Frequently Asked Questions

Q What is the valuation for?

A The valuation makes transparent the full future cost of the benefit system for working-age adults currently on a benefit. The combined life-time cost of benefits for all clients who accessed a benefit in 2013/14 is $69.0 billion. The valuation estimates will change in the future for various reasons including economic and demographic changes, improved employment outcomes and new clients entering the system.

The valuation also helps us to understand the relative influence of different factors, including changes in the economy, in driving the overall future cost of the benefit system.

It helps us focus on the areas we can influence, such as how we support clients to find work as well as understanding external factors that we cannot influence.

The report looks at patterns of life-time benefit receipt, and which client characteristics are associated with longer benefit receipt. For example, an average client in the Youth Service age group has almost a 40% chance of being on a benefit in 15 years' time and around 25% of them are on a benefit 40 years after the valuation date. The just over 3,000 young people on a benefit aged under 18 years have a total future liability of $0.5 billion.

We can use this information to tailor our interventions towards longer-term sustainable outcomes that mean people are less likely to need help in the future. We know that the longer a client remains off benefit, the less likely they are to return.

It will help inform what support each beneficiary group would most benefit from and help us target services to the individual. More effective and efficient delivery of the right services to the people who will benefit from them most will improve outcomes - both for clients and for the taxpayer.

In future years, we will be able to use valuations to understand the long-term impact of policy changes and performance in managing the benefit system.

Q Why estimate the cost of life-time benefit receipt, rather than the cost of clients' current spells?

A Some beneficiaries use the benefit system once or twice in their lives for a brief spell in between jobs. Others, typically with more serious barriers to employment such as a severe disability, may receive benefits for a life-time. In between, there are clients who frequently cycle on and off the benefit system due to seasonal employment, episodic illnesses, or other factors. We wanted to inform our decisions about where to invest in work and work-readiness services based on a life-time view of clients' patterns of benefit use.

Q How does the valuation affect people on benefit?

A There is no change to people's entitlement to a benefit. However it will change how we work with clients in helping them get into work. The valuation gives us the data to better target the right service, to the right person, at the right time.

Q How will it change employment services and support?

A By helping to better understand what groups most benefit from support, what that support should be and when it is most critical to intervene, we can provide the best support possible for people to live independent of a benefit.

Q What's new in this valuation?

A This valuation includes further analysis of the impact of policy and operational changes through the early Welfare reforms of August and October 2012. It also shows the early impacts of July 2013 Welfare Reform and early indications of the impact of key operational changes including the introduction of the Youth Service in August 2012.

This valuation also includes for the first time analysis of the impact of family benefit history on client's future benefit dependency.

This report includes a breakdown of valuation results down into regions. This gives a clearer picture of benefit dependency in different regions, and the reasons for the differences. In particular, this helps understand the impact of differing regional labour markets.

Q What is an "actuary," and what is a "valuation"?

A Actuaries are professionals who measure the long-term financial impact of risk and uncertainty, typically in the context of either private or public insurance.

An actuarial valuation is an estimation of how much something is "worth". In this case, it is an estimate of the full cost of providing benefits for all clients who received a benefit in 2013/14 until they reach the age of 65.

Q The valuation finds that the future cost of the benefit system is $69.0 billion; will the Government be setting targets to reduce the liability?

A The Government intends to reduce the number of people receiving a main benefit by 25 per cent from 295,000 in June 2014 to 220,000 in June 2018 and reduce the long-term cost of benefit dependency by $13.0 billion. The $13.0 billion target will be measured against change in the future cost of the benefit system that is the result of collective Government management of the benefit system.

Q How is it being used to improve performance?

A Annual valuations are being publicly reported. Work and Income will be held accountable for its performance in managing the components of the future cost that are within management's influence.

In addition to the BPS target, Work and Income's performance measures reflect appropriate outcomes by client segment, based on their work expectations. The Work and Income Board is also advising management on how to optimise return on investment from the work and work-readiness investments in Work and Income's new Multi-category Appropriation (MCA), which provides greater flexibility for management to reprioritise funding to investments that are proven to be more effective in improving client outcomes, generating a positive return on investment, and reducing the liability.

This will be a more transparent approach to demonstrating that investments such as case management, employment assistance, and work brokerage are making a real difference in people's lives over the long term; and that tax-payers are getting the most out of these investments.

Q Will the liability be reported on the Crown Accounts?

A No. The future cost of the benefit system will not be reported as a liability on the Government's balance sheet. The purpose of the valuation is to accurately estimate the future cost in order to shift the focus of the benefit system toward improving outcomes over the long term.

Q Will the Government be partially or fully "forward funding" the liability in the benefit system?

A It is simply not feasible to put aside $69.0 billion now to meet the future cost of the benefit system. Instead we can get the gains from an Investment Approach by tracking the long-term costs without necessarily setting aside New Zealanders' tax money.

In future, once the start-up costs of welfare reform have been recouped, the Government may wish to revisit the question of whether partial forward funding, or reinvesting some share of benefit savings in work and work-readiness services would enhance the performance of the benefit system even further.

Q Can we see the impacts of Welfare Reform in the valuation?

A Yes. This valuation includes analysis of the impact of August 2012, October 2012 and July 2013 Welfare Reform. The assessed impact from these reforms continue to be encouraging, particularly with higher than expected numbers of sole parents becoming independent of the welfare system.

Valuations will be undertaken each year as at 30 June. Welfare Reform has been implemented in three key phases: August 2012, October 2012, and July 2013. This is the first valuation to show the early impacts of July 2013 Welfare Reform.

Q What is included in the valuation, what is not included, and why?

A The focus of the Investment Model is on benefits for working-age adults. NZ Superannuation, and all other assistance provided to adults 65 and over are excluded, as are benefits for students. The scope of benefits is also limited to those who receive benefits from Vote Social Development (so not Working for Families).

In terms of MSD expenditure, the scope is the cost of administering the benefit system for working age adults, and programmes that foster employment outcomes. Vocational Skills for People with Disabilities is excluded from the valuation because it serves a social, as well as an employment objective that may not result in off-benefit outcomes. In future, the 'work' share of this funding may be incorporated into the valuation reflecting the progressive inclusion of new appropriations into Work and Income's MCA.

The valuation reflects MSD payments to clients. This means that a share of the $69.0 billion in future cost is recouped by Government through taxes paid on benefits.