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 2015/16 is $76.0 billion. The valuation estimates change 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, 18-24 year old benefit system clients who have spent time in social housing are two times more likely to have a criminal conviction and two times more likely to have had a parent on benefit for at least 80 per cent of their teenage years.

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.

We are now 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 want 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 does 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 Previous years' valuations have considered the interactions between risk factors and cross-agency service usage. The valuation continues to incorporate data on clients' child protection history, criminal history, educational status and intergenerational benefit receipt.

This year's valuation incorporates new data from the government provided social housing support through the Income Related Rent Subsidy.

The 2016 benefit system valuation uses a combined benefit system – social housing projection model, which represents the largest technical extension to the valuation model since 2012.

While the benefit system valuation does not include social housing costs, the combination of the benefit and social housing systems cohorts allows us to better understand the combined population.

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 2015/16 until they reach the age of 65.

Q How is it being used to improve performance?

A Annual valuations are being publicly reported, as well as the Benefit System Performance Report. In the latter the Chief Actuary independently reviews the overall performance of the welfare system and the effectiveness of investments made to reduce benefit dependency and identifies areas for attention to assist in managing long-term benefit dependency.

Through these mechanisms the Ministry is held accountable for its performance in managing the components of the future cost that are within management's influence. This is a 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 $76.0 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.

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

A Enough time has elapsed since Welfare Reform that future projections can be made without reference to pre-reform assumptions.

This means the 2016 valuation marks the last valuation to have significant changes attributable to Welfare Reform.

We also include some of the impacts of the Government's Budget 2015 child hardship package – which amongst other things included a $25 a week increase in benefit rates for families with children from 1 April 2016.

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.

The valuation reflects MSD payments to clients. This means that a share of the $76.0 billion in future cost is recouped by Government through taxes paid on benefits.