



Cabinet Social Development Committee

SDC (02) 75

5 December 2002

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Title	Future Directions for Social Assistance Paper One – The Case for Change
Purpose	The paper sets out the problems with social assistance and presents the case for reform of the system to improve incentives for take up and retention of suitable employment, and to help families achieve an adequate income.
Previous Consideration	In June 2001 the Cabinet Social Equity Committee directed officials to report to the Minister of Social Services and Employment by the end of June 2002 on policy options for fundamental reform of the social assistance system in the medium term (including approaches to benefit simplification, reform of family income assistance, and further making work pay measures [SEQ Min (01) 12/2].
Summary	<p>Benefits currently support around 157,000 families or 26% of all children and 16.5% of the total working age population. Benefits and family income assistance cost around \$7.1 billion.</p> <p>Changes to the social assistance system over the past thirty years have not adequately reflected the changes in the economy, labour markets and family composition. Key problems in the system are:</p> <ul style="list-style-type: none">• Financial disincentives for parents to increase participation in paid work;• Income inadequacy;• Barriers to work;• People do not access all of the assistance to which they are entitled;• Need for more case management oriented towards paid employment;• An unexplained growth in disability benefits and a need for better responses. <p>The accompanying paper under SDC (02) 76 seeks agreement to undertake policy development work on reform of family income assistance.</p>
Baseline Implications	No direct financial implications from this paper.

Legislative Implications	No direct legislative implications from this paper.
Timing Issues	None indicated
Announcement	None indicated
Consultation	<p>The Minister indicates that portfolio Ministers have been consulted and that consultation with government caucuses and other parliamentary parties is not required.</p> <p>The Social Assistance Reform Senior Officials Group (SARSOG) consulted, representing Education, Health, PIA, TPK, Women's Affairs, Youth Affairs, DoL, IRD, DPMC, HNZC, Treasury, Office of Disability Issues.</p>

The Minister of Social Services and Employment recommends that the Committee:

Background

- 1 note that Cabinet directed officials to report to the Minister of Social Services and Employment by the end of June 2002 with policy options for the fundamental reform of the social assistance system in the medium term, including benefit simplification, reform of family income assistance, and further making work pay measures [CAB Min (01) 20/7 refers];
- 2 note the Speech from the Throne established the Government's focus for social assistance over the next three years is better supporting families and children, simplifying the social assistance system, and improving opportunities to move into paid employment;

Key problems

- 3 note that the social assistance system is in need of reform, due to six key problems:
 - 3.1 for many families, work does not pay;
 - 3.2 for some families, total income (including social assistance) is too low to cover the costs of an adequate standard of living;
 - 3.3 there are barriers to work, including access to and costs of childcare and transport, that the system does not adequately address;
 - 3.4 people do not access all of the assistance to which they are entitled;
 - 3.5 complexity of the benefit system means not enough case management time can be spent helping people into sustainable employment; and

- 3.6 there is a significant and unexplained growth in the number of people accessing disability benefits, and a need for better social assistance responses to help people increase their employment and community participation;

Context

- 4 note in the last twenty years, expenditure on benefits and the proportion of the working age population receiving a benefit have risen significantly, and benefits and the family income assistance system currently costs around \$7.1 billion;
- 5 note that Maori and Pacific peoples are over-represented among people receiving benefit and in unemployment rates, and it is critical that future social assistance arrangements are effective for Maori and Pacific peoples, and policy works to strengthen and develop whanau, extended family and community relationships;
- 6 note that people with disabilities and their families are also particularly affected by the problems with the social assistance system and over 100,000 people are currently on an Invalids or Sickness Benefit;

Financial disincentives

- 7 note that the current system creates a poverty trap for many families as both couples and sole parents can be better off staying on benefit than working full-time;
- 8 note that work does not pay because of a combination of poor financial incentives for full-time work, low market wages and a complex interaction of current income thresholds, benefit rates, abatement rates, tax, and entitlement rules;

Income inadequacy

- 9 note that there is evidence that some families have a total income (including social assistance) too low to cover an adequate standard of living; among other problems, this impacts on people's ability to move towards sustainable employment and become self-supporting;
- 10 note that the results of the New Zealand Living Standards Survey 2000 show that 20% of the population had restricted living standards and families with dependent children are more seriously affected by poor living standards than other groups;
- 11 note a key contributing factor to income inadequacy is the non-indexation of some components of family income assistance which have led to a decline in real value;

Barriers to work

- 12 note that for some beneficiaries, barriers such as access to and costs of childcare, transport, personal circumstances, disability, or health problems are major barriers to taking up or remaining in sustainable employment, and can diminish or eliminate the financial incentives from paid employment;

People do not access all of the assistance to which they are entitled

- 13 note that many people who are in employment are not accessing all the in-work assistance to which they are entitled, contributing to hardship and real or perceived disincentives to take up employment;
- 14 note that the division of responsibility between two distinct systems for delivering social assistance, and families' fear of debt contribute to difficulties accessing in-work assistance;
- 15 note that both the benefit and IRD family assistance system establish significant amounts of debt and can reduce work incentives and create hardship;

Need for more case management orientated towards employment

- 16 note that the current complexity of the social system, including family income assistance, means that 70% of Work and Income case managers' time is taken up with income support, and only 30% is available for active case management to help clients move into sustainable employment;
- 17 note that there is a need to invest in enhanced case management to ensure case managers have the time, the tools and the flexibility (such as lower case loads, more needs-based assessment, improved information technology, and more experienced specialist case managers for particular groups) to work with people and help them move into sustainable employment, or other wise actively participate in their community;

Unexplained growth in disability benefits and a need for better responses

- 18 note that the proportion of working age people receiving disability-related benefits has been increasing steadily since 1992, over half this growth is unexplained and research is needed to inform evidence-based policy on how social assistance can better support people to increase their employment and community participation;
- 19 note that research is needed on the causes of increased growth in disability benefits, to develop evidence-based policy on how the social assistance system can better support people with disabilities to increase their employment and community participation;
- 20 note that the Minister of Social Services and Employment indicates that consultation with ~~government caucuses and other parliamentary parties is not required.~~

Barbara Lewis
for Secretary of the Cabinet

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Copies to:

Cabinet Social Development Committee
Chief Executive, Department of the Prime Minister and Cabinet
Heather McCauley, DPMC
Secretary to the Treasury
Commissioner of Inland Revenue
Chief Executive, Ministry of Social Development
Secretary of Labour (Employment Policy)
Director-General of Health
Chief Executive, Ministry of Education
State Services Commissioner
Chief Executive, Te Puni Kokiri
Chief Executive, Housing New Zealand Corporation
Chief Executive, Ministry of Pacific Island Affairs
Chief Executive, Ministry of Women's Affairs
Chief Executive, Ministry of Social Development (Disability Issues)
Chief Executive, Ministry of Youth Affairs



Office of Hon Steve Maharey, M.P. for Palmerston North
Minister of Social Services and Employment
Associate Minister of Education (Tertiary Education)
Minister responsible for Community and Voluntary Sector

Hilary Troup
Secretary
Cabinet Social Development Committee

CABINET PAPERS: THE CASE FOR CHANGE AND REFORM OF SOCIAL ASSISTANCE TO FAMILIES

I attach two papers for the Committee agenda for Wednesday 4 December 2002:

- *Future Directions for Social Assistance: The Case for Change* which presents the case for reform of social assistance to families; and
- *Future Directions for Social Assistance: Reform of Social Assistance to Families* which seeks Cabinet's agreement to undertake further policy development in 2003.

Each paper exceeds the 10 page Cabinet Office limit because it addresses the major reform of Families Income Assistance. This is the first time that Cabinet has discussed reform of Family Income Assistance since 20 June 2001, and it is important that Ministers have a detailed description of the current system, the problems with it and the policy decisions needing to be taken.

Steve Maharey
MINISTER OF SOCIAL SERVICES AND EMPLOYMENT

Cabinet Social Development Committee

FUTURE DIRECTIONS FOR SOCIAL ASSISTANCE

PAPER ONE – THE CASE FOR CHANGE

Proposal

1. This paper argues the case for reform of social assistance to strengthen incentives for people to enter and remain in employment, and to assist them to maintain an adequate income. The paper focuses on key problems with social assistance¹ for working age New Zealanders, particularly families and whanau with dependent children². A companion paper seeks Cabinet agreement to further policy development towards the major reform of social assistance to families.

Executive Summary

2. An effective social assistance system is essential for the Government's objectives of increasing economic growth and sustainable employment. Within the social assistance system, benefits currently support around 157,000 families or 26% of all children and 16.5% of the total working age population. Expenditure on social assistance made up 7.6% of GDP for the year ending June 2001³.
3. The key problems with the social assistance system are:
 - **Financial disincentives.** Taking up paid employment, or increasing hours of employment can leave families financially worse off than on benefit, due to the interaction of low wages, abatement of entitlements, tax, and entitlement rules. (paras 23-28)
 - **Income inadequacy.** The total income for many families is too low to cover an adequate standard of living; among other problems, this impacts on people's ability to move towards sustainable employment and become self-supporting. (paras 29-36)
 - **Barriers to work.** The social assistance system is not doing enough to help people overcome barriers such as childcare, transport, and health problems. (paras 37-44)
 - **People do not access all of the assistance to which they are entitled.** Some families do not take up family income assistance; delivery through two distinct systems (benefit and tax) and people's fear of getting into debt contribute to this. (paras 45-57)
 - **Need for more case management oriented toward paid employment.** Complexity means 70% of case manager time is spent administering benefits, and not enough time can be spent helping people to move into sustainable employment. (paras 58-62)
 - **Unexplained growth in disability benefits and a need for better responses.** The number of people receiving disability-related benefits has grown significantly in

¹ The social assistance system is defined in this paper to include payments delivered by MSD and IRD including income support, family income assistance, accommodation assistance and childcare subsidy.

² The paper does not consider issues relating to retirement income or New Zealand Superannuation.

³ Includes family income assistance or tax credits but excludes New Zealand Superannuation.

recent years; over half this growth is unexplained and research is needed to develop evidence-based policy on better social assistance responses. (paras 63-69)

4. The paper takes a social investment approach to problems with social assistance:
 - Families with dependent children are the focus, given robust evidence that the negative effects of poverty on children (particularly younger children) intensify the longer the family is poor. There is a critical need to invest in families with dependent children, to support positive outcomes now and in the future.
 - Government must ensure that future social assistance arrangements are effective for Maori and Pacific people. The current system is not working well for Maori and Pacific people, who are over-represented in the benefit numbers and make up a significant proportion of benefit recipients.⁴ Policy must strengthen and develop whanau, extended family, and community relationships.
 - People with disabilities and their families are also particularly affected by the problems set out in this paper, and will be the focus of research and policy development on disability-related social assistance.
5. If the social assistance system is to provide the opportunities for New Zealand to best utilise the talents and abilities of its people, both now and in future generations, the system needs significant change to improve incentives to take-up and retain sustainable employment, and help families achieve an adequate income.

Background

6. Cabinet directed officials to report to the Minister of Social Services and Employment by the end of June 2002 with policy options for the fundamental reform of the social assistance system in the medium term, including benefit simplification, reform of family income assistance, and further making work pay measures [CAB Min (01) 20/7 refers].
7. The Speech from the Throne established that the Government's focus for social assistance over the next three years is better supporting families and children, simplifying the social assistance system, and improving opportunities to move into paid employment. The Government intends to move towards annual reviews of Family Support and Family Tax Credit rates and thresholds.
8. Priority will also be given to increasing the maximum number of subsidised childcare hours to support parents moving into employment; and the introduction of an "abatement free zone" for people receiving income support and accommodation supplement. Such changes would be supported by better case management and employment programmes to help people to gain skills.

Comment

Context: Changing needs with a changing society

9. The framework of the social assistance system was designed in the 1930s to protect working age New Zealanders against hardship by providing income assistance through

⁴ The Employment Strategy Goal 5 is "improved participation in employment for Maori and Pacific people".

welfare benefits for people in circumstances such as "illness, unemployment, widowhood or other misfortune". During the 1950s and 1960s the system performed relatively well against a background of 'full employment', lower numbers of retired people and children largely cared for in two-parent families. However, in the past thirty years there have been significant changes in the economy, labour markets and family composition. Despite some significant welfare reforms, the social assistance system has not fully adapted to these changes.

A changing labour market

10. New Zealand now has a more open economy compared with the past, and our economic success is linked to our ability to trade successfully in the world. The opening up of the economy has meant that at a macro level:
 - the labour market is more influenced by changes in external trade and international labour markets; and
 - income inequality between individuals has risen, as the returns for higher income earners have increased relative to lower income earners⁵.
11. New Zealand now has its lowest unemployment rate in fourteen years. Over the past three years of substantial employment growth, most growth has been in full-time positions. More women are now in paid employment (both part-time and full-time) and older workers are remaining in the workforce longer. In the tight labour market, the demand for skills has changed in line with advances in technology, and reports of skills shortages are common. Low-skilled jobs pay relatively less than in the past. It is critical that measures are taken to increase the effective labour supply, such as moving people from benefit into sustainable employment.
12. For many individuals, the world of work has significantly changed. This reflects labour force arrangements where non-standard employment has become more prevalent (part-time, seasonal, temporary or casual)⁶ and part-time employment has increased. Many more people work non-standard hours and are likely to change career paths several times during their working life. For those with low levels of skills, or skills not highly valued in the market, jobs that are available are often precarious (for example casual, short-term or with poor working conditions).⁷ Precarious employment may be one factor contributing to a cycle of 'churning' on and off benefit. This is illustrated by the following facts.
 - Permanent full-time employment now makes up around 40% of total employment⁸.
 - Of all people on a benefit, 45% exit into employment each year. Only 46% of those people will remain off a benefit after 12 months⁹. Nationally around 30% of people who exit benefit return to benefit within 3 months; 11% return within 3-6 months; and 13% within 6-12 months. Multiple spells of unemployment are

⁵ *Distribution and Disparity New Zealand Household Incomes*, Mary Mowbray, MSP, July 2001.

⁶ *Workforce 2010*, Department of Labour, March 2001 (p 27).

⁷ Pacific peoples, and Pacific women particularly, are over-represented in non-standard, and precarious employment. Pacific peoples are over-represented in the lower skilled manual occupations, those earning near the minimum wage, and multiple job-tasking (holding a number of jobs at one time).

⁸ Department of Labour, "*Workforce 2010*", March 2001.

⁹ Gilbert G, (2002). "*Departures from Benefit into Definite Work*". MSD.

common. Most registered job seekers entering employment will return to a benefit within the following four years, generally within 18 months¹⁰.

Changes in family structure

13. Family composition has changed dramatically over the past thirty years, and contemporary patterns of social assistance uptake reflect this change. Table 1 below presents key changes in family type over time.

Table 1: Changes in family type among families with dependent children

	1975	2001
Two parents	89.6%	70.8%
One parent (mother)	8.8%	24.4%
One parent (father)	1.6%	4.8%

14. The most significant changes in family characteristics over the last thirty years are:
- Family structures change more often, with more families needing to deal with the stresses and issues associated with family break-up, and split custodial arrangements for children.
 - The proportion of sole parent families has increased significantly, relative to two parent families. Evidence in New Zealand and overseas suggests that sole parent families are more likely to have lower income and/or live in poverty.
 - Many more women with children are in paid employment, which often means that children are cared for by childcare services, or extended family members.
 - The demands on some families to provide continuing care, support and financial assistance have increased. Young people are spending longer in education, while older people are living longer, and use of institutional care in the health and disability sectors has reduced.
 - There is increased understanding of the need to recognise and support whanau and extended family structures in caring for family members.

Characteristics of people dependent on social assistance

15. In the twenty years from 1980 to 2000 expenditure on benefits and the proportion of the working age population receiving a benefit have risen significantly. Currently,
- 26% of children are supported by a benefit;
 - 16.5% of the working age population receive a benefit; and
 - benefits and the family income assistance system cost around \$7.1 billion.
16. For children, contact with the benefit system is now a common, rather than an exceptional event. MSD research has found that more than half of all children born in 1993 had been in a family dependent on a benefit at some stage by the time they reached age seven¹¹. The growth in the number of children living in families reliant on benefit income has contributed to a growth in the number of children living in

¹⁰ Gobbi, M & Rea, D. (2002).

¹¹ Ball and Wilson (2002). The prevalence and persistence of low income among New Zealand children: Indicative measures from benefit dynamics data. *Social Policy Journal of New Zealand* (18).

poverty¹². Using a poverty threshold of 60% of real median disposable income after adjusting for housing costs, in 1988 14.6% of children were living below the poverty threshold¹³. By 2001 this proportion had increased to 29.1%. Children living in poverty are much more likely to be dependent on government transfers. For example, in 1988 30.7% of children living below a poverty threshold were dependent on government transfers, while in 2001 this proportion had increased to 50.3%.

17. There is robust evidence that the effects of poverty on children (particularly younger children) intensify the longer the family is poor. A comprehensive review of the international research evidence¹⁴ has found that persistent low incomes are most damaging for children's outcomes, including cognitive development. This is significant for New Zealand, where one in five children born in 1993 had been in a family dependent on benefit for *more than five years* by age seven¹⁵. High numbers of children experience hardship, and these children will play a major part in New Zealand's future society and economy. There is a critical need to invest in families with children, to support positive outcomes in the short term and in the future.
18. In June 2002, 59% of the 398,496 working age people receiving a benefit were women.
19. Maori are over-represented in the population of people receiving benefit, and 29% of working age people receiving a benefit are of Maori ethnicity¹⁶. Maori over-representation on benefit receipt is a significant issue for the future, as the Maori population is growing at a faster rate than the non-Maori population, and is much younger. Children aged under 18 years make up 45% of the Maori population, compared with 28% of the total population.¹⁷ The Pacific population is also over-represented in benefit receipt numbers. The population of Pacific people, and particularly children, is increasing at a greater rate than the general population.¹⁸
20. Unemployment rates amongst Maori and Pacific peoples are significantly higher than for other New Zealanders. The unemployment rate for Maori is 12.0%, for Pacific people 9.3%, and 8.5% for those in the "other" ethnic category (comprising predominantly people of Chinese and Indian ethnicity), compared to 3.8% for Europeans/Pakcha, as at September 2002.¹⁹ It is critical that future social assistance

¹² Research by MSD shows that the other major drivers in the changes in poverty rates over this period were changes in the real value of cash transfers to low income families and housing costs.

¹³ Children living in families receiving less than 60% of 1998 real median disposable equivalised income after adjusting for housing costs (or below 60% HEDY). The constant value 60% HEDY measure reflects the significance of housing costs as a factor affecting living standards, and is used fairly commonly for poverty measurement in New Zealand by both government and non-government agencies

¹⁴ See Kameron et al (2002) *Social Policy Aspects of Child Development: A Literature Survey Annex: Social Policies, Family Types and Child Outcomes in Selected OECD Countries* OECD, Paris and Mayer S. (2002). *The Explanatory Power of Parental Income on Children's Outcomes*, Report to the Ministry of Social Development, Wellington.

¹⁵ Ball and Wilson (2002). The prevalence and persistence of low income among New Zealand children: Indicative measures from benefit dynamics data. *Social Policy Journal of New Zealand* (18).

¹⁶ SWITTT data.

¹⁷ Ministry of Social Development, *Social and Environmental Scan*, June 1999, p.1.

¹⁸ See the *Pacific Progress Report 2002: a report on the economic status of Pacific peoples in New Zealand*, Statistics New Zealand. 33% of Pacific children live in families with four or more dependent children (the most common family size for Pacific children) compared with 16% of the national population.

¹⁹ Statistics New Zealand, Household Labour Force Survey.

arrangements are effective for Maori, and also Pacific peoples. Policy must strengthen and develop whanau, extended family, and community relationships.

21. People with disabilities and their families are also particularly affected by the problems with the social assistance system set out in this paper. The 2001 Disability Survey showed 1 in 5 New Zealanders, or a total of 743,800 people have some level of disability, and approximately 1 in 7 of these people have severe disabilities. Over 100,000 people are currently receiving an Invalids or Sickness Benefit. Disability increases with age and is a particular issue for New Zealand's ageing population. Research is needed on the causes of increased growth in the number of recipients of disability benefits, to develop evidence-based policy on how the social assistance system can better support people with disabilities to increase their employment and community participation.

Problems with the Social Assistance System

22. The social assistance system is in need of reform, because it does not fit the needs of New Zealanders and this country's economy and society. The six major problems are:
 1. For many families, work does not pay enough.
 2. For some families, total income (including social assistance) is too low to cover the costs of an adequate standard of living.
 3. There are barriers to work, including access to and costs of childcare and transport, that the system does not adequately address.
 4. Some families do not access all of the assistance to which they are entitled.
 5. Not enough case management time is spent helping people into sustainable employment.
 6. There is a significant and unexplained growth in the number of people accessing disability benefits, and a need to develop better social assistance responses.

I. Poor financial incentives to work

"It's a shame that the accommodation allowance gets hit as soon as you start to earn. If you add to that the secondary tax they pay, they are sometimes working for \$10 a week and they have to take transport out of that too." Work and Income Case Manager²⁰

23. For many families, work does not pay enough. There are poor financial incentives in the current social assistance system for people to take up full-time employment or increase their hours of paid employment, due to the complex interaction of income thresholds, benefit rates, abatement rates, tax, and entitlement rules. Many factors encourage people into work, including beliefs about the value of work, childcare assistance, active case management, and family friendly work arrangements. However, financial incentives are crucial. People are more likely to take up employment or increase their hours of work if there is a reasonable financial return from doing so. Preliminary research by the Ministry of Social Development suggests

²⁰ Source: "The impact of dual abatement and mandatory interview legislation on DPB customers".

that a household member gaining full-time employment is the event most likely to trigger a household's exit from poverty in New Zealand²¹.

24. Approximately 107,000 families on a benefit do not participate in paid employment.²²

The remaining 50,000 families on a benefit have at least one adult in part-time employment. Of those families with a parent working part-time; 25% earn less than \$80 per week; about 25% earn between \$81 and \$180 per week; and the remaining 50% earn over \$181 per week.²³ Families not in employment may face poor financial incentives to leave benefit for employment. Families in part-time employment are also affected by financial disincentives to increase their hours of employment.

25. The current system leads to a poverty trap²⁴, particularly for beneficiaries moving into low-income employment. Couples are better off financially staying on a benefit and working part-time (within the 'abatement-free zone'), unless they can move into a full-time job paying significantly above the minimum wage (i.e. close to the average wage). A sole parent is generally better off staying on a benefit while working part-time, rather than working more hours. People with disabilities or high health costs may choose to limit the amount they work rather than lose entitlement to a Community Services Card by going over the income threshold.

26. The factors contributing to disincentives for full-time employment are different from those for part-time employment, and also vary across different benefit types, due to different payment rates, abatement regimes, tax, and eligibility rules. For example:

- a. For people making decisions about *full-time employment*, significant factors are:
 - *the sudden loss of Accommodation Supplement* that can occur when a person moves off benefit into work;
 - *low market wages*, which means that parents can be working full-time and be earning very little more than they would receive from a benefit;
 - *couples no longer being eligible for an abated Unemployment Benefit or Sickness Benefit once the primary beneficiary is working 30 hours a week or more ('the 30 hour rule').*²⁵ Assessment of the couple as a unit rather than as individuals contributes to this problem.
 - *the amount of Family Tax Credit and Child Tax Credit are not adequate* for people leaving benefit for work, unless they can earn high wages.
 - *Family Tax Credit is ineffective as a work incentive for sole parents*, who are better off in most cases staying on a benefit while working part-time, except where large amounts of child support are being paid by a non-resident parent.

²¹ Ballantyne S., Chapple C., Maré D. and Timmins, J. (forthcoming) Child and adult poverty transitions in New Zealand, Social Policy Journal of New Zealand, Ministry of Social Development, Wellington.

²² Data sourced from MSD Information Analysis Platform, produced by IAG, 26 April 2002.

²³ Ibid.

²⁴ A poverty trap is defined as a disincentive to work extra hours in the face of high effective marginal rate of tax caused largely by the withdrawal of benefits as incomes rise.

²⁵ Where the partner of the primary beneficiary works for 30 hours or more on a low income, the couple are still able to receive an abated benefit.

- b. For people making decisions about *part-time employment*, the interaction of tax rates and the abatement of benefit and Accommodation Supplement are particularly significant.
27. Appendix 2 provides more detail of the financial returns from employment for different family types earning different hourly wages.
28. Evidence indicates that programmes which provide financial incentives to work, such as the Working Tax Credit in the UK and the Earned Income Tax Credit in the US, have been successful in increasing employment levels²⁶.

2. *Income inadequacy*

"When I took my girl to the doctor the prescription was going to cost \$3. She can't have it until tomorrow 'cos I don't have \$3." Wendy²⁷

29. For some families, the total income they can access (including social assistance) is too low to cover the costs of an adequate standard of living and meet their basic everyday needs. A key contributing factor is the non-indexation of some components of family income assistance. Recent poverty measurements indicate that up to 23 percent of the population are in poverty and that approximately 9 percent of the population experience more severe poverty.²⁸ Children are more likely to be poor than the total population and up to 29 percent of children are in poverty.
30. People need an adequate income in order to move towards being self-supporting. Income adequacy is particularly important for families with dependent children, to ensure the wellbeing and positive development of the children. However, people also require an adequate income before they can make steps to move into sustainable employment. For example, people need a home telephone to be readily contacted by prospective employers, and sufficient resources to gain and maintain employment.

Poverty measurements

31. This paper uses two different measures to report on poverty, based on the recommendations in the Ministry of Social Development's poverty measurement paper (also due to be considered by Social Development Committee on 11 December). The Living Standards Survey focuses on the standard of living achieved as the result not only of current income, but also as the result of income in the past, stability of relationships and employment, savings history, and special demands on expenditure (e.g. disability). Other measurements are income based, focussing on present day income as a significant input to standard of living. Appendix 1 presents a discussion of the issues associated with poverty measurements.

New Zealand Living Standards Survey

32. The Ministry of Social Development's 2000 New Zealand Living Standards survey (released in November 2002) shows that in 2000:

²⁶ Cited in MSD (Smithies) 2002.

²⁷ Ibid.

²⁸ See para 32, MSD 2000 New Zealand Living Standards Survey.

- 20% of the population had restricted living standards;
 - children are more likely to have restricted living standards than older people (29% of children compared with 7% of people over 65); and
 - there is a higher than average likelihood of having restricted living standards for:
 - sole parent families with dependent children (53%)
 - people in receipt of any income-tested benefit (57%)
 - people of all ages who identify as Maori (39%) or Pacific peoples (42%).
33. When household types are compared, there was a higher likelihood of having restricted living standards for sole parent families (53%) and two parent families (19%) than for single people living alone (18%) and couples without children (9%). Children living in families with restricted living standards are likely to have had to limit participation in school outings (74%) and sport (88%). Visits to the doctor are postponed due to cost (44%), and books and supplies are not able to be bought for use at school (56%).

Income-based poverty measures

34. Income-based measures of poverty include the most commonly used ranges, from a threshold of least severe poverty to a threshold of most severe poverty.²⁹ In the year to June 2001, 23 percent of the total population were below the least severe commonly used income poverty threshold. Nine percent of the population were below the most severe commonly used income poverty threshold and experienced even more severe poverty. Income-based measures reinforce the results of the Living Standards survey and show particularly high rates of poverty among:

- adults and children living in sole parent families;
- people in families containing at least one adult who identifies as Maori, Pacific or 'other' ethnic group;
- individuals reliant on income-tested benefits for the whole year;
- people living in rented accommodation; and
- those with no or few qualifications.

Non-indexation of assistance

35. The non-indexation of components of family income assistance is a key contributing factor to low living standards. Non-indexation has led to a fall in the real value of assistance for families, particularly since 1986, as costs of living have increased.

- *Family Support is not indexed.* The real value of payments has declined by at least 5.5%, since rates were last adjusted in 1998.
- *Family Tax Credit and Child Tax Credit are not indexed.* Their real value has also declined since rates were last adjusted in 1997.
- *Income thresholds are not indexed to keep up with wage growth.* Thresholds have not been adjusted since 1994. As earnings rise, low income workers face a

²⁹ The constant value income based measures of poverty are based on 1998 median annual income fixed in real terms (i.e. adjusted for inflation). The least severe measure is 60% of 1998 median annual income, after taking into account the cost of housing. The most severe measure is 50% of 1998 median annual income, before taking into account the cost of housing.

potential overall reduction, because they lose Family Support at relatively low levels of income.

- *Maxima*³⁰ for some second and third tier hardship benefits are not indexed, specifically Accommodation Supplement, Special Needs Grants, advances and non-recoverable assistance.

Hardship Assistance

36. Hardship assistance³¹ provides income support to people who have no other resources to call upon, to meet a basic need that their income cannot meet. Declines in the real value of family assistance due to non-indexation have been a significant driver in the increased use of hardship assistance by families in recent years to provide for basic needs. Families with children are over-represented in the use of hardship assistance; they receive 61% of hardship assistance grants, but make only up 42% of working age beneficiaries.

3. *Barriers to work*

"Someone who's got travel and childcare costs can end up working and getting an extra \$10...And I still find that's a constant comment that customers are making, they don't think the incentive is that great." Provincial Work and Income Case Manager

37. For some beneficiaries, there may be major barriers to taking up or remaining in sustainable employment. Barriers are specific to the individual, but often include factors such as access to or costs of childcare, and transportation, or personal circumstances, including disability, or health problems. These barriers can diminish or eliminate the financial incentives from paid employment.
38. People not in the labour market may experience other barriers to work. For instance problems with health, drugs or alcohol, motivation, or confidence are common. Success in addressing these barriers depend on the circumstances of the individual, and the effectiveness of the case management, intervention and support that they receive. Many barriers also require a greater level of accommodation by employers. For some people, barriers to employment can be so significant that no amount of financial assistance will enable the individual to move into and retain unsupported sustainable employment.
39. Access to affordable childcare is one of the most significant barriers to employment for families, particularly those with pre-school age children. It is also a barrier for parents wishing to undertake education or training. Childcare subsidy is not paid with respect to family or informal care (care not provided by a service provider), and does not provide coverage for the hours of care needed by children of full-time workers.
40. In New Zealand, a comprehensive 1998 study³² showed that problems accessing child care were a barrier to participation in employment for 15% of parents, and that this barrier was more prevalent among sole parents (30%), parents earning \$20,000 or less (23%) and parents working part-time (25%). International research has shown access

³⁰ Maximum payment levels.

³¹ Special Benefit, Special Needs Grants, and Benefit Advances (Working and Non-Working).

³² *Childcare, Families and Work* (1999), The New Zealand Childcare Survey 1998, Department of Labour.

to affordable, quality childcare is a key factor affecting women's and families' workforce participation decisions³¹.

41. Parents often have difficulty accessing appropriate childcare services, due to a shortage of quality places, and lack of services to cover long working days and non-standard hours. There is also a risk that childcare costs may rise due to recent government changes. The Strategic Plan for Early Childhood Education will introduce mandatory teacher registration and a review of regulations and funding in the sector. Cabinet has also agreed to phase in pay parity for kindergarten teachers. These changes are likely to increase operational costs for education and care centres, and it is unclear to what degree costs will be passed on to parents.³⁴
42. Problems accessing transport are also a barrier to entering employment and education. Numerous international studies report that transport is a problem for all beneficiary types. In New Zealand, 77% of a sample of the long term unemployed had limited mobility (e.g. lack of a vehicle) and cited transport as a barrier to take up work, although this varied according to location and type of job³⁵. Transport can be a particularly significant barrier for people with disabilities.
43. Table 3 below shows that the low financial returns from working for a sole parent and a two parent family with two children are further reduced by the costs associated with working. In particular, the cost of childcare substantially reduces the return.

Table 3: Income change for people on benefit who work, taking costs into account³⁶

Net gain/loss from working part-time (20 hrs a week) and full-time (40 hrs a week) at \$8 per hour

August 2002	Sole parent with 2 children		Two parent family with 2 children	
	Part-time work	Full-time work	Part-time work	Full-time work
Net financial return from work	\$72.85	\$98.57	\$41.75	\$37.47
Childcare costs net of subsidy	\$28.25	\$70.61	-	-
Transport costs	\$12.00	\$20.00	\$12.00	\$20.00
Total return from work per week	\$32.60	\$7.96	\$29.75	\$17.47
<i>Net return per hour</i>	<i>\$1.63</i>	<i>\$0.20</i>	<i>\$1.49</i>	<i>\$0.44</i>

44. In order to achieve sustainable employment it is important that there is a reasonable return from employment once the financial costs and barriers associated with working are met. Research by MSD³⁷ suggests that there is little return from working full-time for sole parent beneficiaries once in-work costs are taken into account. International evidence suggests that permanent in-work financial support for low income earners increases sustainable employment by improving the net return from working.³⁸

³¹ Eureka Strategic Research for Departments of Health & Family Services and Social Security (1998), *Qualitative Research on Factors Affecting Women's and Families' Workforce Participation Decisions*.

³⁴ Officials are to report back on the Review of Early Childhood Education Regulation and Funding in July 2003 (CAB Min 902) 10/3 refers.

³⁵ Parker B. (1997) "Very long-term job seekers' barriers to employment: A nationwide survey." Labour Market Bulletin 1:63-79.

³⁶ Table 3 is based on conservative projections of income assistance entitlements, childcare and transport costs for families with two children (one of school age and one under school age) receiving maximum Accommodation Supplement for Area 1. Further information is available from MSD.

³⁷ See MSD unpublished paper *Financial employment disincentives facing working age welfare recipients in New Zealand*, 2002.

³⁸ See the findings of the Canadian Self Sufficiency Project, MDRC, November 2002.

4. People do not receive all of the assistance to which they are entitled

A family with two young children who move from reliance on benefit to an income of \$30,000 per annum (40 hours per week for around \$14 per hour) remains eligible to receive Accommodation Supplement of \$110 per week (assuming maximum amount for Area 1) and Family Support and Family Tax Credit of \$67 per week. If they did not apply for these payments their disposable income while working would be significantly lower than it should be. If the job were to end, the decision to take on work when next it became available may be influenced by the perceived low financial reward.

45. Many people who are in employment with low incomes are not accessing all of the assistance to which they are entitled. Low take-up of in-work assistance is a key problem because it contributes to hardship and real or perceived disincentives to take up employment (particularly low paid, short term or casual). Even employment that is not sustainable may be important as a stepping stone to more sustainable employment, and help people maintain attachment to the labour force.
46. Further research is needed to provide robust evidence on the take-up of in-work assistance provided by IRD and MSD. IRD modelling indicates that some eligible working families may not be accessing the family income assistance to which they are entitled, although the data is not definitive.³⁹ Some MSD-administered assistance may also have relatively low take-up:
- *Accommodation Supplement* has relatively high cut-out points, as high as \$53,000 for a couple with children in area 1, but less than 20% of people leaving benefit for employment continue to receive it. A small survey (sample size 4,492) undertaken in 1996 showed that of those non-beneficiaries eligible for *Accommodation Supplement*, only 19% actually took it up⁴⁰; and
 - *Disability Allowance* cut-outs go up to just over \$33,000 per year, but in the year to April 2002⁴¹ only 10% of non-beneficiary families with children accessed *Disability Allowance*, compared to 23% of beneficiary families.
47. There are likely to be two factors contributing low take-up: the provision of social assistance through a number of different instruments administered between two distinct systems (benefit and tax), and fear of debt.

Two systems of assistance

48. There are currently two distinct systems for delivering social assistance to New Zealand families: the benefit system and the tax system. The Ministry of Social Development (MSD), through Work and Income, delivers benefits, Family Support to non-working families, and Accommodation Supplement and Childcare Subsidy to all families, while Inland Revenue (IRD) delivers family tax credits to working families⁴².

³⁹ Exploratory IRD study based on an estimate of number of families currently receiving family income assistance compared to income information from the 2001 Census suggested take-up was around 70% to 80% of families, although results are indicative only.

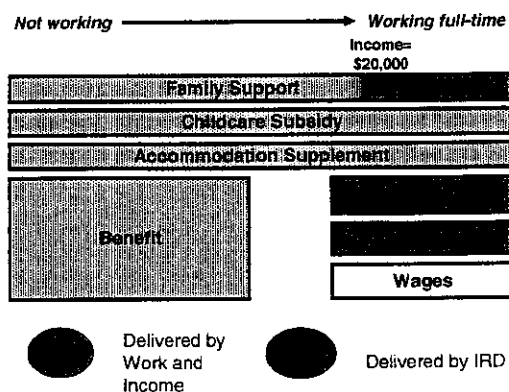
⁴⁰ See MSD paper *Take Up of Accommodation Supplement*.

⁴¹ MSD statistics from Information Analysis.

⁴² It is notable that even if only one agency delivered social assistance in future, two systems might still be used.

49. The diagram below shows how delivery of various programmes of assistance is split between Work and Income and IRD. Non-working families receive all their assistance from Work and Income, while working families need to access assistance from IRD and Work and Income. The two systems have different programmes of assistance, separate application procedures, eligibility rules, and periods of assessment.

Figure 1 – Delivery of assistance to families



50. Under current social assistance arrangements, families are required to reapply for family income assistance each time they take up employment or return to a benefit. This requirement means families who move between benefit and employment can repeatedly go through a process of:

- being fully reliant on income support and receiving all their assistance including a benefit, Family Support and Accommodation Supplement, from MSD (Work and Income);
- taking up employment and leaving the benefit system, then re-applying for Family Support, Family Tax Credit and Child Tax Credit from IRD;
- reapplying for Accommodation Supplement and Childcare Subsidy from MSD (Work and Income); and
- if the employment is temporary or for some other reason does not last, subsequently re-applying for Family Support from MSD (Work and Income).

51. The complexity involved in the numerous types of assistance available, their different rules, and the requirement to reapply for assistance contribute to:

- a low knowledge of the existence of in-work assistance;
- a lack of understanding of entitlement, that means people's calculations of the likely financial returns from employment are often inaccurate; and
- some people choosing not to move off benefit and into employment because it is not clear to them that they will continue to receive financial assistance.

52. These problems contribute to low take-up of in-work assistance, and can create hardship and real or perceived financial disincentives to take on low paid, short term or casual employment opportunities. However, for some clients, high transaction costs relative to the small amount they are eligible for may also be a reason not to access family income assistance.

Debt

53. Neither the benefit nor the tax systems deal well with people who move between benefit and employment. Both systems carry the risk for clients that if they work they may incur a debt. Benefit and Family Tax Credit debt lowers the returns from employment and creates a disincentive to obtain employment or apply for family income assistance.

54. A MSD study has shown that if a beneficiary works while on benefit they are more likely than beneficiaries who do not work to incur a benefit debt⁴³. The report found that 47% of the \$78 million in MSD innocent overpayment debt was due to employment-related reasons, in the year to October 2001. There were a large number of small debts (750,000 were under \$60). These in effect lower the returns from employment and add to the perception that employment is not financially worthwhile.

55. Some debt is an inevitable result of any income-contingent social assistance system that is paid in advance. Debt levels are also affected when clients' reporting of their income is inaccurate. However, in the 2001 income tax year, 23% or 39,048 families in receipt of family income assistance from Inland Revenue had overpayments during the year and incurred a debt at the end of the year. In the 2001 tax year:

- a total of \$55.7 million in family income assistance debt was established;
- on average, families had debt of \$1,426 for the year;
- 47% of families had debt of more than \$1,000; and
- 8.7% (or 3,412 families) had a debt in excess of \$4,000.

56. IRD currently has an estimated total of \$205 million of family assistance debts owing. A significant proportion of this debt (45%) is made up of interest and late payment penalties. In some instances, family assistance debt may be compounded by other IRD debts, such as student loans.

57. IRD expects to reduce the amount of annual overpayments and of debt carried forward, through two recent initiatives:

- "proactive action" which monitors changes in families' income through the year and adjusts family assistance payments accordingly; and
- new debt and hardship rules, which will ensure that uncollectable debt is written off sooner and collectable debt can be collected more effectively.

5. Need for more case management oriented toward paid employment

58. The current complexity of the benefit system, including family income assistance, means that Work and Income staff must spend most of their time on application and assessment procedures, rather than helping people towards paid employment. Current case loads are also relatively high for Work and Income case managers. It is estimated that 70% of case managers' time is taken up with income support administration, and only 30% is available for tailored employment assistance to identify people's specific needs and the assistance available to help them into work.

⁴³ *The Causes of Innocent Overpayment Debt* by Anne Heynes, published by the Ministry of Social Development, February 2002.

59. OECD and other overseas research⁴⁴ suggests that:

- facilitation and counselling lead to better employment outcomes than passive social assistance alone; and
- increased investment in human capital plays a key role for the least disadvantaged groups, while encouraging labour market attachment has similar effects for the most disadvantaged groups.

60. Research evidence shows that effective case management has an important role in assisting people to move into sustainable employment. Intensive case management achieves better outcomes than passive assistance⁴⁵ because it provides:

- assistance tailored to individual strengths and needs, that takes into account other responsibilities such as family;
- needs based assessment and other tools enable early identification of those factors that are ongoing barriers to people on benefit moving into paid employment; and
- a referral point to other services that may address barriers to employment such as poor health, low levels of education, and lack of recent work experience.

61. Evidence suggests⁴⁶ that there will be a greater return in terms of employment outcomes if case management:

- has a broader, individualised approach to education, training and employment needs;
- addresses issues such as health and disability, housing, transport and other circumstances that may prevent a person moving towards being self-supporting;
- includes the opportunity to plan for the future; and
- is based on a trust relationship with a personal adviser providing accurate information, encouragement and support.

62. There is a need to invest in enhanced case management to ensure case managers have the time, the tools and the flexibility to actively work with people and help them address current barriers and move into sustainable employment, or otherwise actively participate in their community. Enhanced case management could be achieved by investing in lower case loads, with tools such as needs-based assessment, improved information technology, and more experienced specialist case managers for particular groups (such as sole parents, people with disabilities, and the long term unemployed).⁴⁷

⁴⁴ MDRC, *National Evaluation of Welfare-to-Work Strategies: What Works Best for Whom: Impacts of 20 Welfare-to-Work Programs by Subgroup*, January 2001; J.P. Marin; *What Works Among Active Labour Market Policies: Evidence from OECD Countries' Experiences; OECD Labour Market and Social Policy – Occasional Papers No.35*, 1998. See also D. Grubb; *Eligibility Criteria for Unemployment Benefits*; OECD Economic Studies; 31; 2000/2; G. Berlin (2000) *Encouraging Work: Reducing Poverty*, Manpower Demonstration Research Corporation; R. Blank (2000) *Fighting Poverty: Lessons from Recent U.S. History*, *Journal of Economic Perspectives*, Vol.14, No.2:3-19.

⁴⁵ Passive assistance focuses on assisting with income support.

⁴⁶ Corbett, T. & Weber R. (2001) *Toward Work Stability and Career Advancement – The Next Stage of Reform*, Institute for Research on Poverty, V. Pearse (2000) *Parents Participation and Planning – The Parenting Payment Intervention Pilot*, *AIFS Conference Paper*. H.Finch et al (1999), *New Deal for Lone Parents: Learning from the Prototype Areas*, *Research Report No 92*, DSS. Colmar Brunton Research (1997), *Evaluation of the Compass Programme after two years*. Colmar Brunton Research (1995), *Evaluation of Pilot Compass Programme*.

⁴⁷ MSD Briefing to Incoming Ministers: *Improving wellbeing for all New Zealanders*, September 2002.

6. *Unexplained growth in disability benefits and a need for better responses.*

63. The number of individuals receiving Invalids Benefit (IB) and other disability-related benefits has been increasing steadily as a proportion of the working age population since 1992. This trend is forecast to continue in line with international trends experienced by other countries including Australia, the United Kingdom, the United States, Canada and Ireland.
64. The increase in the number of people receiving disability-related benefits is a particular issue for the social assistance system, benefit recipients and their families. IB is a permanent, rather than transitional benefit,⁴⁸ and recipients are not actively case managed, or fully supported by the social assistance system for their employment, community participation and other needs. The spouses of people on Invalids and Sickness Benefits are subject to an abatement regime determined by the benefit which their partner is on, which may not always be appropriate to the person's own employment or caregiving circumstances. Further information is needed on the social assistance needs of individuals on disability-related benefits and their families.
65. The increased growth can in part be explained by population growth, ageing of the population, and the increase in age of eligibility for New Zealand Superannuation, as shown in Table 5 below.

Table 5: Estimates of factors causing increase in Invalids Benefit numbers

Factor	Changes in no.s	% total growth in no.s
	1992-2000 resulting from factor in isolation	1992-2000 resulting from factor in isolation
Growth in the population aged 15+	3,000	12
Ageing of the population aged 15+	2,000	7
Increased rates of receipt among 60-64 yr olds	7,000	25
Increased rates among other age groups	14,000	47
Net effect of interactions between factors	3,000	10
Actual change in numbers 1992-2000	29,000	100

(Source: SWIFTT, benefits in force and numbers of spouses included in benefits as at June 1992 and June 2000; Statistics New Zealand, resident population estimate as at June 1992 and 2000)

66. However, over half of the annual growth is unexplained, and research is needed on potential contributing factors. Reasons for the growth in Invalids Benefit may include:
- increased prevalence of certain disabilities and medical conditions;
 - favourable rates and abatement regime relative to other benefits;
 - increased advocacy, which has improved knowledge of entitlements and eased the stigma related to Invalids Benefit;
 - changes to other benefits, such as Sickness Benefit, and the ACC system; and
 - changes in medical and administrative assessment practices.
67. In particular, the structure of IB may create barriers to increased participation in employment for some people with disabilities, because:

⁴⁸To receive IB a beneficiary must have a permanent disability that renders them unable to regularly work more than 15 hours per week.

- IB recipients are restricted from working more than 15 hours per week, and to work longer hours they must transfer to the Sickness Benefit (SB). This may create financial disincentives to greater participation in paid work because:
 - IB is paid at a higher rate than SB in recognition of the extra living costs associated with permanent disability.
 - SB reduces more quickly than IB as earnings from employment increase.
 - SB has more frequent medical assessment requirements.
- The term “invalid” sends negative signals surrounding labour market and community participation.

68. The lack of employment expectations for people on IB means people with disabilities are frequently not supported in their desire to undertake some paid employment. The New Zealand Disability Strategy and *Pathways to Inclusion*, the Government's vocational services strategy⁴⁹, reported that many people with disabilities wish to work and need more help to work to the greatest extent possible. A key conclusion of the vocational services review was that there should be a greater emphasis on paid employment outcomes. However, case management for people on IB has tended to focus on income rather than employment needs. Many people on IB do not receive support to increase their employment, and historically only a minority of MSD-funded vocational services for people with disabilities were focused on employment.

69. There have been recent changes to increase support for people with disabilities and explore new ways of assisting them to increase their employment and community participation. However, New Zealand needs to better utilise and support the talents of people with disabilities. A programme of quantitative and qualitative research is needed to investigate the causes of increased growth in disability benefits and problems associated with the social assistance system faced by people with disabilities and their families. This will inform evidence-based policy on how the social assistance system can better support people with disabilities to increase their employment and community participation.

Consultation

70. The Social Assistance Reform Senior Officials Group (SARSOG) has been consulted in the preparation of this paper, representing the Ministries of Education, Health, Pacific Island Affairs, Te Puni Kokiri, Women's Affairs, Youth Affairs, the Departments of Labour, Inland Revenue, Prime Minister & Cabinet, the Housing New Zealand Corporation, the Treasury, and the Office for Disability Issues.

Financial Implications

71. This paper argues a case for change to reform the social assistance system and does not have direct financial implications. The financial implications of any resulting policy proposals will be set out in the appropriate Cabinet paper.

Human Rights Implications

72. This paper argues a case for change to reform the social assistance system and does not have direct human rights implications. The human rights implications of any resulting policy proposals will be set out in the appropriate Cabinet paper.

⁴⁹ *Pathways to Inclusion*, Department of Labour, September 2001.

Legislative Implications

73. This paper argues a case for change to reform the social assistance system and does not have direct legislative implications. The legislative implications of resulting policy proposals will set out in the appropriate Cabinet paper.

Regulatory Impact and compliance cost statement

74. A regulatory impact and business compliance cost statement will be prepared at the time any proposals for reform likely to result in a Government Bill are sought.

Gender Implications

75. In establishing a case for change, the problems set out in this paper have been considered in terms of their implications for men and women. The case for change focuses on families with dependent children, and particularly problems for sole parents (most of whom are women), such as restricted living standards, financial disincentives to work, and increased barriers to work, such as difficulties accessing childcare. Resulting policy proposals will directly positively affect parents of dependent children (and mainly women) in the first instance.

Disability Perspective

76. In establishing a case for change, the problems set out in this paper have been considered from a disability perspective and are of particular relevance to people with disabilities and their families. The New Zealand Disability Strategy, in its overall goal of advancing New Zealand towards being a society that is fully inclusive of people with disabilities, includes "Provide opportunities in employment and economic development for disabled people" as one objective. A research programme is needed to understand how the social assistance system can contribute to better supporting people with disabilities to live in a society that highly values their lives and continually enhances their full participation.

Recommendations

It is recommended that the Committee:

Background

1. **note** that Cabinet directed officials to report to the Minister of Social Services and Employment by the end of June 2002 with policy options for the fundamental reform of the social assistance system in the medium term, including benefit simplification, reform of family income assistance, and further making work pay measures [CAB Min (01) 20/7 refers];
2. **note** the Speech from the Throne established the Government's focus for social assistance over the next three years is better supporting families and children, simplifying the social assistance system, and improving opportunities to move into paid employment;

Key problems

3. **note** that the social assistance system is in need of reform, due to six key problems:
 - 3.1. For many families, work does not pay;
 - 3.2. For some families, total income (including social assistance) is too low to cover the costs of an adequate standard of living;
 - 3.3. There are barriers to work, including access to and costs of childcare and transport, that the system does not adequately address;
 - 3.4. People do not access all of the assistance to which they are entitled;
 - 3.5. Complexity of the benefit system means not enough case management time can be spent helping people into sustainable employment; and
 - 3.6. There is a significant and unexplained growth in the number of people accessing disability benefits, and a need for better social assistance responses to help people increase their employment and community participation.

Context

4. **note** in the last twenty years, expenditure on benefits and the proportion of the working age population receiving a benefit have risen significantly, and benefits and the family income assistance system currently cost around \$7.1 billion;
5. **note** that Maori and Pacific peoples are over-represented among people receiving benefit and in unemployment rates, and it is critical that future social assistance arrangements are effective for Maori and Pacific peoples, and policy works to strengthen and develop whanau, extended family and community relationships;
6. **note** that people with disabilities and their families are also particularly affected by the problems with the social assistance system and over 100,000 people are currently on an Invalids or Sickness Benefit;

Financial disincentives

7. **note** that the current system creates a poverty trap for many families as both couples and sole parents can be better off staying on benefit than working fulltime;
8. **note** that work does not pay because of a combination of poor financial incentives for full-time work, low market wages and a complex interaction of current income thresholds, benefit rates, abatement rates, tax, and entitlement rules;

Income inadequacy

9. **note** that there is evidence that some families have a total income (including social assistance) too low to cover an adequate standard of living; among other problems, this impacts on people's ability to move towards sustainable employment and become self-supporting;
10. **note** that the results of the New Zealand Living Standards Survey 2000 show that 20% of the population had restricted living standards and families with dependent children are more seriously affected by poor living standards than other groups.

11. **note** a key contributing factor to income inadequacy is the non-indexation of some components of family income assistance which have led to a decline in real value;

Barriers to work

12. **note** that for some beneficiaries, barriers such as access to and costs of childcare, transport, personal circumstances, disability, or health problems are major barriers to taking up or remaining in sustainable employment, and can diminish or eliminate the financial incentives from paid employment;

People do not access all of the assistance to which they are entitled

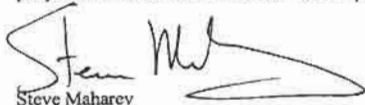
13. **note** that many people who are in employment are not accessing all the in-work assistance to which they are entitled, contributing to hardship and real or perceived disincentives to take up employment;
14. **note** that the division of responsibility between two distinct systems for delivering social assistance, and families' fear of debt contribute to difficulties accessing in-work assistance;
15. **note** that both the benefit and IRD family assistance system establish significant amounts of debt and can reduce work incentives and create hardship;

Need for more case management orientated towards employment

16. **note** that the current complexity of the social system, including family income assistance, means that 70% of Work and Income case managers' time is taken up with income support, and only 30% is available for active case management to help clients move into sustainable employment;
17. **note** that there is a need to invest in enhanced case management to ensure case managers have the time, the tools and the flexibility (such as lower case loads, more needs-based assessment, improved information technology, and more experienced specialist case managers for particular groups) to work with people and help them move into sustainable employment, or otherwise actively participate in their community;

Unexplained growth in disability benefits and a need for better responses

18. **note** that the proportion of working age people receiving disability-related benefits has been increasing steadily since 1992, over half this growth is unexplained and research is needed to inform evidence-based policy on how social assistance can better support people to increase their employment and community participation;
19. **note** that research is needed on the causes of increased growth in disability benefits, to develop evidence-based policy on how the social assistance system can better support people with disabilities to increase their employment and community participation.



Steve Maharey
Minister of Social Services and Employment

Discussion of Poverty Measures

Reports on poverty from the Ministry of Social Development use different approaches to measure poverty. One is income based, focussing on present day income as a significant input to standard of living. Another focuses on the standard of living achieved as the result not only of current income, but also as the result of income in the past, stability of relationships and employment, savings history, special demands on expenditure (e.g. disability), personal preferences, and so on. In addition, the Ministry also reports on people's own self-assessment of their standard of living.

Current income and living standards can provide a different picture of who is in poverty. Because the concepts being measured are related but not the same, we would expect some overlap between the two types of measures, but not a complete overlap. The results bear this out. For example, there is around a 50% overlap between the bottom 20% of the population in terms of current income and the bottom 20% in terms of living standards. This result reflects the fact that two households with the same recent annual income can have rather different achieved standards of living because of different life histories. Our overlap results are consistent with research that has been carried out internationally; in both the European Community and Australia the overlap is typically around 40-50%.

Key advantages of employing a range of approaches flow from the fact that together they give a much rounder picture of the situation and circumstances of those in New Zealand who have a relatively low standard of living.

The living standard measure gives an insight into the:

- actual living conditions of those who are experiencing material hardship;
- relative levels of need experienced by various sub-groups within the population;
- features of people's situations that help to protect those currently experiencing a period of low income from low living standards (e.g. low housing cost either as the result of prior housing investment or subsidy, absence of financial or life shocks); and
- degree of variation in living standards likely to be experienced among those at a particular income level at a point in time.

Income measures, on the other hand:

- are relatively more straightforward to collect on an on-going basis to monitor the distribution of income within society and to relate to trends in consumption, wages and employment; and
- give an indication of the relative ability of various subgroups to participate in the normal exchanges in a market economy.

While the living standard measured for an individual at a point in time reflects past history and circumstances, it is also useful to keep in mind the future implications of current income in relation to current living standard. This relationship might reflect investment for the future (e.g. in training for a higher income in the future or in an eventual reduction in housing cost), or the erosion of past savings and assets that have been acting as a buffer against low living standard but which will be both exhausted and difficult to recover if present income levels continue.

Appendix 2

Financial Disincentives to Work

Table 2 below shows the financial returns from employment for a sole parent family and a two-parent family with two children living in Auckland earning the minimum wage of \$8 per hour⁵⁰, after paying tax and allowing for the abatement of benefit, Accommodation Supplement and family income assistance. Other types of assistance (such as childcare subsidy) and in-work costs (such as transport and childcare) are not included.

A sole parent with two children will be around \$70 per week better off from earning \$150 (about 19 hours of employment per week) when in-work costs are not taken into account. If this parent were to move from part-time to full-time employment (40 hours a week), the family would only be about \$28 a week better off, or about \$1.40 per hour worked.

For a two-parent family, the financial return from employment, without taking into account in-work costs, is even lower. If one of the parents works 20 hours a week, the family will be around \$42 a week better off than if they relied solely on benefit. If that parent were to move into full-time employment at the minimum wage, the family would be worse off than they were when working only 20 hours a week. Moving from benefit to a full-time job at the minimum wage will mean the family gains only about \$37 more a week.

Table 2: Financial incentives for people on benefit who work⁵¹

			20 hours= \$160	30 hours= \$240	40 hours= \$320			
Family with 2 children living in Auckland	max net benefit + Family Support + Accommodation Supplement p/w	\$0-\$50	\$51-\$100	\$101-\$150	\$151-\$200	\$201-\$250	\$251-\$300	\$301-\$350
	Single parent family Cumulative gain	\$26.40 \$474.91	\$25.40 \$51.80	\$17.38 \$69.18	\$81.32	\$95.15	\$97.65	\$99.96
Two parent family Cumulative gain		\$26.40 \$507.70	\$38.78	\$41.09	\$43.40	-\$5.29	-\$0.60	-\$0.60
		\$26.40 \$507.70	\$38.78	\$41.09	\$43.40	\$38.11	\$37.51	\$36.91

KEY	Net gain of more than \$15 per week. EMTR < 70%	Net gain of less than \$15 per week. EMTR > 70%	Net loss
			bold

⁵⁰ Department of Labour statistics for the quarter ended June 2001 show 35,600 adults aged 18 or over (2.6% of earners in this age group) reported that they earned less than the minimum wage.

⁵¹ The examples assume that the families: receive maximum Accommodation Supplement (for Auckland); the minimum wage of \$8 per hour, income support is DPB for sole parent and UB for couple; children are aged under 13.

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department

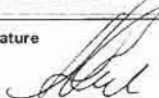
Departments consulted: The attached submission has implications for the following departments whose views have been sought and are accurately reflected in the submission:

The Ministries of Education, Health, Pacific Island Affairs, Te Puni Kokiri, Women's Affairs, Youth Affairs, the Departments of Labour, Inland Revenue, Prime Minister and Cabinet, the Housing New Zealand Corporation, the Treasury, and the Office for Disability Issues.

Departments informed: In addition, the following departments have an interest in the submission and have been informed:


Others consulted: Other interested groups have been consulted as follows:

The Ministry of Social Development's, Strategic Policy Reference Group

Signature	Name, Title, Department	Date
	Sue Mackwell, Manager, Ministry of Social Development	3 / 12 02

Certification by Minister

Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee. The attached submission:

Consultation at Ministerial level	<input type="checkbox"/> did not need consultation with other Ministers <input type="checkbox"/> has been the subject of consultation with the Minister of Finance <i>[required for all submissions seeking new funding]</i> <input checked="" type="checkbox"/> has been the subject of consultation with the following Minister(s) <i>Hon Cullen Rt Hon Clark</i>	
Consultation with Government MPs	<input checked="" type="checkbox"/> does not need consultation with the government caucuses <input type="checkbox"/> has been or will be <i>[specify which]</i> the subject of consultation with the following government caucuses: <input type="checkbox"/> Labour caucus <input type="checkbox"/> Progressive Coalition caucus	
Consultation at Parliamentary level	<input checked="" type="checkbox"/> does not need consultation at parliamentary level <input type="checkbox"/> has been or will be <i>[specify which]</i> the subject of consultation with the following other parties represented in Parliament: 	
Signature	Portfolio	Date
	Social Services and Employment	5/12/02