension (especially) or resumption may be associated with similar client circumstances to cancellation and was associated with a further 11% of new IOD establishment. Together these screen actions were associated with 38% of new IOD establishment and are analysed separately in Table 4 below.

The three most common reasons for cancellation, suspension or resumption were “obtained work”, “other screen actions” and “transferred to another benefit”. Unfortunately the other category comprises 276 smaller categories of reasons for cancellation, some of which relate to study, caregiver/family/partner/child matters, medical and residential issues, changes to costs, errors and failure to comply with MSD requirements, among many others which may also include work-related reasons. From this SWIFTT data it is difficult to estimate the percentage of new debt associated with employment. Any of the screen actions marked with * may be associated with employment.

Table 4: SWIFTT new IOD: Reasons for debt cancellation or suspension

Reason for cancellation/suspension	% of cancellations (by value of debt)	% of new debt (by value of debt)	% of cancellations (by number of debts)	% of new debt (by number of debts)	Average value of debt
*Obtained work	24%	9%	28%	8%	\$102
*Other reason	24%	9%	20%	6%	\$141
Transferred to another benefit	24%	9%	24%	7%	\$114
*Excess income/assets	6%	3%	11%	3%	\$70
Change in marital status	6%	3%	5%	1%	\$186
Died	6%	3%	5%	1%	\$150
Went overseas	5%	2%	4%	1%	\$161
In prison	2%	0%	1%	0	\$211
Child left care/no longer dependent	2%	0%	1%	0	\$203
*(Non) renewal of declaration	1%	0	1%	0	\$1,162
Non-payment >8 weeks	0	0	0	0	\$74
*Left/ceased course	0	0	0	0	\$95
Total	100%	38%	100%	27%	

* debt established on the day of this screen action may be associated with employment.

Sydenham survey data: reasons for new IOD establishment

Sydenham office recorded all IODs established during a three-week period in July/August 2001. The demographics of the South Island are considerably different from the North Island so the findings should not be taken to represent the country as a whole. The data from this survey is presented below in terms of numbers of clients rather than value or numbers of debts established. Analysis in terms of value and numbers of debts could be performed given additional time.

During the Sydenham survey IODs were established for 262 clients. For 56% (150) of these, IODs were established for both the primary benefit and a supplementary benefit, so 56% of clients had at least two debts. The average value of IODs for the primary benefit was \$804 and for the supplementary benefit \$313. The reasons for establishment of the debts are shown in Table 5 below:

Table 5: Sydenham new IOD survey: reasons for establishment of IODs

Reasons for IOD establishment	Number of clients	% of clients
*Income addition	133	51%
Backdated review	18	7%
*Working	13	5%
*Benefit cancelled/suspended (work)	11	4%
Benefit cancelled/suspended (other)	5	2%
Change of address (affecting AS)	9	3%
Gone overseas	8	3%
Relationship change (start/leave/reconcile)	8	3%
Enter or leave rest home	8	3%
Change in costs	7	3%
Pending ACC acceptance of claim	7	3%
Full-time student	5	2%
Transfer to another benefit	5	2%
In prison	4	2%
Change in grant date	3	1%
Other (died, renewal, child, unknown etc)	18	7%
Total	262	100%
*Work related debt	157	60%

Anecdotally, the debt liaison officer reported that 90% of IODs were established because clients had not informed MSD during the relevant benefit payment period of a change that affected their entitlement for that period.

POSSIBLE REASONS FOR IOD ESTABLISHMENT: DETAILED ANALYSIS

The possible causes of IOD establishment identified subjectively during discussions with the Beneficiaries Advocates Group and MSD staff are numbered below. Each is followed by relevant data analysis where possible, drawing heavily on the data presented in Tables 1 and 2, to either support or invalidate the subjectively identified cause. The possible reasons are listed here in descending order of value of new debt with which the reason is found to be associated and each is discussed in detail below:

- Reason 1: Employment (full-time or part-time) as a reason for IOD establishment
- Reason 2: Late income notification by clients working part-time
- Reason 2a: Income charging of variable income
- Reason 3: Transfer to another benefit, reassessment or granting of a benefit
- Reason 4: Backdated reviews
- Reason 5: Annual income charging for long-term benefits (DPB, Widow's and Invalid's) and supplementary benefits
- Reason 6: Lack of entitlement due to death of client
- Reason 7: Changed circumstances
- Reason 8: Client's mobility affecting AS entitlement
- Reason 9: Client travels overseas³, losing their entitlement
- Reason 10: Lack of entitlement because client in prison
- Reason 11: Seasonal and regional factors
- Reason 12: IOD due to the mechanics of SWIFTT
- Reason 13: Client or MSD error
- Reason 14: Not writing-off IOD

REASON 1: EMPLOYMENT (FULL-TIME OR PART-TIME) AS A REASON FOR DEBT ESTABLISHMENT

As noted elsewhere, employment of clients increases the likelihood of IOD establishment, more so if the employment involves variable income, is temporary or is in an industry such as hospitality where income cannot always be predicted.

Data Analysis: In Tables 2 and 3 (SWIFTT data), the factors in IOD establishment that may be associated with employment are marked with *. While the data does not allow exact calculation of how much new IOD is associated with employment, from Table 3, 9% of new IOD debts with an average value of \$102 are cancelled on the day of a screen action noting that the client has obtained work. This work is likely to be full-time and may be temporary or permanent.

The amount of IOD established due to part-time work cannot be determined accurately but is estimated, by the screen action for adding income, as approximately 21% of new IOD by value (or 37% by number of debts, with an average value of \$52) or as 28% by alternative SWIFTT analysis (see Reason 2 below). Hence the proportion of new IOD by value attributed to income additions/part-time work is estimated at 25%. The screen action for adding income was associated with the second highest proportion of new IOD established, after benefit cancellation. Late

³ Clients receiving Invalid's benefit or New Zealand Superannuation can travel overseas for defined periods and retain full eligibility. Recipients of all other benefits lose eligibility if they leave the country.

income notifications as a separate reason for IOD establishment are considered below as Reason 2.

Further, a screen action to record “Excess income/assets” in SWIFTT was a reason for cancellation on the day of debt establishment for 3% of new IOD both by value and by number of debts.

As shown at the bottom of Table 3, in the Sydenham survey the IODs established for 60% of clients were related to employment.

Finding 1: The proportion of new IOD related to employment is likely to be in the region of 47% (obtained work 9%, late income notifications 25%, annual income charging 10%, excess income/assets 3%). MSD’s focus is to get clients into work, whether temporary or permanent, part-time or full-time, and increased amounts and numbers of IODs are likely to accompany this policy. Note that the 47% of new IOD related to employment includes percentages discussed below in other findings.

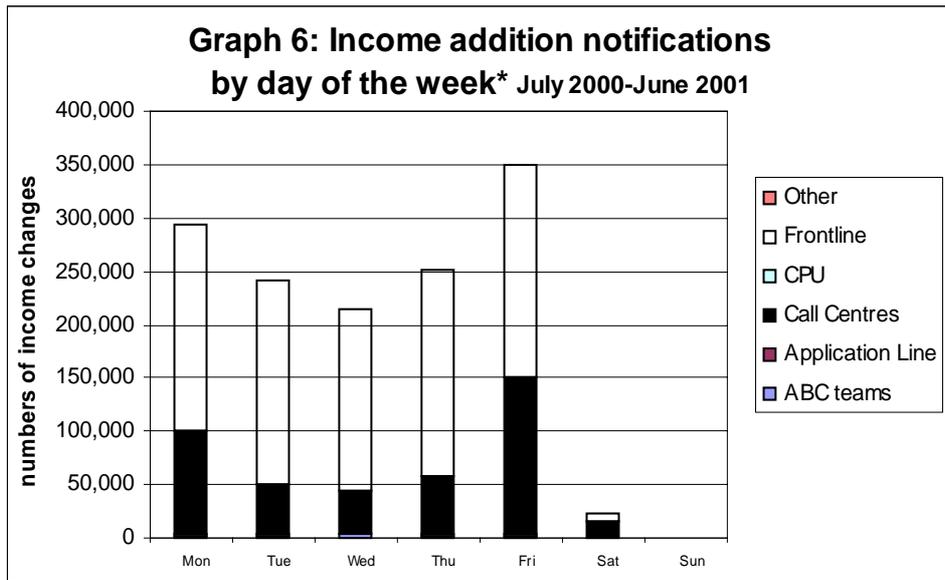
REASON 2: LATE INCOME NOTIFICATION BY CLIENTS WORKING PART-TIME

Clients working part-time with variable income notify MSD of their income earned on a weekly basis so their benefit can be correctly abated. The cut-off time for income notifications by clients working part-time is 5pm each Friday. Late notifications result in a debt where the benefit should have been abated and was not. Late notification can be unavoidable if the client is working far from a phone such as in market gardening, or works in hospitality where hours worked, and therefore income, can only be reported in retrospect. A variation on this theme is when the client notifies MSD but there are delays in processing the notification and an overpayment is made, resulting in a debt.

Data analysis: Separate SWIFTT analyses were performed. Between 1 July 2000 and 30 June 2001 1,375,829 notifications of income changes or additions were made:

- 69% to Service Delivery staff,
- 29% to Call Centres,
- 1% were notified by Area Benefit Control teams, and
- negligible proportions to the Application Line, Central Processing Unit and Other.

As shown in Graph 6 below, the highest number of notifications is received on Fridays (25% of the total for the week), followed by Mondays (21%). It is likely that many of the high numbers of notifications received on Saturdays, Mondays or Tuesdays are late notifications from the previous week. The data available cannot give any indication of debts resulting from late income notifications that are due to MSD processing delays.



* the notifications received on Saturdays, 2% of the total, represent less than a full year of data⁴.

Late income notifications highlight the fact that recording systems do not enable accurate determination of who was responsible for the IOD arising. For example, late income notifications may be due to clients failing to notify their income in the correct payment period, or may be due to MSD staff failing to record a notification in the correct payment period until a later period. Similarly, a genuinely late income notification on the part of the client cannot be distinguished in SWIFTT from client income that was unknowingly charged by MSD staff over two weeks instead of the one week in which it was earned, with significant implications for benefit abatement. Anecdotal evidence suggests that all of these scenarios occur.

Graph 6 shows that a high volume of income notifications is received on Mondays. Logic suggests that such a high volume at the beginning of the week would indicate that, in general, the overpayments are because clients are reporting their income late, rather than staff being slow to action notifications.

An analysis of the number of days' entitlement that was overpaid was performed for new IOD debt. As shown in Table 6 below, 28% of new debt by value involves small debts of less than two weeks overpaid. A high proportion of this is assumed to be due to late notification of income. 22% of new debt involves more than 26 weeks' benefit overpaid. An unknown proportion of this is due to annual income charging for two long term benefits (DPB, Widow's and Invalid's). The remainder (62%) involve two to 26 weeks' benefit overpaid.

⁴ MSD Call Centres began opening for half a day on Saturdays from August 2000, and for full days from March 2001 due to heavy demand.

Table 6: SWIFTT new IOD: Number of days entitlement overpaid

Days of entitlement overpaid	% of "new" debt	Value of debt	Number of debts	Average value of debt
0 – 7 (1 week)	16.3	\$12,500,727	504,800	\$24.76
8 – 14 (2 weeks)	11.5	\$8,820,397	144,967	\$60.84
15 – 28 (3 - 4 weeks)	15.0	\$11,536,477	96,694	\$119.31
29 – 56 (5 – 8 weeks)	14.1	\$10,800,792	50,314	\$214.67
57 – 91 (9 – 13 weeks)	8.7	\$6,665,245	17,661	\$377.40
92 – 182 (14 – 26 weeks)	12.7	\$9,739,483	15,790	\$616.81
183+ (more than 26 weeks)	21.7	\$16,630,872	14,556	\$1,142.54

The above table and assumptions suggest that 28% of new IOD is associated with late income notifications, and the SWIFTT data in Table 4 suggests a figure of 21%. Both calculations are by value.

The debt liaison officer involved with the Sydenham survey advises that it can be assumed from the survey data that most of the income notifications made to call centres will be late notifications. Out of 133 income notifications during the survey, 69 (52%) were made to call centres, representing 27% of clients with IOD.

Finding 2: It is likely that many small debts result from late income notifications and that these amount to approximately 25% of new IOD by value. Because of the high volume of income notifications at the beginning of the week, it is assumed that most of this IOD is probably due to late notifications by clients rather than staff slowness in actioning notifications.

REASON 2A: INCOME CHARGING OF VARIABLE INCOME

For clients on fortnightly benefits (DPB, WD IB) the issue of income charging arises when the client earns income in one week but this income is recorded as being earned over two weeks (or vice versa), with significant implications for incorrect debt establishment and benefit abatement.⁵

This reason for IOD establishment may overlap with Reason 2: Late income notifications. The extent of the overlap is unknown, but this Reason is introduced as a subset of Reason 2 to highlight that this overlap probably exists.

Data analysis: Neither SWIFTT data nor the Sydenham survey can readily quantify the extent of incorrect income charging or the IOD established thereby.

⁵ A client may work for one week out of two, earning \$200. \$200 may be entered into (charged to) SWIFTT as \$200 for one week, or as \$100 for both weeks. Once the income is charged there is no way to determine whether it was earned over one week or two weeks. If the income is charged as \$100 for both weeks, the benefit is abated by \$6 for each of the two weeks. If the \$200 is charged in the week it is earned, the benefit is abated by \$44 for that week only. Recording the income over two weeks is of advantage to beneficiaries who work for only one week or who make variable income declarations. Similarly, a UB recipient, who by definition can work up to 30 hrs a week, works 20 hours one week and 40 hours the next week. By working 40 hours they become ineligible and a debt is established. A further related concern is that clients receiving fortnightly payments and who receive AS may be receiving less AS than their entitlement. If a client declares income over one week which is charged as earned over two weeks, their AS is reduced for two weeks. For example they may lose \$20 each week for two weeks, rather than the correct amount of \$20 in the week the income was earned.

Finding 2a: Income notification and the subsequent charging involves an interaction between MSD clients and staff. Available data does not allow the quantification of whether staff are incorrectly charging and the extent to which this may be happening, or whether clients are reporting their income late. As in Finding 2 above, it is assumed that late income notifications are in general due to late reporting by clients. The extent of incorrect income charging of variable income and its impact on total new IOD may or may not be large, but because of the implications for abatement this issue can have a significant impact on individual clients' benefit amounts.

REASON 3: TRANSFER TO ANOTHER BENEFIT, REASSESSMENT OR GRANTING OF A BENEFIT

A debt may be created when a client transfers to another benefit for some reason, is granted a benefit, or has a benefit reassessed.

Data analysis: SWIFTT analysis suggests that screen actions for

- benefit transfer occur on the day of establishment for 1% of IOD by value (1% by number, average value of debt \$43),
- benefit transfer as a reason for cancellation occur on the day of IOD establishment for 9% of new IOD by value (24% by number, average value of debt \$114),
- benefit reassessment occur on the day of IOD establishment for 1% of IOD by value (1% by number, average value of debt \$101), and
- granting of a benefit occur on the day of IOD establishment for 3% of IOD by value (2% by number, average value of debt \$145).

These screen actions are associated with a total of 14% by value of new IOD.

Finding 3: It is likely that approximately 14% of IOD by value is established on the day of screen actions for benefit transfer (including transfer as a reason for cancellation), benefit reassessment or the granting of a benefit.

REASON 4: BACKDATED REVIEWS

During collection of subjectively identified reasons for IOD establishment, it was suggested that some MSD staff may not be confident to perform backdated reviews, and that debt existed or accumulated unnecessarily for this reason.

Data analysis: Backdated reviews are a business process that may identify the existence of an overpayment and so lead to the establishment of an IOD. SWIFTT new IOD data suggested that backdated reviews were performed on the day of establishment for 11% of IODs by value and 8% by number of IODs. Backdated review was the fourth highest rating screen action on the day of IOD establishment. The average size of these IODs was \$125.

Additionally separate SWIFTT analysis was performed. Backdated reviews were analysed after being consolidated so that one review was counted per client per day per benefit per Case Manager. 544,096 backdated reviews were performed in the year 2000-2001. In general they were evenly spread through:

- the working week, with only 2% being done on a Saturday,
- the 13 MSD areas of the country, and

- the months of the year, although February and March were the busiest months, as would be expected given the seasonality identified (below) in new debt establishment at those times.

35% of backdated reviews were related to the Accommodation Supplement, 23% to the Unemployment Benefit, 7% to the Sole Parent DPB, 6% to the Sickness Benefit, 5% to Family Support, 3% to Invalid's Benefit and New Zealand Superannuation, and 1% each to non-Beneficiaries, Unemployment Benefit Student Hardship, and Widow's Benefit.

74% of backdated reviews were performed by Service Delivery staff, 12% by data match staff, 9% by call centres and 4% by Benefit Control.

In the Sydenham survey backdated reviews were associated with debt establishment for 7% of clients (a total of 22 debts). The average value of debts for primary benefits was \$1035, and for supplementary benefits \$841.

Finding 4: Contrary to expectations, analysis suggests that backdated reviews are very commonly performed and it is assumed that any difficulty with them occurs in isolated or localised cases. Backdated reviews are a business process that may identify the existence of an overpayment and so lead to the establishment of an IOD. Backdated reviews are likely to be associated with about 11% of IOD establishment by value.

REASON 5: ANNUAL INCOME CHARGING FOR LONG TERM BENEFITS (DPB, WIDOW'S AND INVALID'S) AND SUPPLEMENTARY BENEFITS

Annual income charging may result in a debt after the client has received the benefit for 12 months, when all income earned during the year is applied to some benefits and their supplementary benefits. Clients are aware that income earned during the year totalling \$4,000 does not impact on their primary benefit, so if their weekly income is below an equivalent level (\$80 per week) may not declare it. They are reportedly often unaware that their Accommodation Supplement, a supplementary benefit, is affected by any income earned during the year, and face an unexpected debt from 12-monthly income charging. If they earned \$4,000 during the year, a \$1,000 debt will result at year end from Accommodation Supplement overpayment. Beneficiaries reportedly favour annual income charging because it gives them considerable flexibility during the year, allowing the earning of high amounts of income in a short time period without it impacting on their primary benefit.

Annual income charging can therefore result in IOD establishment where more than \$4,000 has been earned during the year, resulting in an overpayment of the primary benefit, and where any income has been earned and not declared during the year, resulting in an overpayment of the supplementary benefit.

A similar scenario arises from Family Support, a tax credit. Where a beneficiary has no income, Family Support is received as a payment from IRD. Where a beneficiary has part-time work, their benefit may be abated but Family Support continues to be paid by IRD. At the end of the tax year, a debt to IRD arises because too much Family Support has been paid.

Prior to 1999 there were reports that Service Delivery staff were not always establishing a debt in these circumstances. Current practice is that such debts are established, a change that may account for an increase in IOD since 1999.

Data analysis: The nature of SWIFTT is such that it does not enable analysis of the proportion of debt established because of annual income charging. However, Table 6 above shows that around 22% of IOD involves more than 26 weeks' benefit overpaid. An unknown proportion of this is assumed to be due to annual income charging. IODs established as a result of annual income charging may be quite large. The other main reason for debts involving more than 26 weeks' benefit overpaid arises from long absences overseas, or clients awaiting confirmation of ACC claims, which cannot be quantified from SWIFTT data.

Finding 5: It is likely that an unknown proportion less than 22% of IOD by value is due to annual income charging. Individual debts in this category may be large. Logic suggests that at least an estimated 10% of this is due to annual income charging. This amount has been incorporated in the proportion of new IOD arising from employment.

REASON 6: LACK OF ENTITLEMENT DUE TO DEATH OF CLIENT

Under current legislation when a client dies there is:

- Discretion for all single beneficiaries, except New Zealand Superannuation or Veteran Pension, to extend payment up to four weeks after death.
- Married people can, as of right, receive up to four weeks entitlement after the death of a spouse; and
- Domestic Purposes Benefit and Widow's Benefit payments can continue for up to eight weeks after the death of a dependent child or sick or infirm person they have been caring for.

Much of the New Zealand Superannuation debt is reportedly due to the death of single clients. If a single superannuitant dies before the next pay-day, a debt will therefore arise because the superannuitant is not entitled to the additional day or days payment. Frequently these single clients have no estates and the debt is written-off. These debts are small but their management is labour-intensive; one person establishes the debt and sends a letter to the family informing them of the debt, then reviews and investigates those that are not repaid. A total of three people are involved in the write-off process. Negotiations are taking place with Births, Deaths and Marriages in the Department of Internal Affairs to establish matching to provide earlier notifications of deaths, thereby avoiding the accumulation of overpayments. Currently some Service Delivery staff perform manual matches with newspaper death notices.

Data analysis: SWIFTT data suggests that 6% of cancellations by value of debt and 5% by number of debts occurred on the day of a screen action recording death of a single client. This corresponds to 3% of new debts by value of debt and 1% of new debts by number of debts. The average value of IODs established as a result of death was \$150.

Analysis of all new IOD in SWIFTT due to New Zealand Superannuation suggests that 15,797 debts (46% of the total number of New Zealand Superannuation new IODs) represent overpayments of up to seven days. These debts have an average value of \$31. Because of the small size of each debt they represent only 8% of the total new IOD by value associated with New Zealand Superannuation⁶. Nevertheless, most of them are likely to be due to death of a client. The total value of these New Zealand Superannuation IODs representing up to seven days overpayment was \$484,473 for the 2000-2001 year.

Finding 6: It is likely that 6% of total new IOD is associated with death of a single client. 46% of New Zealand Superannuation new IOD by number of debts represents up to seven days overpayment. It is assumed that most of these debts are likely to be associated with the death of a client. These 15,797 small debts have an aggregate value of \$484,473, and an average value of \$31. These small debts are often written-off in a labour-intensive process as the client has no estate.

REASON 7: CHANGED CIRCUMSTANCES SUCH AS

- a child leaving care or becoming ineligible
- change in a relationship (entering, leaving, reconciling)
- an Invalid's or Sickness Benefit paid pending the outcome of a claim to ACC⁷
- provisional benefits granted under s60H(b) of the Social Security Act 1964 to those who have left employment and are taking a case against a former employer
- Seasonal workers made redundant after benefit commences (s80BC)
- Compensation or damages recoverable by the client (s71).

Data analysis: SWIFTT data suggests that a screen action involving child exclusion occurred on the day of establishment of 1% of new debt by value or 1% by number of debts. The average value of these debts was \$69. The Sydenham survey did not record child exclusion as a reason, but this may be included in reasons such as backdated review or transfer to another benefit.

The SWIFTT data category "Changes to supplementary benefit" (3% of new debt by value, 4% by number of debts, average debt value \$67) may also reflect changed circumstances, as may "Benefit reassessment" (1% by value, 1% by number of debts, average value \$101).

The value of ACC-related debts is not readily quantified in SWIFTT, where they will probably appear within the category "backdated reviews". Once the period of the ACC payment is known, a review for that period will be completed and the debt(s) established as a result for the primary benefit and often any supplementary benefits. In the Sydenham survey data 3% of clients had debts established in association with ACC claims.

⁶ In contrast, only 2% of single New Zealand Superannuation new IOD by number is made up of overpayments of 26 weeks benefit. These larger overpayments have an average value of \$939 and comprise 32% of the new IOD due to single New Zealand Superannuation by value, and are likely to be related to clients spending long periods overseas.

⁷ Debts related to ACC payments can be substantial, but are generally repaid by ACC when the claim is accepted.

IOD established as a result of a change in a relationship is not readily identified from SWIFTT data and could be included in a number of debt categories. Sydenham data suggests that 3% of clients had debts established through change in a relationship. A total of 17 IODs were established for these clients, the average value of IODs related to primary benefits being \$253 and for supplementary benefits \$92.

The Sydenham survey lists reasons for IOD establishment such as “Enter or leave rest home” and “Change in costs” (both 3% of clients) which fall within the category of changing circumstances.

Finding 7: Changes in circumstances are likely to be associated with a small proportion of IOD establishment in the region of 5% of IOD by value.

REASON 8: CLIENTS' MOBILITY AFFECTING AS ENTITLEMENT

Mobility of clients may be associated with IOD establishment. This is most likely because the rent is lower at the new address, affecting AS entitlement. If clients do not inform MSD of their changed entitlement, or inform late, a debt will accumulate in the form of the overpaid AS.

Data analysis: SWIFTT new IOD data suggests that 3% of new debt by value, or 7% by number of clients, was established on the day of a screen action involving a change to AS. The average value of these debts was \$37.

In the Sydenham survey a change of address was a reason for IOD establishment for nine clients (3%), all of whom had debts established for AS. The average value of these debts was \$35.

Finding 8: It is likely that about 3% of IOD is related to client mobility and resulting AS overpayment.

REASON 9: CLIENT TRAVELS OVERSEAS⁸, LOSING THEIR ENTITLEMENT

The departure overseas of clients is noted through matching with NZ Customs and a letter is sent to the client asking them to contact MSD. If they do not respond by a specified date the benefit is suspended, resulting in a debt comprising the benefit paid from the day following departure until the date of suspension. An associated reason for debt establishment is that while benefit application forms require clients to list aliases, clients sometimes travel overseas using an alias not known to MSD. This is reportedly a problem in the Auckland area, where it particularly involves Pacific Islands clients. A large debt may accumulate during absences for this reason as the departure was not identified by matching.

Data analysis: SWIFTT benefit cancellation/suspension data suggests that 2% of new debt by value and 1% by number of debts was established on the day a benefit was cancelled because a client went overseas. The average value of these debts was \$161.

Recording of ethnicity in SWIFTT is not complete, and is especially patchy for New Zealand Superannuation clients. For these reasons and time constraints, we did not attempt to test whether any ethnic group is over-represented in this reason for new IOD establishment.

Analysis of total new IOD data in SWIFTT suggests that 31% by value, and 44% by number of debts, of the new IOD established on the day of a screen action for leaving New Zealand was established in the Auckland area. These percentages appear to be broadly in line with the proportion of the total population living in the Auckland area. More detailed analysis of any regional pattern in new IOD established through leaving New Zealand is not possible because of difficulty in establishing the total population living in the MSD office areas.

⁸ Clients receiving Invalid's benefit or New Zealand Superannuation can travel overseas for defined periods and retain full eligibility. Recipients of all other benefits lose eligibility if they leave the country.

Sydenham survey data suggests that IODs were established when 3% of clients went overseas. The average value of these debts was \$461. For five out of the eight clients who went overseas, the debt was established as a result of data matching.

Finding 9: It is likely that about 2% of new IOD is due to clients going overseas.

REASON 10: LACK OF ENTITLEMENT BECAUSE CLIENT IN PRISON

These debts are established following notification from families or, more often, from matching with the Department of Corrections.

Data analysis: SWIFTT data suggests that 2% of cancellations by value of debt and 1% by number of debts were due to imprisonment of a client. This corresponds to less than 1% of new debts by both value of debt and number of debts. The average value of IODs established as a result of imprisonment was \$211.

In the Sydenham survey, four clients, out of the total of 267 (1.5%), were imprisoned during the three-week period of the survey. Two debts each were established because of their imprisonment. The average value of the primary benefit debts was \$243 and for the supplementary benefits \$36.

Finding 10: It is likely that less than 1% of IOD is due to imprisonment of a client.

REASON 11: SEASONAL AND REGIONAL FACTORS

Most areas of New Zealand have seasonal work in various forms. Commonly this is related to freezing works – the season starts in October and lasts six or seven months until about March or April. Shearing in September to December, harvests late in the summer and autumn, and the ski season are other sources of regional work. Clients involved in seasonal work move off and back on to benefits, increasing the likelihood of debt being established. It was suggested that some regions of the country may be responsible for disproportionately high volumes of debt associated with seasonal factors.

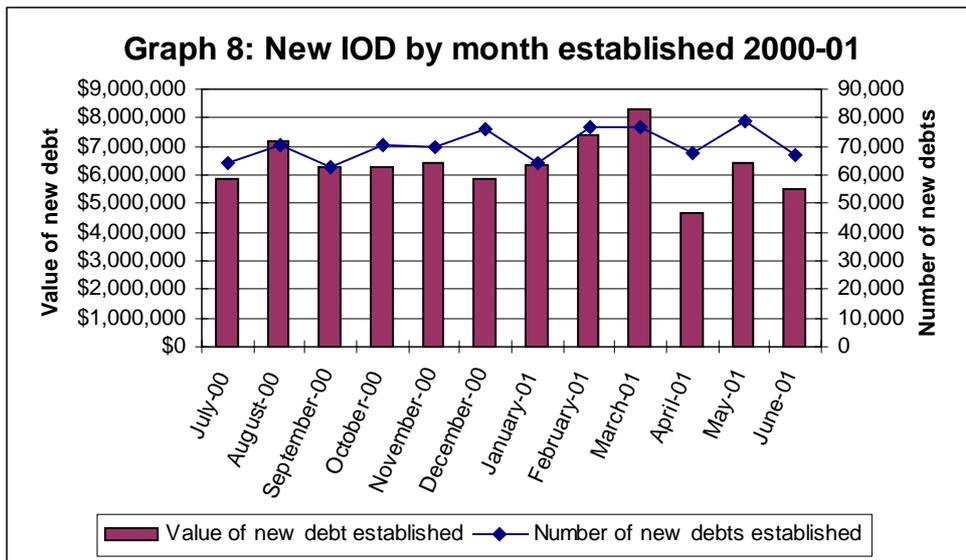
Auckland reportedly has very mobile clients who move house frequently, travel overseas frequently, particularly to the Pacific Islands, and who may live in crowded conditions without fully declaring their circumstances. This pattern of frequently changing circumstances increases the likelihood of debt being established.

Northland reportedly has high numbers of rest homes, with associated high volumes of debt after death of a client. For New Zealand Superannuitants or beneficiaries in rest homes, part of their benefit is paid directly to the rest home and in these cases debts are established for both the private and rest home components of the benefit after death.

Data analysis: Extensive SWIFTT new IOD analysis was performed to consider regional and seasonal factors. Overall, different regions were not associated with patterns of new debt establishment and seasonal differences were largely consistent across the country, occurring at predictable times. Prevalence rates of types of benefit or reasons for debt establishment per region could not be determined because of the difficulty of obtaining population denominators corresponding to MSD regions.

Across virtually the whole country, a surprisingly consistent seasonal pattern emerged in which most debt (by value) was established in February and March. This is probably because clients have seasonal work in the summer months of February and March, and students enter tertiary studies at this time. Exceptions were Taranaki and Northland, where the highest month for debt establishment was August. August was the second or third highest month for several other regions. The lowest month for debt establishment in nearly all regions was April, following immediately after March, the highest month in most regions. A similar but less consistent pattern exists when IOD is analysed by number of debts established rather than by value. Graph 8 below summarises the national seasonal pattern for IOD establishment by value of IODs in vertical bars (left axis) and by number of IODs in points joined by a line (right axis).

The benefits associated with the most new IOD were the Unemployment Benefit, the DPB Sole Parent and Sickness Benefits. For these benefits the highest months for new debt establishment were March and February. For Invalid's and Widow's Benefits, the benefits with the next highest amounts of new debt, the highest month for new debt establishment was August.



Finding 11: Throughout the country a seasonal pattern of IOD establishment exists in which the highest months for debt creation by value of debt are February and March, with March the highest month for the year in virtually all regions. April is the month associated with the lowest IOD creation by value in virtually all regions. Regional factors do not appear to be significant in IOD establishment.

REASON 12: IOD DUE TO THE MECHANICS OF SWIFTT

When a client with debt of any kind stops receiving any benefit and then comes back on to a benefit, the mechanics of SWIFTT are such that their debt reappears as “innocent”, but can be identified as “recycled” from the client’s point of view rather than “new”. The campaign against benefit crime in 1998 may have led to volumes of “innocent” debt increasing by this means.

IOD established as a result of IRD data matching may generate “system debt” if the “payment date” recorded by MSD does not match the “work start date” recorded by IRD. Legitimately, the “work start date” may be earlier than the “payment date”, but may still result in an innocent debt.

It is possible that benefits with supplementary benefits are associated with higher levels of debt establishment. All benefits except Orphan’s and Unsupported child’s benefits can have supplementary benefits.

Analysis: MSD decision support analysts advise that while recycled IOD does contain some innocent debt, the proportion cannot readily be calculated because of the complexities of the benefit system. A client currently on benefit may have six debts, of which some are innocent and some not. If that client becomes non-current, then later goes back onto a benefit (current), the six debts reappear in SWIFTT as one recycled innocent debt. While for individual clients the history of a recycled debt can be traced, this is laborious and not easily achieved across the entire database.

It appears that there are several, if not many, ways in which IODs are established. As in the IRD example above, these may ultimately reflect the complexities of the benefit and SWIFTT systems and are in general not preventable.

Finding 12: The mechanics of SWIFTT and the complexities of the benefit system are such that some IOD is inevitable. Further, quantification of exact levels of new, as opposed to recycled, IOD is very difficult.

REASON 13: CLIENT OR MSD ERROR

Errors may occur in many ways. Reportedly, repayments may be incorrectly recorded or not recorded at all. MSD staff report that this may be due to dishonoured cheques or automatic payments, client errors in lodging or identifying payments, or delays in processing payments. Case managers reportedly have larger caseloads, reduced levels of training and more demands on their time than previously. Staff error may be exacerbated by high staff turnover rates in some areas such as metropolitan Auckland. Reportedly, MSD offices with high staff turnover are also the offices with high levels of IOD establishment and high volumes of calls to the help desk. Staff have a KPI incentive not to code error as such. As noted in the “Definition of Methodology” section of this report (page 8), IOD established through office error is likely to be coded as “innocent” and to remain as such when the error is discovered and rectified.

Data Analysis: SWIFTT data does not enable ready analysis of IOD established as a result of client or MSD error. In the Sydenham survey, one client had two debts established as a result of a dishonoured payment.

Finding 13: It is likely that a small but unknown proportion of new IOD is due to either client or MSD error.

REASON 14: NOT WRITING-OFF IOD

It was suggested that the write-off provision of s86(9A) could be used more and be used proactively. The provision in s86(9A) allows for the Chief Executive to authorise the writing-off of a debt which resulted from staff error, if the recipient has altered their position in reliance on the payment and if it would be inequitable, all circumstances considered, to require repayment. Other criteria must also be met such as that the overpayment must have been received in good faith and was not intentionally contributed by the debtor. All criteria must be met before a debt can be written-off. It was also suggested that the many small debts arising from the death of a client could be written-off. The difficulties involved with these debts are discussed in Reason 6 above.

Analysis: IODs with a value of \$5,000 or more are automatically reviewed. The issue of writing-off debt, both authentic debt and debt established through error which is written-off after satisfying criteria laid down in the Act, is currently under review. The meaning and application of the criteria for write-off of error-related debt are the subject of one piece of work, while work on the debt established as a result of error is investigating whether increased write-off powers should be delegated to MSD.

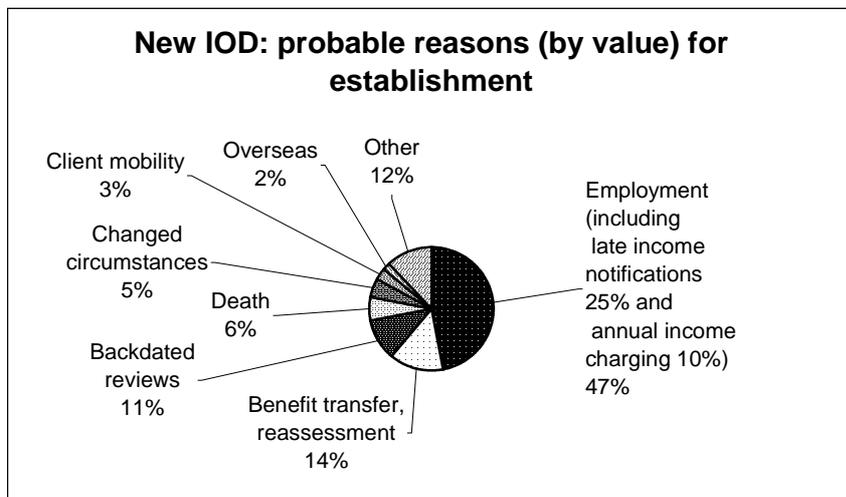
The many small debts arising from client death are of concern. Following the death of a client letter is sent to the deceased client's estate informing them of the establishment of the debt. This letter, and the existence of the usually small debt, are upsetting to the family and create a negative impression of MSD.

Finding 14: The matter of writing-off debts is under review. There is a case for writing-off the small debts arising from death or for a change in policy so that these many small IODs do not arise.

CONCLUSION

The likely reasons for new IOD establishment are listed and pie charted below with the approximate proportions of IOD associated with each. It should be emphasised that these proportions are approximate and some reflect estimates rather than concrete findings:

<u>Reason</u>	<u>approx %</u>
Employment (including 25% late income notifications and 10% annual income charging (estimated))	47
Benefit transfer etc	14
Backdated reviews	11
Death	6
Changed circumstances	5
Client mobility (AS)	3
Client gone overseas	2
Other: including	
Client in prison (<1%)	
Variable income charging (unquantifiable)	
Regional/seasonal factors (unquantifiable)	
Mechanics of SWIFTT IOD (unquantifiable)	
Not writing off IOD	
Errors (unquantifiable)	12



The proportion of new IOD associated with employment is unexpectedly high at approximately 47%, comprising 12% from employment, another 25% from late income notifications associated with part-time work, and 10% associated with annual income charging. This unexpectedly high proportion is of concern as MSD policy emphasises placement of clients in work which, this paper suggests, may itself increase the likelihood of IOD establishment.

Analysis by number of days overpaid indicates that approximately 28% of new IOD comprises small debts of up to two weeks benefit overpaid. Approximately 22% of new IOD comprises large debts of at least 26 weeks overpaid. Hence small and large debts together make up about 50% of new IOD by value.

There is a marked seasonal pattern in new IOD establishment throughout the country in which the highest values of new IOD are established in February and especially March in virtually all regions. Surprisingly, the lowest values of new IOD in virtually all regions are established in April. In other words, across the country there is a large drop in the value of new IOD created from March to April. This pattern can probably be explained by seasonal work in the late summer and students starting the academic year in February or March. Contrary to expectations, there does not appear to be a significant regional pattern.

It is likely that 6% of total new IOD by value is associated with death of a client. However, 46% by number of debts of New Zealand Superannuation new IOD represents up to seven days overpayment. It is assumed that most of these debts are likely to be associated with the death of a client. These 15,797 small debts have an aggregate value of \$484,473, and an average value of \$31. These small debts are often written-off in a labour-intensive process as the client has no estate. Further, these debts may cause antagonism towards MSD within the family of the deceased client. There is a case for writing-off the small debts arising from death, or payment of the benefit for the full period during which the death occurred.

Areas for future work

SWIFTT has a great deal of churn in which high volumes of IOD are established and offset on the same day, and in which high volumes are transferred out of SWIFTT and back again daily. Because of the complexities of SWIFTT the analyses in this paper are reasonably superficial, and it would probably not be fruitful to use SWIFTT to attempt further, or more detailed, analysis.

This paper has highlighted several areas in which detailed data is not available because of the limitations of the SWIFTT system. These will be the subject of future work, and will determine:

- the exact value of IOD per client, a more accurate statistic than average IOD which is used in this paper, or debtor days, which were not used due to time constraints. As this is not easily achieved from SWIFTT data, survey methods may be required. Further work may also involve replicating some of the analyses in this paper using “debtor days” rather than “numbers of debts”
- the total number of clients receiving each type of benefit in a period being studied. This will enable analysis of whether IOD is established at a higher rate for any benefit type
- the similar circumstances that lead to IOD establishment. Survey methods may be required as this information cannot be accurately determined from SWIFTT
- the proportion of new IOD associated with clients being employed, whether part-time or full-time, temporary or permanent
- whether each new IOD arose through client or staff error. This would enable more accurate targeting of interventions to prevent IOD establishment. This information would require a survey of clients
- the proportion of new IOD established in association with annual income charging, and
- the number and value of IOD related to benefit payments pending the outcome of a claim to ACC.

Possible System Enhancement Arising

It seems that when a client transfers to another benefit, the second tier or supplementary benefits may not be adjusted for the change of circumstances that has led to the cancellation or transfer. If the supplementary benefit is not adjusted, overpayments may result. Anecdotal evidence suggests that when this happens the overpayment may not be discovered for some time, during which time a large IOD may accumulate.

An example of this phenomenon is when a child leaves the care of a client. The client may transfer from the DPB to the Unemployment Benefit, but any supplementary benefits such as Orphans/Unsupported Child Benefit and Child Disability Allowance may not be adjusted accordingly. The average value of new IODs for Unsupported Child Benefit is \$189 (1,214 debts), and for Orphans Benefit \$913 (71 debts). The overall average value of new IODs is \$91.

A system flag that, at the time of a benefit transfer, reminds MSD staff of the existence of a supplementary benefit may help prevent large IODs accumulating for clients with supplementary benefits.

Appendix: Relevant background information

Some IOD, both new and recycled, is inevitable owing to the complex mechanics of SWIFTT.

The cost of establishing a debt in SWIFTT automatically as a result of an overpayment (79% of IODs) is negligible. The cost of establishing debt through user data entry (21% of IODs) is virtually limited to the staff time involved.

As shown in Table 7 below, the benefits associated with the most new IOD (which excludes transfers from other benefits and from non-current debt) were:

- Unemployment Benefit,
- DPB sole parent,
- Sickness Benefit and Invalids Benefit, for which IODs may arise from a spouse's variable income, or where a benefit has been granted pending the outcome of consideration of a claim to ACC, and
- New Zealand Superannuation (not shown in table), for which IOD establishment is probably due to death of the client or periods spent overseas.

Unfortunately the nature of SWIFTT is such that it does not enable calculating the number of clients receiving each type of benefit during a period. This would be useful in analysing whether any benefit types are over-represented in IOD establishment.

Table 7: SWIFTT new IOD: major working-age benefit type: value of debt (\$m). Benefits listed in descending order of total new debt value.

Benefit Type	Number of debts	Value of debt (\$m)	Approximate average value of debts* (\$)
Unemployment Benefit	391,790	\$29.5	\$83
DPB Sole Parent	150,742	\$16.1	\$113
Sickness Benefit	72,105	\$7.4	\$110
Invalid's Benefit	58,878	\$6.0	\$106
Non Beneficiary	61,174	\$3.7	\$68
Widow's benefit	8,527	\$1.5	\$173
Emergency Benefit	12,666	\$1.4	\$115
Unemployment Student Hardship	15,691	\$1.3	\$87
Other	39,224	\$3.9	
Total	844,782	\$76.7	

* clients often, perhaps usually, have more than one debt per person, which limits the usefulness of this statistic.

Debt repayment is not a focus of this paper, but some aspects of repayment are relevant. Benefit debt is interest-free and penalty-free. The only consequence of unpaid benefit debt is a letter from MSD. Therefore, clients with debt have incentives to repay any other debts before benefit debt. Other debts may include other Crown debt such as Student Loans, Child Support, court orders, traffic fines and tax arrears, and private debt such as credit cards, hire purchase, small loans, rent or mortgage arrears, bills arrears.

Current debt is owed by clients currently receiving a benefit while non-current debt is owed by clients not currently on benefit:

- 84% of non-current debt is collected or being repaid within four months of age,

- 90% of non-current debt is collected or being repaid within twelve months of age, and
- 96% of current debt is being repaid by way of offsets from a current benefit.

After advances are repaid, any repayments are directed towards the client's oldest outstanding debt. Clients sometimes stop their debt repayment automatic payments between Christmas and February to allow them extra spending for Christmas, holidays and 'back to school'.