Work and Income

2014 Benefit System Performance Report

for the year ended 30 June 2014

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

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1 Executive Summary

1.1 This report has been prepared by Herwig Raubal, FNZSA, FIAA in the capacity of Chief Actuary, and Eric Judd, FNZSA, FIAA in the capacity of Head of Actuarial for the Ministry of Social Development, and is in respect of the period ended 30 June 2014.

1.2 Appendices A and B of this report contain background information on the benefit system. We recommend anyone not familiar with the New Zealand benefit system read these before the executive summary and other main chapters of the report.

Purpose of this Report

1.3 This report is addressed to the Chief Executive (CE) of the Ministry of Social Development (MSD) and the Work and Income Advisory Board with the understanding that it will also be provided to the Minister for Social Development and the Minister of Finance.

1.4 An actuarial approach has been taken to measure the forward liability associated with the welfare system. The liability acts as a proxy for assessing people's risk of long-term benefit dependency and provides a tool to assist management in working with those people.

1.5 This report:

- reviews experience over the year in terms of exit rates, numbers of new clients and clients transitioning between benefits
- reviews overall performance of the welfare system and the effectiveness of investments made to reduce benefit dependency
- reviews and comments on the valuation of the forward liability
- identifies areas for attention to assist in managing long-term benefit dependency.

Recent Experience

1.6 Beneficiary numbers noted in this report are based on the valuation methodology (except Better Public Services numbers or where otherwise specified) and differ to official counts because:

- client numbers in the valuation include all clients who have received a benefit in the quarter whereas official reporting is at a point in time
- client numbers in the valuation count partners as separate clients whereas official reporting does not
- the valuation includes 16-17 year olds whereas the working age count is for 18-64 year olds
- the valuation includes non-beneficiaries such as recent exits (anyone not currently receiving a benefit who has received a benefit or supplementary payments in the past 12 months), orphan benefits and supplementary payments that are not included in the main benefit numbers

- the extraction dates for the quarterly data and the official count are different. The valuation data is collected one month after the reporting date to allow for any back-dated changes to be made due to late reporting.

A reconciliation of valuation numbers and official counts is provided in section 2.3.

1.7 All projections in this report come from the valuation model and will differ to Treasury forecasts. This is because they are for a different purpose and use different methodologies and assumptions.

1.8 The following table summarises the change in number of clients over the year, and compares them with projected numbers from the 30 June 2013 valuation.

Benefit Category	Actual – Quarter to 30 June 2013	Actual – Quarter to 30 June 2014	% Change	Projected – Quarter to 30 June 2014	Actual vs Projected Ratio
Jobseeker	181,539	169,256	-6.8%	172,725	98%
Sole Parent Support	91,237	82,827	-9.2%	89,170	93%
Supported Living Payment	104,241	105,679	+1.4%	103,490	102%
Youth Payment	1,773	1,906	+7.5%	1,533	124%
Young Parent Payment	1,325	1,243	-6.2%	1,201	103%
Supplementary Benefits Only	103,208	101,474	-1.7%	100,168	101%
Orphans Benefit	5,088	5,249	+3.2%	5,128	102%
Emergency Benefit	5,566	4,669	-16.1%	5,354	87%
TOTAL	**493,977**	**472,302**	**-4.4%**	**478,768**	**99%**

1.9 The number of clients decreased by 21,675 over the year. Of this, 12,283 relate to Jobseeker Support (JS) clients the main contributor to which was improving labour market conditions (as forecast by the 30 June 2013 valuation).

1.10 Total client numbers were 6,466 below projections from the 30 June 2013 valuation, which made allowance for a forecast improvement in the unemployment rate. Most of this variance relates to Sole Parent Support (SPS) clients who had higher rates of benefit exit and lower rates of re-entry than anticipated. This reflects a strong operational focus on sole parents. The sustainability of employment outcomes for former SPS clients has improved consistently over the last three years.

1.11 The number of new JS clients over the year was below valuation projections by 1,833. Whilst this is a positive result, the number of former JS clients returning to benefit has not decreased in recent years despite improving labour market conditions. Jobseeker-Work Ready (JS-WR) exit rates remained at the previous year’s level, although exit rates for clients on benefit for greater than one year reduced. The sustainability of exits has shown no improvement over the last three years. Improving the sustainability of employment outcomes for JS-WR clients is an area of opportunity, particularly if labour market conditions continue to improve.

1.12 Supported Living Payment (SLP) client numbers continued a long-term increasing trend over the year, increasing by 1,438 to 105,679 (408 of this increase relates to SLP-Carers). An increasing proportion of SLP clients are assessed to have psychiatric conditions. Clients with psychiatric conditions (including JS-HCD clients) now represent 17% of the benefit system client base.

1.13 Youth Payment (YP) client numbers increased over the year to 1,906. This partly reflects the positive impact of the Youth Service in engaging dis-enfranchised youth. Early indications of the performance of the Youth Service are positive with a reducing proportion of youth clients transitioning to working-age benefits. Three years ago 69% of young people on the Youth Payment at 17 were expected to be on a benefit at 19. Now this is under 50%.

1.14 MSD is on course to meet the previous Better Public Services (BPS) Result Area 1 target by 30 June 2017. As at 30 June 2014 there were 67,531 Jobseekers who had been on benefit for more than one year. The BPS target has been altered to include a wider range of clients and greater proportion of the liability. The new target is to 'reduce the total number of people receiving benefit by 25 per cent, from 295,000 in June 2014 to 220,000 by June 2018 (*official beneficiary counts*), and reduce the long-term cost of benefit dependency by $13bn as measured by an accumulated Actuarial Release, by June 2018'. The new target is more challenging. Achieving it will require a focus on HCD clients and a cross-Government approach.

Valuation Results: Life-time Liability

1.15 The liability has decreased by $7.5bn to $69.0bn over the year to 30 June 2014. This breaks down as follows:

- $2.6bn of the decrease is due to lower inflation expectations and small changes to unemployment and discount rates. These factors are outside management's control.
- $2.2bn of the decrease resulted from an expectation that there would be a lower number of people receiving a benefit in the quarter to 30 June 2014 due to lower unemployment and improved experience observed up to 30 June 2013.
- $2.2bn of the decrease is attributable to welfare reform and operational changes not already reflected in the 30 June 2013 valuation. Most of this decrease is through higher rates of exit from SPS and lower levels of SPS clients returning to benefit. Welfare reform has reduced expected future time on main benefits by an average of 1.2 years for sole parents.
- $0.5bn of the decrease is due to a modelling methodology change.

1.16 Though not a major impact on liability given the low numbers of youth clients, exit rates from youth benefits improved over the year. Welfare reform has reduced expected future time on main benefits by an average of 2.4 years for YP clients and 2.8 years for Young Parent Payment (YPP) clients.

1.17 The liability is expected to fall by $2.0bn over the coming year to $67.0bn at 30 June 2015. This reflects Treasury forecasts (as at 30 June 2014) for a lower unemployment rate. It also reflects an expected continuation of improved exit and re-entry experience observed in the year to 30 June 2014.

1.18 This valuation contains new analysis of the impact of family benefit history on long-term benefit dependency. This will enhance understanding of the drivers of long-term benefit receipt.

Impact of Childhood Experience on Benefit Dependency

1.19 Intervening early to minimise the likelihood of long-term benefit dependency was the key purpose of establishing the Youth Service. A person's likelihood of future benefit receipt is impacted by earlier childhood experience and characterised through their interaction with other government services. We have investigated the impact of family benefit history and Child, Youth and Family (CYF) interaction on benefit dependency.

1.20 74% of under 25 year old clients (88% for youth benefit clients) were supported by parents (or a parent) on benefits while they were a child. 35% (51% for youth benefit clients) were supported by parents (or a parent) on benefits for over 80% of their teenage years.

1.21 Clients with family benefit history have higher average lifetime costs. They are less likely to exit benefits than other clients, and if they do exit are more likely to return to benefits at a future date. Family benefit history is a factor influencing higher average lifetime costs for Māori. Further investigation is required to better understand the impact of family benefit history and its implications for operational service design.

1.22 We have matched CYF data with liability data from the 2013 valuation. Average liability is $20,000 (10%) higher for clients with CYF-Care and Protection (CYF-CNP) history. This difference increases the more significant the interaction with CYF-CNP, and increases with the age of a client (20% higher liability for 30-34 year olds). Average liability is also higher for female clients with CYF-Youth Justice (CYF-YJ) history. Liability differences may be understated because CYF data is not currently used to inform the valuation.

A Household View of the Benefit System

1.23 A household view of the benefit system has been created by analysing clients who share the same address. 126,126 main benefit clients (or 40%) live in a household with two or more people receiving a main benefit.

1.24 The more people in a household receiving a main benefit, the higher the per person average liability. This is the case across all benefit categories, suggesting that clients living in households with more than one person receiving a main benefit may experience different barriers to employment. Those living in multi-beneficiary households are also likely to be younger on average and more likely to be Māori.

1.25 We have also cross-referenced benefit system valuation data with primary Housing New Zealand (HNZ) tenants' data. Approximately 50% of primary HNZ tenants receive a main benefit, with a further 21% receiving NZ Super. Primary HNZ tenants in receipt of a main benefit have higher liabilities than other main benefit clients. Higher investment in benefit system clients in social housing may be justified.

Beneficiaries with Criminal Convictions

1.26 People with criminal convictions are likely to have lower than average socioeconomic status, and the existence of a criminal record can be a stigma that impacts their ability to find sustainable employment. Consequently, they may be more susceptible to benefit dependency. We have investigated the impact of Department of Corrections (Corrections) history on benefit dependency by matching Corrections data with liability data from the 2013 valuation.

1.27 Nearly one-third of clients receiving a main benefit have some form of Corrections history. Conversely, approximately one-quarter of people with a Corrections history are receiving a main benefit.

1.28 Average liability is consistently higher for people with a Corrections history across all benefit categories (with the exception of youth benefits), genders and ethnicities. In particular, JS clients with a Corrections history have a 29% higher liability than those without. Liability differences may be understated because Corrections data is not currently used to inform the valuation.

Comment

1.29 This report is focused on the benefit system and the following recommendations reflect this. However, the analysis in this report highlights the potential value of broadening thinking beyond just a client's history of benefit receipt. A person's interactions with different social sector services at different stages of their life are correlated. There is merit in taking a more holistic view, recognising that a person's likelihood of using a particular social sector service can be influenced by their experience long before they become eligible for that service. For example, benefit dependency is impacted by a person's family benefit history and whether they were supported by CYF during childhood. Equally, the impact of a particular agency working with people may extend beyond that agency and/or have intergenerational effects. For example, Work and Income's success in supporting sole parents into employment is likely to reduce the chance of their children being long-term benefit dependent.

1.30 A shift in focus of early intervention from late teens to earlier childhood and a greater ability to work with family or household units will help support wider reaching and more sustainable positive outcomes. Also, a more holistic view will help us better understand the drivers of long-term welfare dependency and increase the likelihood that the new BPS 1 target is met.

1.31 To achieve the goal of reducing long-term welfare dependency, the Government has implemented an Investment Approach to welfare. The value gained from applying this approach to the benefit system can be replicated across other social sector services. A coordinated and consistent approach across government ministries and agencies administering social sector services will create synergy.

1.32 Education, health, welfare (both the benefit system and social housing), CYF and Justice outcomes have strong intuitive and evidenced correlations. A future long-term aim of the government might be to gradually increase the proportion of government expenditure on proactive, preventative services such as education and preventative health. This is likely to be a natural outcome of taking a broader cross-government investment approach and a holistic view to a person's interaction with social sector services.

Recommendations

1.33 We have made various recommendations throughout this report. Some are specific with clear attainment criteria. Others are more general in nature. It is acknowledged that not all are fully within the control of Management and the Board, and may require support from other agencies. Nevertheless, we consider that the Board and Management should, to the extent possible, support actions to address the recommendations.

1.34 We also recognise that the recommendations relating to operational service design are derived from new pieces of analysis. Further analysis may be required before considering operational responses.

1.35 We recommend that:

Operational Service Design

Management consider differentiated operational responses for clients:

a) in households with two or more people receiving a main benefit to reflect the different barriers to employment these clients may face

b) who live in social housing to better reflect client needs given the overlap between benefit system and HNZ clients

c) who were supported by parents (or a parent) on benefit during childhood, to reflect their higher likelihood of long-term benefit receipt

Data for research or Valuation Purposes

d) Child, Youth and Family data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency

e) Department of Corrections data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency

f) Analysis is performed using ACC data to understand the experience of former ACC clients that transition to the benefit system

Investment Approach

g) Management and the Board discuss with other social sector Chief Executives and Ministers the potential application of a broader cross-government investment approach.

1.36 Some recommendations from the 2013 Benefit System Performance Report have been held over to this year. These are detailed in Chapter 8 of this report.

2 Recent Experience

Summary

- Overall, client numbers decreased 21,675 over the year and were 6,466 below projections from the 30 June 2013 valuation. Most of this variance relates to SPS clients who had higher rates of benefit exit and lower rates of re-entry than anticipated.
- JS-WR exit rates did not improve on the year prior and the sustainability of these exits has shown no sign of improvement despite improving labour market conditions. This may partly reflect operational focus on SPS clients.
- SLP client numbers continue to increase, with an increasing prevalence of clients with psychiatric conditions.
- Youth benefit client numbers increased significantly over the year reflecting the positive impact of the Youth Service in engaging dis-enfranchised youth. Early indications of the performance of the Youth Service are positive with a reducing proportion of youth clients transitioning on to working-age benefits.
- MSD is on course to meet the previous BPS Results Area 1 target by 30 June 2017. The target has been altered to include a wider range of clients and greater proportion of the liability. The new target is more challenging and will require a focus on HCD clients and a cross-government approach.

Introduction

2.1 Where information in this section is broken down by benefit category, data prior to benefit structure changes in July 2013 have been adjusted to ensure a consistent basis. For example, SLP numbers prior to July 2013 include the previous Invalids Benefit and the Domestic Purposes (care of sick or infirm) Benefit. See Appendix B for more details on the July 2013 benefit structure changes.

2.2 Beneficiary numbers noted in this section (except BPS numbers or where otherwise specified) are based on the valuation methodology and differ to official counts because:

- client numbers in the valuation include all clients who have received a benefit in the quarter whereas official reporting is at a point in time
- client numbers in the valuation count partners as separate clients whereas official reporting does not
- the valuation includes 16-17 year olds whereas the working age count is for 18-64 year olds
- the valuation includes non-beneficiaries such as recent exits (anyone who hasn't received any benefit or supplementary payments in the past 12 months), orphan benefits and supplementary payments that are not included in the main benefit numbers

- the extraction dates for the quarterly data and the official count are different. The valuation data is collected one month after the reporting date to allow for any back-dated changes to be made due to late reporting.

2.3 A brief reconciliation is given in the following table:

Main working age benefits at 30 June 2014 (exc Student Hardship)	293,092
16-17 year olds	2,770
Partners	44,449
Recent exits / Supp only	131,422
Other adjustments	569
Total receiving benefit in the quarter to 30 June 2014	472,302

2.4 All projections in this report come from the valuation model and will differ to Treasury forecasts because they are used for a different purpose and, as such, adopt different methodologies and assumptions.

2.5 The following table summarises the change in number of clients over the year, and compares them with projected numbers from the 30 June 2013 valuation.

Benefit Category	Actual – Quarter to 30 June 2013	Actual – Quarter to 30 June 2014	% Change	Projected – Quarter to 30 June 2014	Actual vs Projected Ratio
Jobseeker	181,539	169,256	-6.8%	172,725	98%
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Orphans Benefit	5,088	5,249	+3.2%	5,128	102%
Emergency Benefit	5,566	4,669	-16.1%	5,354	87%
TOTAL	493,977	472,302	-4.4%	478,768	99%

2.6 Overall, the performance of the benefit system has been positive with client numbers being lower than projected. SPS and JS accounted for most of the decrease, with SPS client numbers falling the most in percentage terms (excluding Emergency Benefit). SPS client numbers were also significantly below projected levels. This reflects the impact of work focused welfare reform and operational focus on sole parents.

2.7 JS client numbers fell significantly, most of which was anticipated in projections. JS client numbers, particularly JS-WR client numbers, are sensitive to labour market conditions which improved over the year (the national unemployment rate decreased from 6.2% to 5.5% over the year).

2.8 SLP client numbers increased over the year and were 2% above projections by year end, continuing a long-term increasing trend (408 of the 1,438 increase relates to SLP-Carers). While the increase over the year is not out of line with the increase in the general NZ population, the long-term trend is concerning, particularly the increasing prevalence of SLP clients with psychiatric conditions.

2.9 YP client numbers also increased and were above the level projected. This is due to a number of factors including the introduction of the youth service (see paragraph 2.58). At this stage, the increase in youth client numbers is not a concern because it reflects the fact that dis-enfranchised youth are being engaged with the Youth Service. However, experience should continue to be closely monitored.

Better Public Services Targets

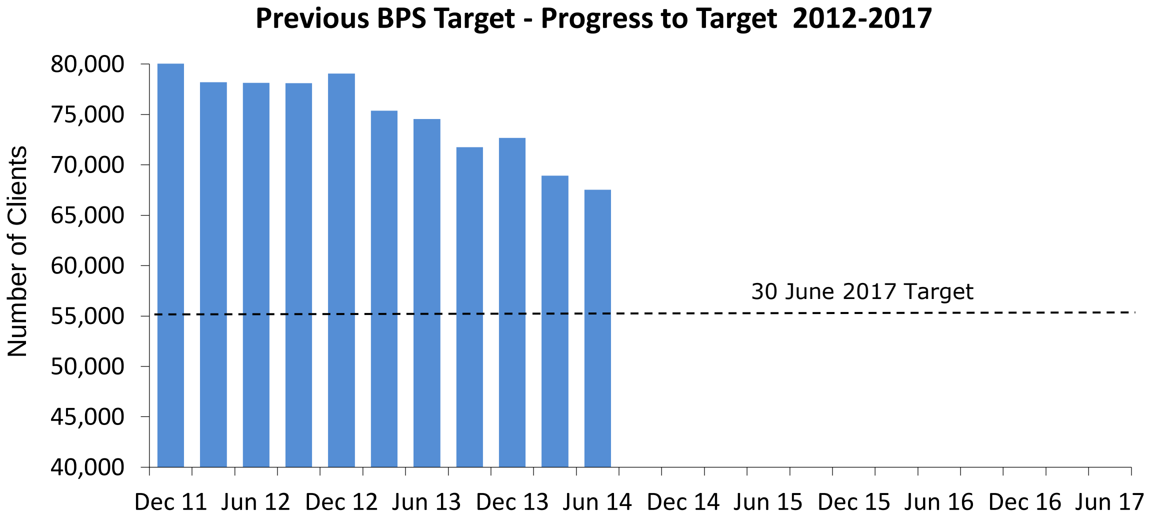
2.10 The Better Public Services Result Area 1: *Reducing Long-Term Welfare Dependence* target was to reduce the number of beneficiaries continuously receiving Jobseeker Support for more than 12 months by 30%, from 78,000 in April 2012 to 55,000 by June 2017.

2.11 The target has been reviewed and altered, to broaden the scope to include a wider range of clients and greater proportion of the liability. The new target also combines the intent to reduce the number of people dependent on benefit and reduce the liability.

2.12 The new target is to 'reduce the total number of people receiving benefit by 25 per cent, from 295,000 in June 2014 to 220,000 by June 2018, and reduce the long-term cost of benefit dependency by $13 billion as measured by an accumulated Actuarial Release, by June 2018'. 'Actuarial Release' is a liability measure that reflects the impact of the collective government's management of beneficiary numbers.

Better Public Services Result Area 1 (Previous Target)

2.13 The following chart shows progress towards achieving the previous BPS target:



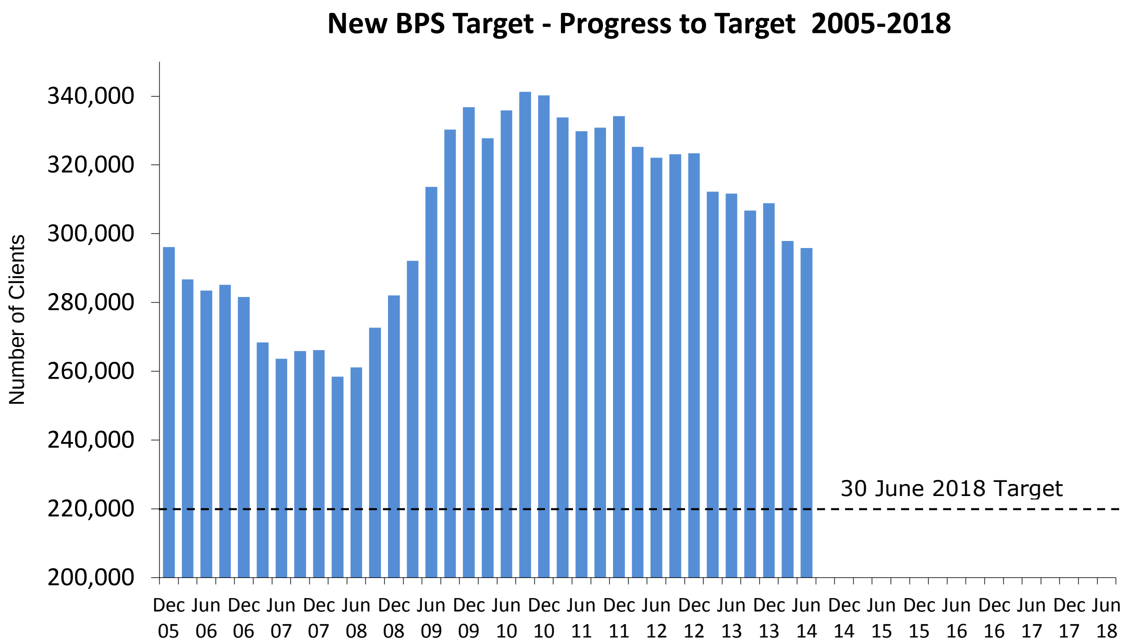
2.14 As at 30 June 2014, the number of Jobseekers on benefit for more than one year was 67,531. This was 7,028 lower than at 30 June 2013.

2.15 Ongoing decreases in the target group will become increasingly difficult as the proportion of HCD clients in the group increases. As at June 2012, HCD made up around 50% of the target group. As at June 2014, this has increased to almost 57% and is projected to increase further.

2.16 We estimate there will be between 54,000 and 58,000 clients in the BPS target group at June 2017 (assuming Half Year Economic and Fiscal Update 2014 economic forecasts are borne out in reality). So the target is achievable, but challenging.

Better Public Services Result Area 1 (New Target)

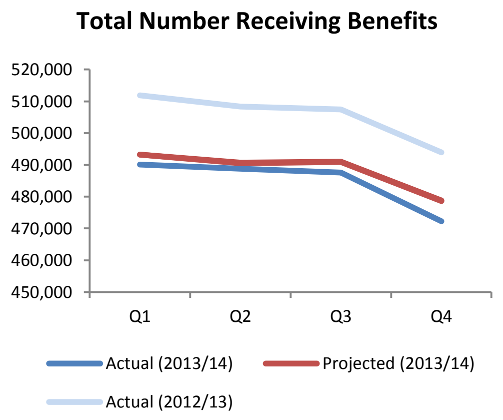
2.17 The following chart shows the new target with back history for context:

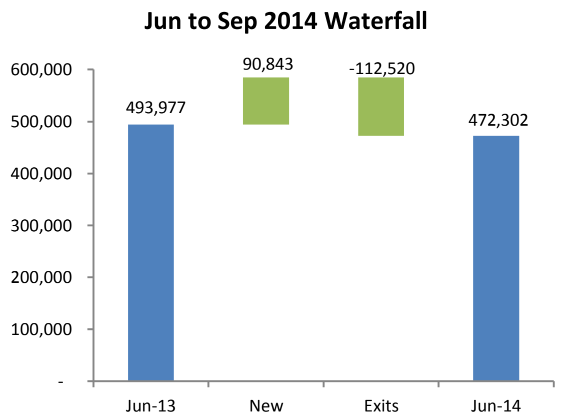


2.18 While MSD is on course to achieve the previous target, the new BPS target is undoubtedly a more challenging one. In order to achieve the target and sustain lower levels of people dependent on benefits into the future, the following is likely to be required:

- Favourable labour market conditions at, or very near to full employment.
- Operational investment in HCD clients without shifting focus away from the current client focus areas (particularly SPS clients).
- Work focused policy change to support operational investment in HCD clients.
- A shift in focus of early intervention from late teens to earlier childhood, where core factors influencing benefit dependency are developed.
- A greater ability to work with family or household units as a mechanism for better understanding clients' barriers to employment and ultimately to support more sustainable outcomes.
- A coordinated and consistent cross-government approach, recognising that a person's interactions with different social services at different stages of their life are correlated.

Total Number Receiving Benefits



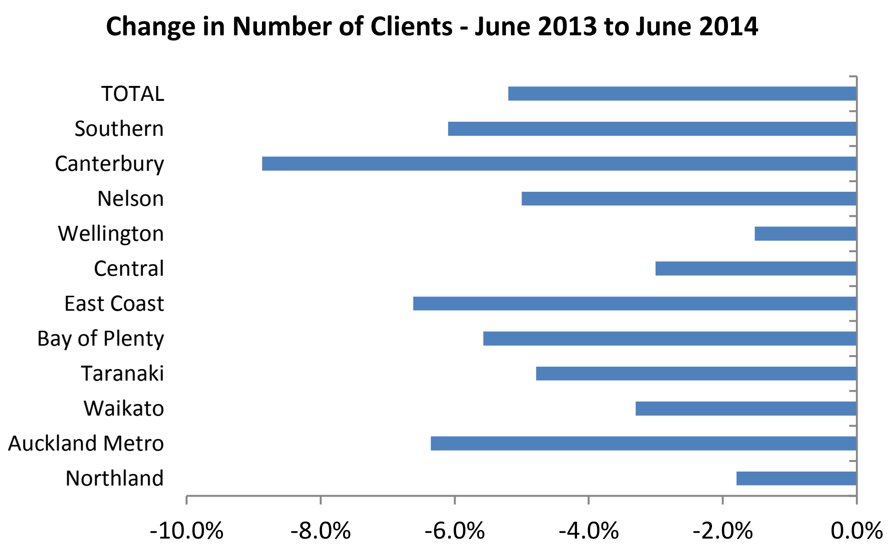


2.19 There was a 21,675 fall in the number of people receiving benefits due to a combination of economic factors, operational changes and the residual impact of policy reform (including the change in benefit structure in July 2013).

Economic Factors

2.20 Labour market conditions have gradually improved through the year with the unemployment rate falling from 6.2% to 5.5%. However, there have been wide regional variations, with Auckland and Canterbury economies performing strongly. The Canterbury unemployment rate fell from 4.4% to 2.9% compared with Northland, which increased from 7.7% to 8.4%.

2.21 The impact of labour market conditions in each region can be seen in the following chart which shows the change in number of clients over the year (based on official counts). Canterbury region had the largest decrease (8.9%) whereas Wellington (1.5%) and Northland (1.8%) had the smallest. Regional differences primarily relate to JS clients (all regions saw a substantial decrease in SPS clients).



2.22 Employment growth has been more prominent in full-time positions. This has helped support MSD's focus on full-time employment opportunities for clients, though it provides challenges where clients (such as sole parents with school age children) require part-time work.

2.23 Employment growth has also been skewed to higher skilled occupations. This may have limited the impact of the improving labour market on beneficiary numbers, particularly for beneficiaries with long benefit duration.

Welfare reform and operational changes

2.24 Welfare Reform phase two (October 2012) and the restructuring of benefit types (July 2013) are likely to still be having an impact on beneficiary numbers. See Appendix B for a history of policy changes over the last few years.

2.25 A new service delivery model was implemented nationwide from July 2013. It uses streaming rules to link clients to staff who are best placed to work with them. The three services offered are:

- Work Focused Case Management (WFCM): This is one-to-one case management with capped case loads.
- Work Search Support (WSS): This is one-to-many case management.
- General Case Management (GCM): for all remaining clients.

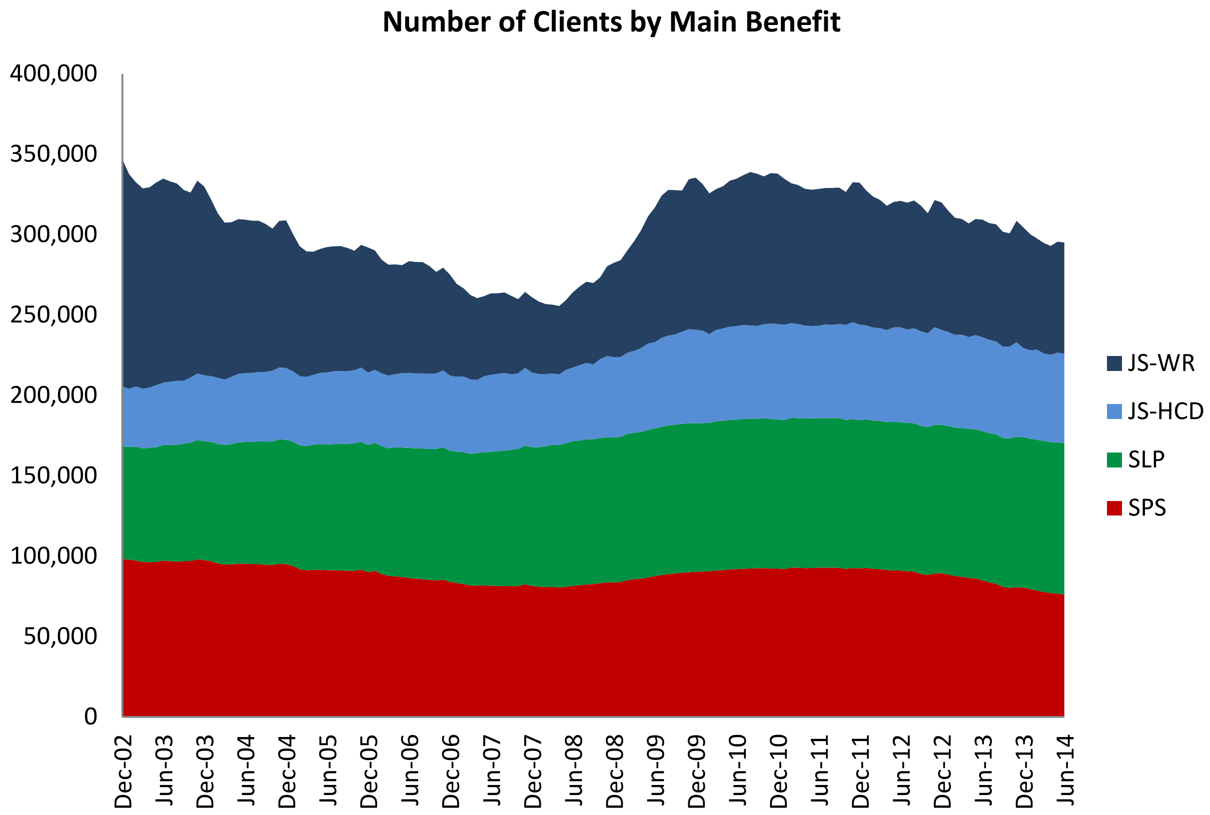
2.26 An initial evaluation of the service delivery model suggests that the WFCM service stream has had a positive impact on clients' off-benefit outcomes, particularly sole parents. Exit rates from SPS have increased significantly since the introduction of the new service delivery model. The combination of policy reform and operational enhancements appears to have had a compounding effect on off-benefit outcomes (see paragraph 2.54 and 2.55).

Other Factors

2.27 Other external factors have also impacted the number of people receiving benefits:

- A continuing decline in fertility rates amongst younger females.
- An increasing prevalence of psychiatric conditions (see paragraphs 2.73 to 2.77).
- Change in the overall size and composition of the NZ working-age population.

2.28 The shape of the benefit system has changed materially over the last few years with the impact of the Global Financial Crisis (GFC) and economic recovery particularly prominent. The following chart shows the sensitivity of the number of JS clients to changing economic conditions as well as the decrease in SPS clients over the last two years. The chart is based on official beneficiary counts.



2.29 The increase in SLP and Jobseeker-Health Conditions and Disabilities (JS-HCD) clients is a long-term sustained trend, with the GFC and subsequent economic recovery having only marginal impact (see paragraph 2.74 which shows the growth in SLP numbers since 1997). Combined they represent 54.6% of main benefits at 30 June 2014, up from 51.5% a year ago and 39.7% 10 years ago. This is an area requiring attention.

2.30 The changing shape of the benefits system is also reflected in the changing demographic profile of the client base (see following table). Average age and duration are increasing as younger, shorter duration jobseekers and sole parents exit benefit.

	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Average Age (Yrs)	38.6	38.8	39.1	39.3
Average Benefit Duration (Yrs)	Not Available	3.7	3.9	4.1
<u>Gender</u>				
Male	43.0%	42.6%	42.0%	41.6%
Female	57.0%	57.4%	58.0%	58.4%

	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Ethnicity				
NZ EU	43.5%	42.7%	41.9%	41.2%
Māori	28.2%	28.8%	29.3%	29.9%
P Island	9.8%	9.9%	10.0%	9.9%
Asian	8.9%	9.0%	9.3%	9.4%
Other	9.7%	9.6%	9.6%	9.7%

2.31 This means that Work and Income is case managing clients who are on average further from the labour force than in prior years. This is a natural consequence of an economic upturn when those closest to the labour market find employment first. This will require consideration of the most appropriate service delivery model to meet the needs of these clients. Exit rates may also naturally decrease over time as the proportion of clients with significant barriers to employment increases. This effect has been allowed for in the determination of the liability.

Benefit System Gateways

2.32 In the rest of this section we focus on six key gateways in, through and out of the benefit system. Collectively these gateways explain the majority of the change in the shape of the benefit system over time and the impact this has on the liability (as a proxy for long-term benefit dependency). The following table (with the six key gateways marked) gives a snapshot view of how clients have transitioned over the year to 30 June 2014 compared with projections from the 30 June 2013 valuation. For clients in each benefit category at 30 June 2013, reading across the row shows how many of these clients received a benefit (if any) in the quarter to 30 June 2014. For example, of the 84,975 JS-WR clients at 30 June 2013, 2,411 received SPS in the quarter to 30 June 2014, and 26,156 were no longer receiving a benefit.

2.33 Conversely, the columns show for each benefit category at 30 June 2014, what category they were in at 30 June 2013. For example, of the 82,827 clients who received SPS in the quarter to 30 June 2014, 65,302 were receiving SPS at 30 June 2013. 382 were Supported Living Payment beneficiaries at 30 June 2013. ‘Recent exits’ represents people who exited benefit in the year to 30 June 2013.

30 June 2013 Benefit Category			30 June 2014 Benefit Category: JS-WR	JS-HCD	SPS	SLP	YP or YPP	Sup or Orp	Exits
JS-WR	84,975	Actual	43,471	7,019	2,411	1,628	-	4,290	26,156
		Projected	44,591	5 5,581	2,715	1,302	-	4,056	26,730
		A/P	97%	126%	89%	125%	-	106%	98%
JS-HCD	70,861	Actual	6,115	43,786	1,924	5,254	-	1,870	2 11,912
		Projected	4,106	47,302	2,142	6 4,085	-	1,680	11,546
		A/P	149%	93%	90%	129%	-	111%	103%
SPS	84,897	Actual	3,987	1,226	65,302	1,114	-	5,159	8,109
		Projected	4,514	1,066	69,144	601	-	3,094	3 6,479
		A/P	88%	115%	94%	185%	-	167%	125%
SLP	101,444	Actual	797	968	382	91,515	1	412	7,369
		Projected	835	956	432	91,503	6	458	7,254
		A/P	95%	101%	88%	100%	-	90%	102%
YP or YPP	2,857	Actual	623	88	759	9	711	33	634
		Projected	4 613	94	802	12	747	54	534
		A/P	102%	94%	95%	-	95%	61%	119%
Sup or Orp	102,742	Actual	3,693	1,836	2,639	489	9	68,293	25,783
		Projected	3,939	2,444	3,140	539	4	66,601	26,075
		A/P	94%	75%	84%	91%	-	103%	99%
Sub-Total	**447,776**	**Actual**	**58,686**	**54,923**	**73,417**	**100,009**	**721**	**80,057**	**79,963**
		Projected	**58,598**	**57,443**	**78,375**	**98,041**	**757**	**75,943**	**78,618**
		A/P	**100%**	**96%**	**94%**	**102%**	**95%**	**106%**	**102%**
Recent Exits	154,704	Actual	14,861	5,842	3,541	1,387	43	6,865	122,165
		Projected	1 13,956	7,508	4,466	1,502	39	7,537	119,696
		A/P	106%	78%	79%	92%	109%	91%	102%
Sub-Total	**602,480**	**Actual**	**73,547**	**60,765**	**76,958**	**101,396**	**764**	**86,922**	**202,128**
		Projected	**72,554**	**64,951**	**82,841**	**99,543**	**797**	**83,480**	**198,314**
		A/P	**101%**	**94%**	**93%**	**102%**	**96%**	**104%**	**102%**
New Clients	94,290	Actual	27,863	11,749	5,869	4,283	2,385	19,801	22,340
	95,349	Projected	1 25,744	14,830	6,329	3,947	1,937	21,816	20,745
	99%	A/P	108%	79%	93%	109%	123%	91%	108%
Total		**Actual**	**101,410**	**72,514**	**82,827**	**105,679**	**3,149**	**106,723**	**224,468**
		Projected	**98,298**	**79,781**	**89,170**	**103,490**	**2,733**	**105,296**	**219,059**
		A/P	**103%**	**91%**	**93%**	**102%**	**115%**	**101%**	**102%**

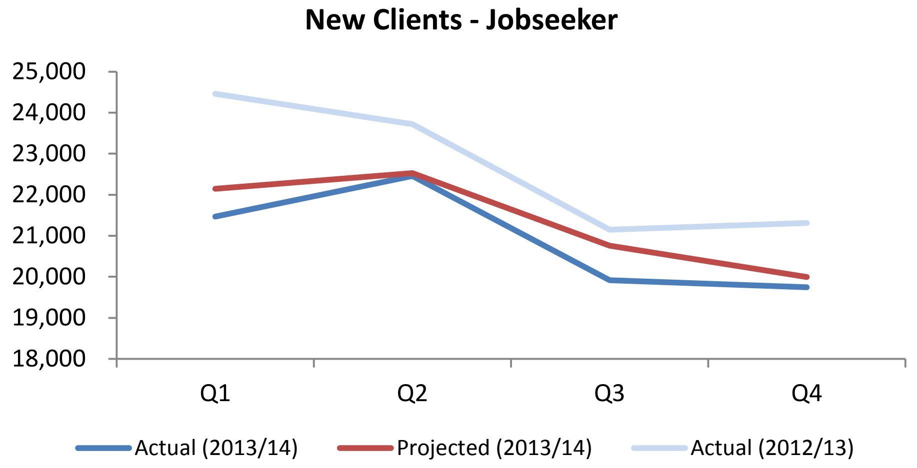
Some overall observations from the table are:

- 70% of people were in the same benefit category in the quarter to 30 June 2014 as they were as at 30 June 2013. This varies by benefit from 90% for SLP to 51% for JS-WR.
- 18% of clients exited benefit over the year.
- Of those people who exited the benefit system in the year to 30 June 2013, 21% were in receipt of a benefit in the quarter to 30 June 2014. Re-entry rates vary by benefit, with improvements in the sustainability of exits for SPS and JS-HCD clients over the last few years. They also vary by region with seasonal work more prominent in some areas.
- 13% of people receiving a main benefit at 30 June 2013 transitioned to another benefit category over the year. While this is a relatively small percentage, transfers are important and can have a significant impact on liability over time.
- Transitions to JS-HCD and SLP are of particular importance because they usually represent a reduced likelihood of moving into sustainable employment. Overall, 3,609 more people transitioned from a main benefit into JS-HCD or SLP over the year than projected. Some of this is likely to be due to changes in benefit structure in July 2013. Clients previously receiving the Domestic Purposes, Widows or Woman Alone benefits (youngest child aged 14 or over) were re-classified as JS-WR. Many have since transitioned to benefit categories with lower work obligations (JS-HCD, SLP), though it is likely most of these would have qualified for these benefits previously (but had no obvious incentive to do so prior to July 2013). See paragraph 2.64 and 2.70 for more detail.

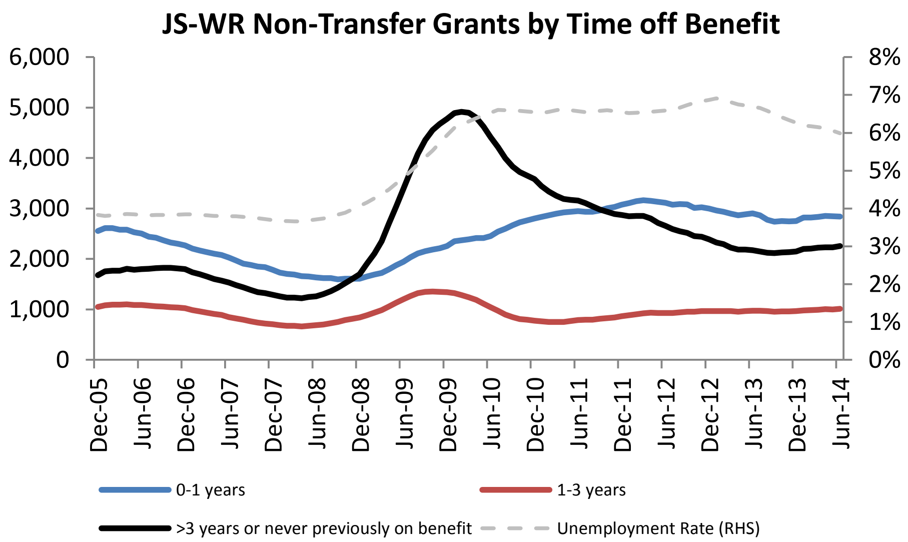
Gateway 1 – New Jobseeker Clients

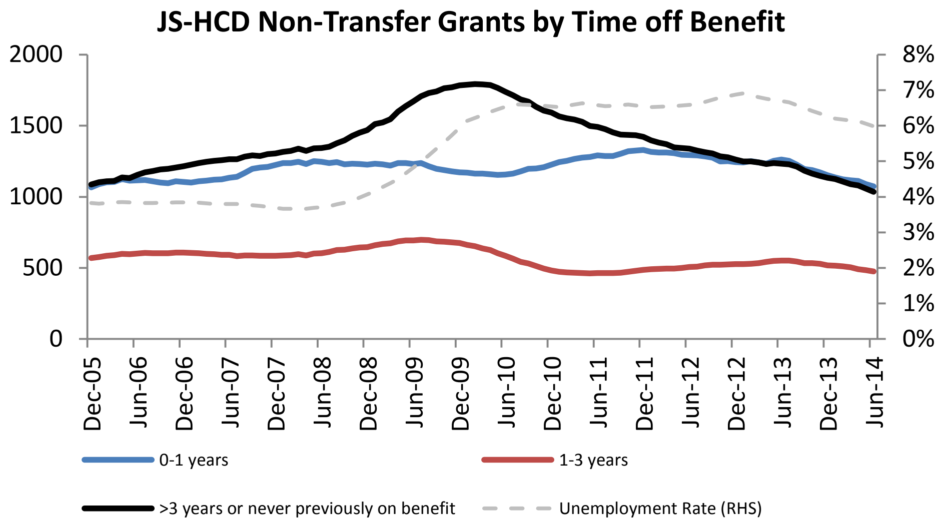
2.34 JS is the most significant entry point into the benefit system representing nearly 80% of new main benefit clients. Once in the benefit system clients either leave after a short time (having found employment), stay on the Jobseeker benefit for a prolonged period of time (either continuously or going on and off) or transition to benefits with high probability of long-term benefit receipt.

2.35 The following chart shows quarter by quarter comparisons against the previous year and projections from the 2013 valuation. Over the year there were 83,590 new Jobseeker clients. This was 1,833 less than projected by the valuation and 7,042 less than the previous year. Whilst approximately 70% of new JS clients are JS-WR, the lower than projected number of new clients entirely relates to JS-HCD.



2.36 The following charts show the number of benefit grants to new Jobseeker clients split by the time since they were last on benefit. Both charts show 12 month rolling averages and are based on official beneficiary counts rather than valuation methodology. The first chart is for JS-WR clients and the second chart is for JS-HCD clients. The unemployment rate is included for reference.





2.37 The number of JS-WR grants is highly correlated with the unemployment rate. The impact on JS-HCD grants is less pronounced.

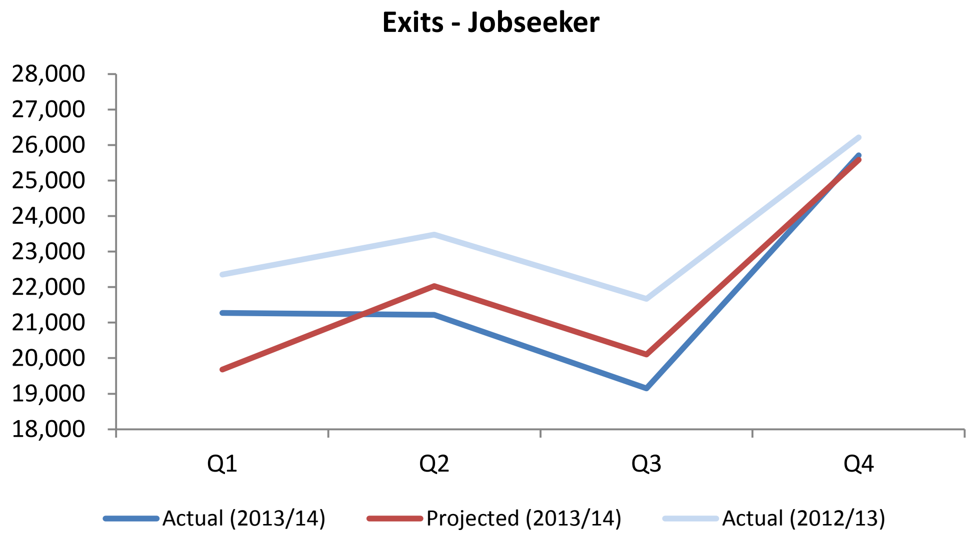
2.38 The reduction in number of grants in recent years stems almost entirely from a reduction in grants to clients who have never previously received a benefit, or have not received one in the three years prior. The number of clients returning within three years of last receiving a benefit has been more consistent over time.

2.39 The number (and rate) of clients returning to JS-WR within one year of last being on benefit increased during the GFC but has not decreased materially with improved labour market conditions since. This cohort of clients represents an area of opportunity particularly if labour market conditions continue to improve to at or near pre-GFC levels. Sustainability of JS-WR exits is explored more in paragraphs 2.43 to 2.45.

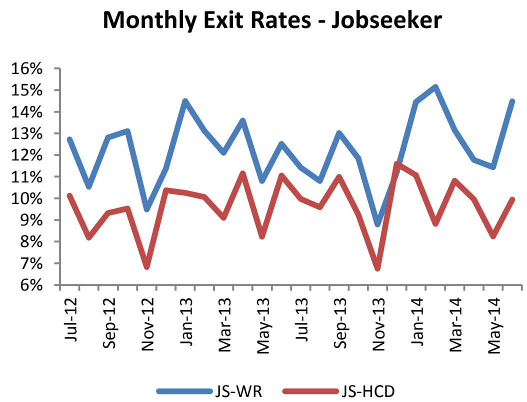
2.40 Some people returning to JS-WR within a year of last being on benefit are seasonal workers in industries such as agriculture, horticulture and freezing works. A portion of these earn enough during their time in work to provide for themselves and families for the whole year. Previously there was a maximum stand-down period of up to 10 weeks. This was reduced to two weeks in July 2007. Further analysis is required to better understand the size and profile of this cohort.

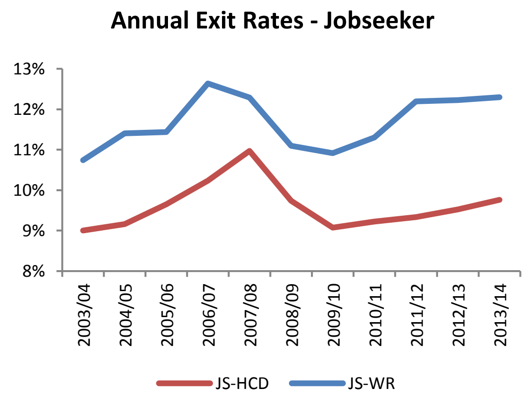
Conclusion – The level of new JS clients over the year was broadly in line with expectations given labour market conditions. This is a good performance outcome, given the focus of operational resources on SPS clients (who have a high average liability). However, the high proportion of returning clients amongst new JS grants is an area of opportunity, particularly if the labour market continues to improve.

Gateway 2 – Exits from Jobseeker



2.41 There were 87,355 exits (excluding transfers to another benefit) over the year, marginally less than projected and 6,359 less than in the year prior. This decrease is largely attributable to there being fewer people receiving JS. Rates of exit have remained relatively stable in the last two years, as shown in the following charts. The annual rates in the right hand chart show a slight increase in exit rates for JS-HCD and a similar exit rate as the last two years for JS-WR.

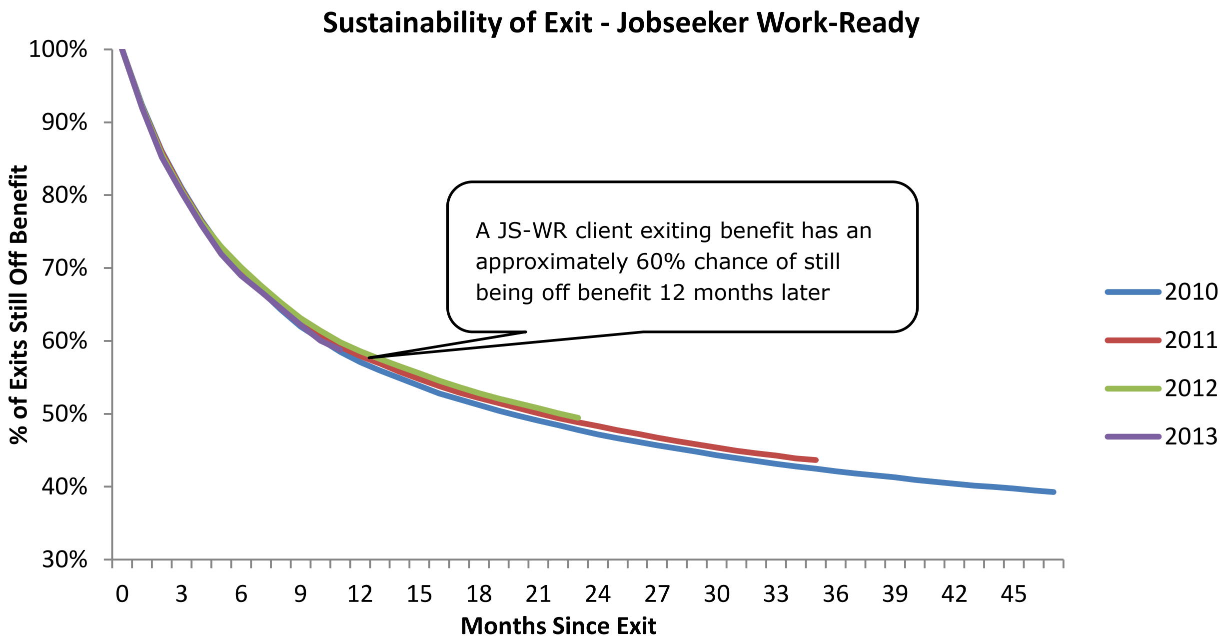


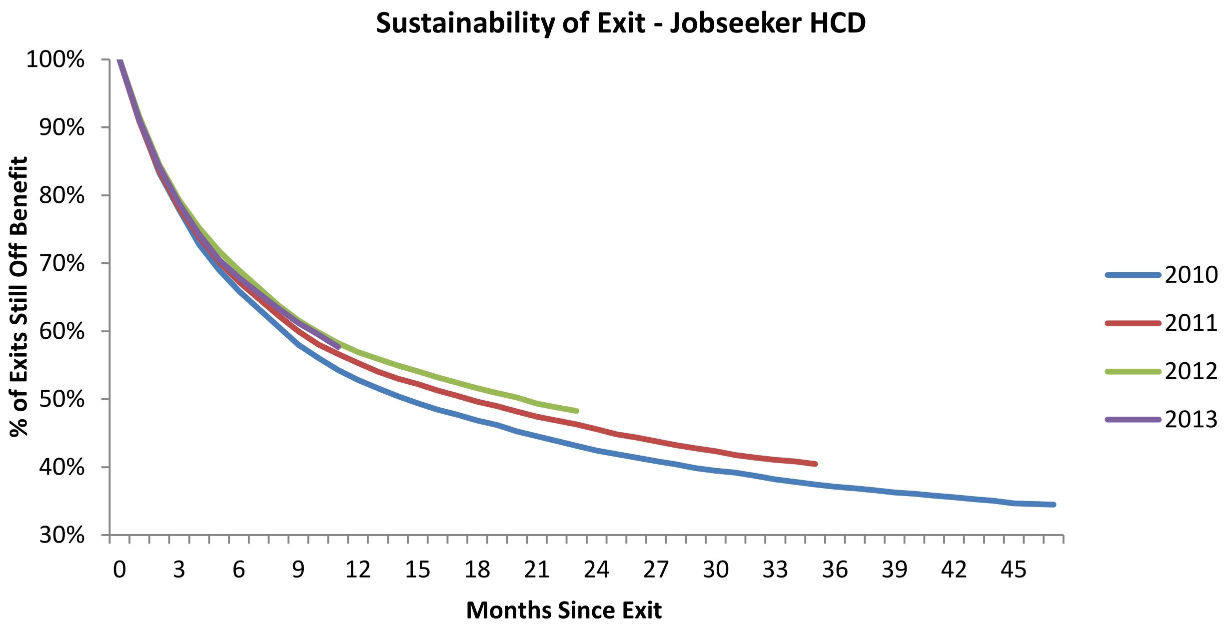


2.42 Exit rates should not be expected to in all cases increase as labour market conditions improve. As those closest to the labour market take up jobs in the early stages of an economic recovery, those that remain tend to be harder to place into sustainable jobs. Hence, the leveling off of JS-WR exit rates over the last two years (against a backdrop of improving labour market conditions) is not necessarily a problem, particularly given that the level is not far off pre-GFC peaks. Also, the operational focus on SPS clients may be having an impact on JS exit rates. However, continued monitoring of exit rates for any deterioration in experience is required. Further, we suggest analysis of JS exit rates by region is performed to help understand the experience in differing regional labour markets.

Sustainability of Jobseeker Exits

2.43 It is important to focus on the sustainability of exits and not just the number of exits. The following charts show the proportion of people who have returned to a main benefit after previously exiting JS. Each line represents a different year of data so that the year-on-year change in exit sustainability can be tracked.





2.44 Given improving labour market conditions over the last three years, it is reasonable to expect to see some improvement in sustainability of exits, albeit employment growth has been skewed to higher skilled occupations. A number of things stand out in the charts:

- The sustainability of JS-WR exits has not materially improved over the last three years and warrants further examination.
- The sustainability of JS-HCD exits has improved.
- The sustainability of JS-HCD exits is now at a similar level to JS-WR exits.

2.45 MSD recently started a trial aimed at supporting former clients in work and addressing the barriers that clients may face to sustained employment. This is an important trial.

Conclusion – JS-WR exit rates have leveled off in the last two years and there has been no material improvement in the sustainability of JS-WR exits. This may partly reflect operational focus on SPS clients.

Pre-GFC Unemployment Benefit Cohort

2.46 Before the GFC, the New Zealand economy was buoyant with strong labour market conditions. The national unemployment rate was under 4% with all regions under 5%. The number of people receiving the then named Unemployment Benefit (UB) was declining, reaching a low point of 17,471 in May 2008. While each client's circumstances were different, most of the 17,471 clients at May 2008 had significant barriers to employment.

2.47 We have tracked the benefit outcomes of this cohort over the six years since May 2008.

2.48 In June 2014, 8,216 (or 47% of the 17,471) were receiving a benefit, of which 3,947 (or 23%) have been on benefit continuously since May 2008.

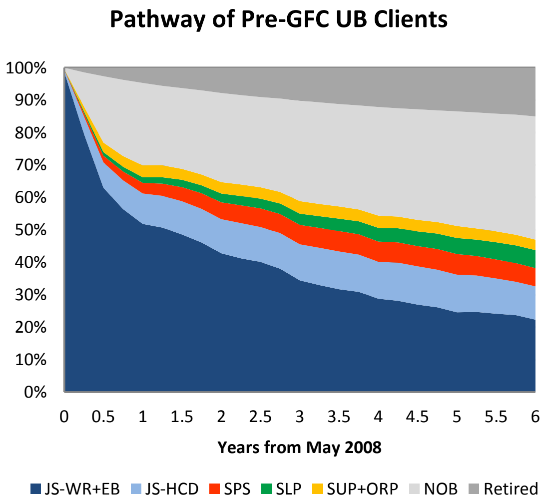
2.49 The profile of these clients is also quite different to the beneficiary population overall as the following table shows. The cohort is older than the general beneficiary population and has a higher proportion of male Māori.

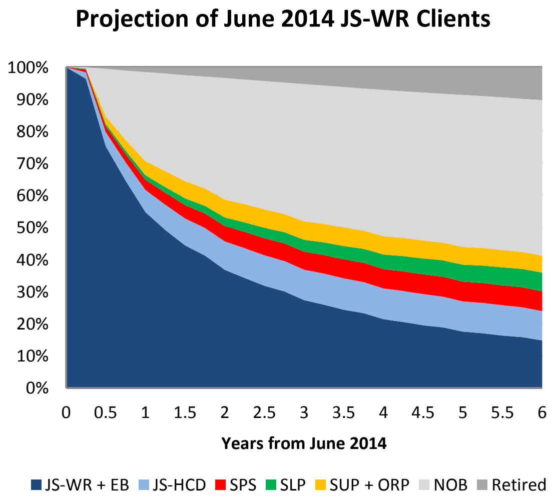
June 2014	Pre-GFC UB Clients	All JS-WR Clients	All Clients
Average Age (Yrs)	42.1	36.7	39.3
Average Benefit Duration (Yrs)	3.3	2.0	4.1
Gender			
Male	68%	54%	42%
Female	32%	46%	58%
Ethnicity			
NZ EU	32%	35%	41%
Māori	48%	39%	30%
P Island	9%	11%	10%
Asian	5%	7%	9%
Other	6%	8%	10%

2.50 Of those pre-GFC clients not currently receiving a benefit, approximately one quarter exited benefit because they had reached age 65 and become eligible for NZ super, or had left NZ. The majority of the rest exited to take up employment.

2.51 It is important to consider what would have been the expected pathway of this cohort from May 2008 onwards. At that time annual valuations of the benefit system were not performed and so we don't have a 2008 based projection for direct comparison. However, we can compare their pathway with a projection of JS-WR clients at June 2014. This is not a direct comparison because of the difference in client profile noted in the table above and the fact that the projection is from June 2014, not May 2008.

However, it gives a good steer as to whether pre-GFC UB clients' experience over the last six years is abnormal compared with a general group of JS-WR clients today.



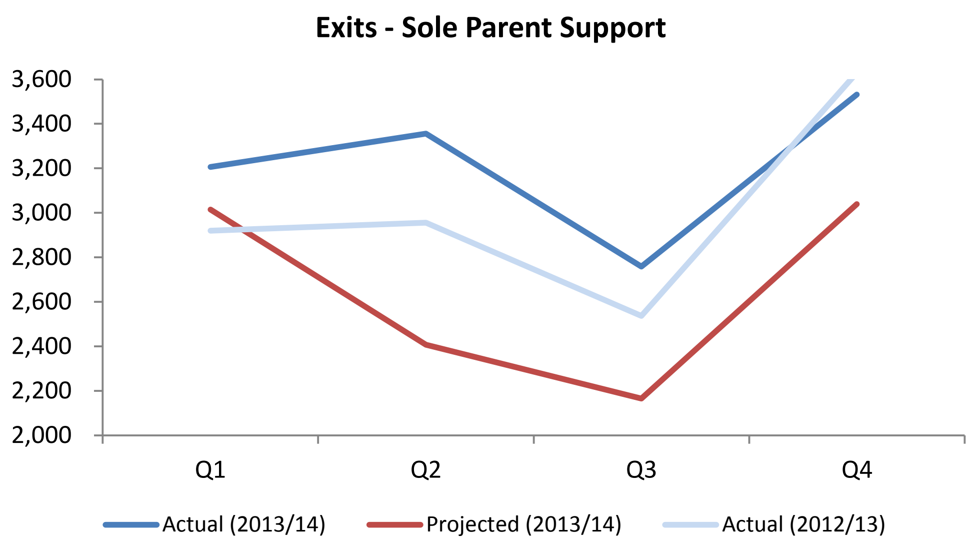


Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014

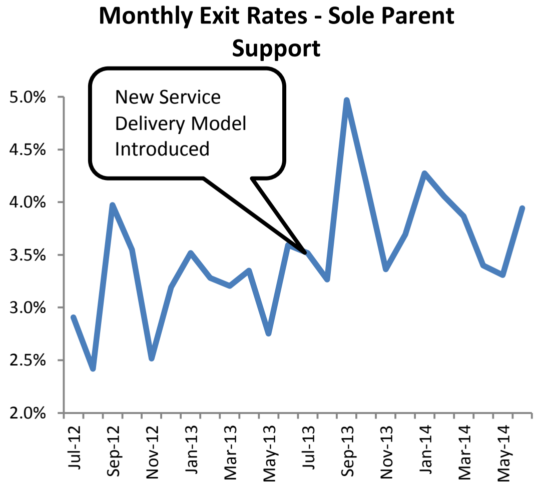
2.52 The two charts are very similar. While the pre-GFC UB clients have a slightly higher proportion currently receiving JS, the general level of transfer/exit is broadly the same. This is an important observation because it highlights that employment outcomes can be found for clients with significant barriers.

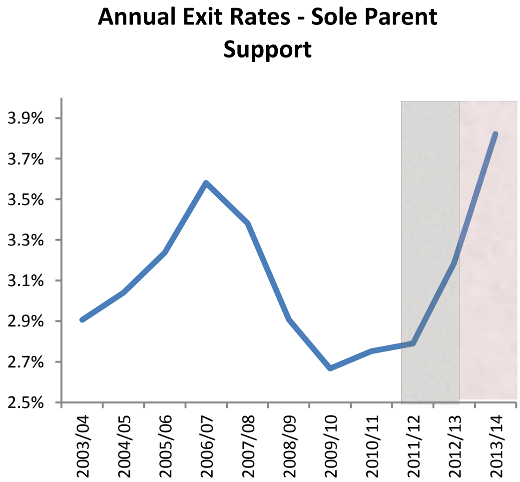
Gateway 3 – Exits from Sole Parent Support

2.53 Reducing numbers of people receiving sole parent support is a key highlight over the last year. Sole parent numbers reduced by 8,410 to 82,827 at 30 June 2014. A primary contributing factor to this was success in placing sole parents into full-time employment (see following chart).



2.54 There were 12,853 exits over the year, 2,226 (or 21%) more than projected and 812 (or 7%) more than in the year prior. This is a significant result, particularly given there were less SPS clients. This is also reflected in the following exit rate charts. In both charts the increase in exit rates compared with last year is significant. The exit rate in 2013/14 was 3.8% per month compared with 3.2% in 2012/13. Exit rates over the year were above pre-GFC highs.

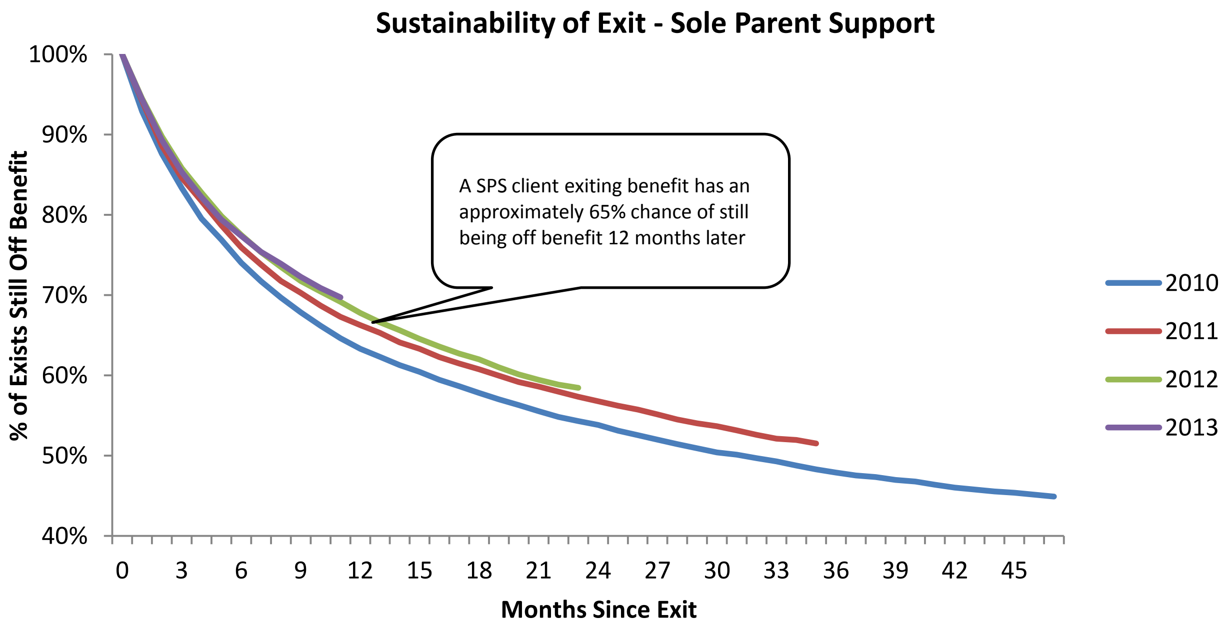




2.55 This is clear evidence that the focus on sole parents through previous policy reform and more recent changes to the service delivery model have had a strong impact on helping people move into the workforce. The first shaded area in the 'Annual Exit Rates' chart denotes the period shortly after welfare reform phase two, and the second shaded area the period since work focused case management was introduced. It appears that the combination of policy reform and changes to the service delivery model have been compounding, with continuing improvement in exit rates since the latter was implemented. The focus on SPS clients may also partly explain why JS exit rates have been relatively stable in the last three years. In prior years, resources currently diverted to SPS clients would have been more heavily focused on JS clients.

Sustainability of Sole Parent Support Exits

2.56 As for JS clients, it is important to focus on the sustainability of exits and not just the number of exits. The following chart shows the proportion of people who have returned to a main benefit after previously exiting SPS.



Sustainability of exits has been improving gradually year-on-year, other than the most recent year where experience has been at the level of the previous year. Clients exiting in the last two years are approximately 5% more likely to stay off benefit for at least 12 months compared with those exiting in 2010/11. Some improvement is to be expected given better labour market conditions, and the focus on work obligations may also act as a disincentive to return to benefits. Even so, more exits combined with higher sustainability is a commendable result.

Conclusion – Success in supporting sole parent clients into employment was a key highlight in 2012/13, and this continued to be the case in 2013/14. While there remains opportunity with regards to SPS clients, valuation projections suggest that the number of SPS clients may begin to stabilise, as the proportion of remaining clients with significant barriers to employment increases. Given this, consideration will need to be given as to how to optimally use case management resources with the likelihood that, in time, a higher emphasis on other benefit types may be appropriate.

Gateway 4 – Transition of Youth to Working-Age Benefits

2.57 In August 2012 the Youth Service was introduced. It targets 16 to 18 year olds who are at high risk of long-term benefit dependency, particularly teenagers not in education, employment or training (NEET). The aim is to help young people build an independent future and reduce their risk of transitioning to working-age benefits after age 18, through achievement of a qualification of NCEA Level 2 or higher and developing life skills.

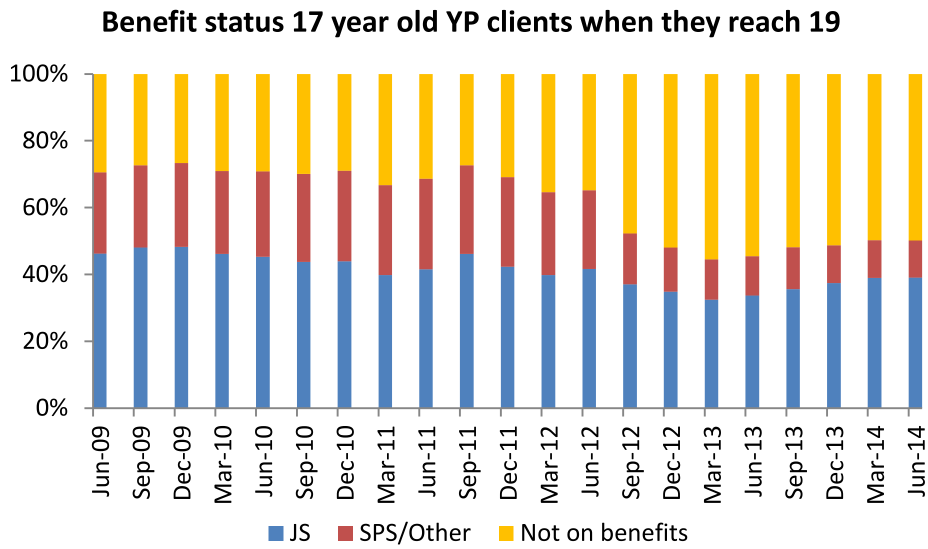
2.58 In the short term, the Youth Service has resulted in an increase in clients receiving YP. This is due to a combination of factors including:

- Targeting NEET teenagers who otherwise wouldn't have been receiving a benefit pre-working age.
- The Youth Service holds some clients on benefit longer than they might otherwise have been while they are gaining their qualifications.
- Lower rates of teen pregnancy have also meant that people that may otherwise have been receiving YPP are receiving YP.

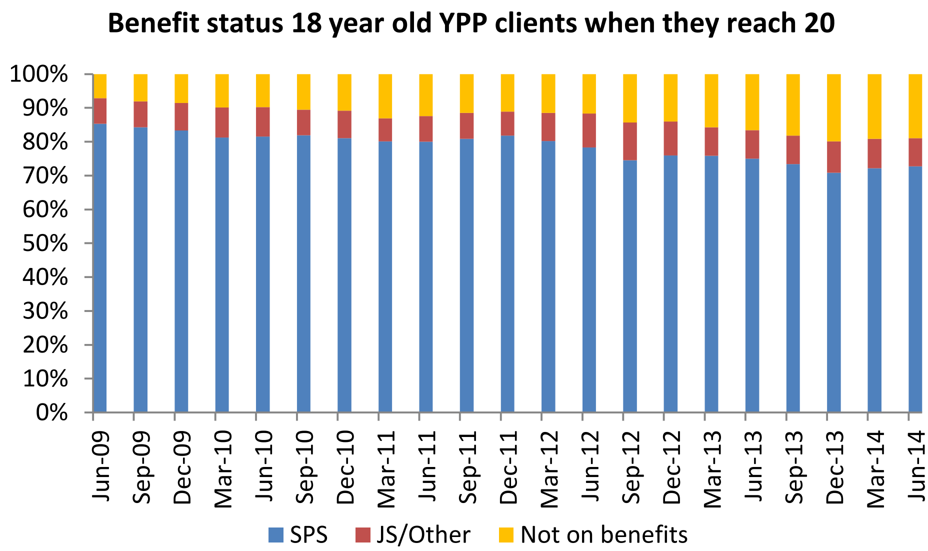
This increase in YP clients is seen as part of the investment in youth with the expectation that the Youth Service will decrease their likelihood of long-term benefit dependency. While it is too early to draw firm conclusions on the impact of the Youth Service on long-term benefit dependency, indications to date are positive. This is both in terms of improving qualifications and reducing transition on to working-age benefits.

2.59 Improving qualifications is seen as a key step to improving employment prospects for Youth Service clients. Nearly two-thirds of YP participants increased their number of NCEA credits in their first 12 months of participating in the Youth Service, compared with one-quarter of a comparison group. Also, 14% of YP participants (compared to 5% of a comparison group) and 7% of YPP participants (compared to 5% of a comparison group) met the requirements of NCEA level 2. This is important because the valuation shows that the risk of long-term benefit dependence reduces with higher educational qualifications.

2.60 The following charts show analysis from the 30 June 2014 valuation report on former clients' status a year after they became eligible for working-age benefits. Each vertical bar represents the cohort of YP clients who turned 17 (first chart) or YPP clients who turned 18 (second chart) in each quarter. The colour coding of the vertical bars represents the benefit these clients were receiving (if any) two years later. The key point to note is that in both charts the yellow bars representing 'not on benefit' have grown. Clients on youth benefits are transitioning to working-age benefits less now than before the Youth Service. The impact appears to be more pronounced for YP clients, which is to be expected given the likely young ages of YPP clients' children.



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014

Note: from June 2012 these charts are partly a projection based on early trends. This is because not all of the clients in the post 2012 cohorts have reached 19 (for YP) or 20 (for YPP) as at 30 June 2014.

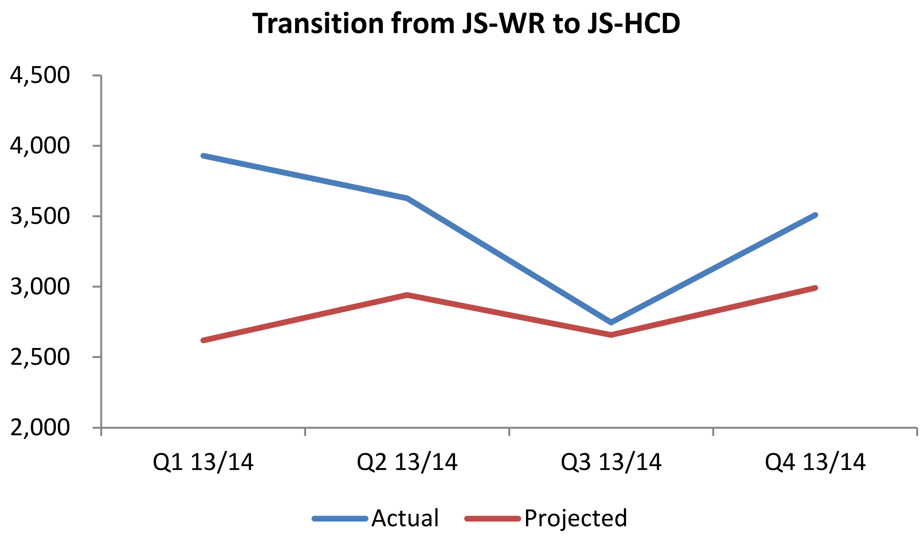
2.61 For YP clients the yellow bars have increased from approximately 30% to 51% (11% to 19% for YPP). It will be important to continue tracking the rate at which Youth Service clients transition to working-age benefits, and their rate of re-entry onto benefit should they exit.

Conclusion – It is too early to draw firm conclusions about the full impact of the Youth Service. However, indications to date are positive. Over time the experience of Youth Service clients should be tracked to best understand the full impact. More broadly, and in light of the findings on childhood experience in chapter 4, strategies should be considered on how the Ministry and broader government can intervene earlier to help children who have a high likelihood of accessing the benefit system (and other social sector services).

Gateway 5 – Transition of JS-WR Clients to JS-HCD

2.62 The transition of JS clients from WR to HCD status is a key benefit gateway as it represents a movement to a client segment with higher risk of long-term dependence. JS-HCD clients have a lower rate of benefit exit and higher rate of transition to SLP.

2.63 Over the year, more clients transitioned to JS-HCD than projected as the following chart shows.



2.64 This higher rate is likely to be partly attributable to benefit structure changes, the effect of which may be temporary. For example, the re-classification of widows and former Domestic Purposes Benefit (DPB) clients (youngest child 14 or over) into JS has had a temporary impact. They represent approximately 40% of all transitions from JS-WR to JS-HCD over the year. It is likely that many of these clients would have qualified for the Sickness Benefit (SB) before July 2013 but had no clear incentive to transfer. While they may have had work obligations, they were not being as actively worked with by case managers and SB was not a higher rate benefit. The reclassification to JS has then prompted the transition from WR to HCD and so the impact of the re-classification on transitions from JS-WR to JS-HCD is expected to be partly temporary. Similarly new clients are now likely to go straight to JS-HCD.

2.65 ACC's 2013 Financial Condition Report highlighted that 4-6% of ACC clients ceasing weekly compensation move into the benefit system within three months. Some level of transition to the benefit system is to be expected. However, it is not clear the extent to which these clients move off benefit quickly having found employment or become long-term benefit dependent. There is value in analysing ACC data to understand the experience of former ACC weekly compensation clients that transition to the benefit system. Some may require a different case management approach to other new JS clients, particularly those that have been receiving weekly compensation for a long time.

Conclusion – Judging whether experience over the last year was consistent with expectations is difficult because of benefit structure changes in July 2013. The extent to which benefit structure changes have caused the elevated levels of transition from JS-WR to JS-HCD (temporarily or permanently) will be better judged in the 30 June 2015 valuation. At this stage though, there is no obvious reason to suggest that the level in 2013/14 is unreasonably high.

Gateway 6 – Transition to Supported Living Payment

2.66 As for transitions from JS-WR to JS-HCD, gateway 6 is important because it represents a movement to a higher average liability segment. Most SLP clients receive a benefit until they reach retirement age.

2.67 The number of clients taking up or exiting SLP is relatively low compared with other benefit categories. However, a small change can have a material impact on the total number of SLP clients if it is sustained over a long period.

2.68 The following table breaks down the change in the number of people receiving SLP.

	Actual	Projected	Ratio
SLP clients quarter to 30 June 2013	101,444	101,444	-
+ Grants to new SLP clients	5,670	5,449	104%
+ Transfers to SLP from another benefit	8,494	6,539	130%
- Transfers from SLP to another benefit	2,560	2,687	95%
- Benefit exits	7,369	7,254	102%
SLP clients quarter to 30 June 2014	105,679	103,490	102%

2.69 The number of people transferring to SLP from another benefit was 30% higher than projected. Most of this variance was experienced in the first three quarters of the year, with quarter four transfers being more in line with projections.

2.70 Following phases two and three of Welfare Reform it was anticipated that an increased level of transfers would be experienced in the short-term because greater work expectations impacted some JS and SPS clients. In particular, SPS clients previously had little incentive to transfer to the SLP equivalent benefit (Invalids Benefit) because it paid a similar rate to the SPS equivalent benefit (Domestic Purposes Benefit). It is worth noting that 48% of clients who have transitioned to SLP over the year were receiving Disability Allowance prior to the benefit structure changes in July 2013. It was also expected that some people would test the boundaries of benefit classification under the new benefit structure. Work and Income periodically audits a sample of SLP grants as a means of monitoring the application of eligibility rules. To date, no material issues have been found.

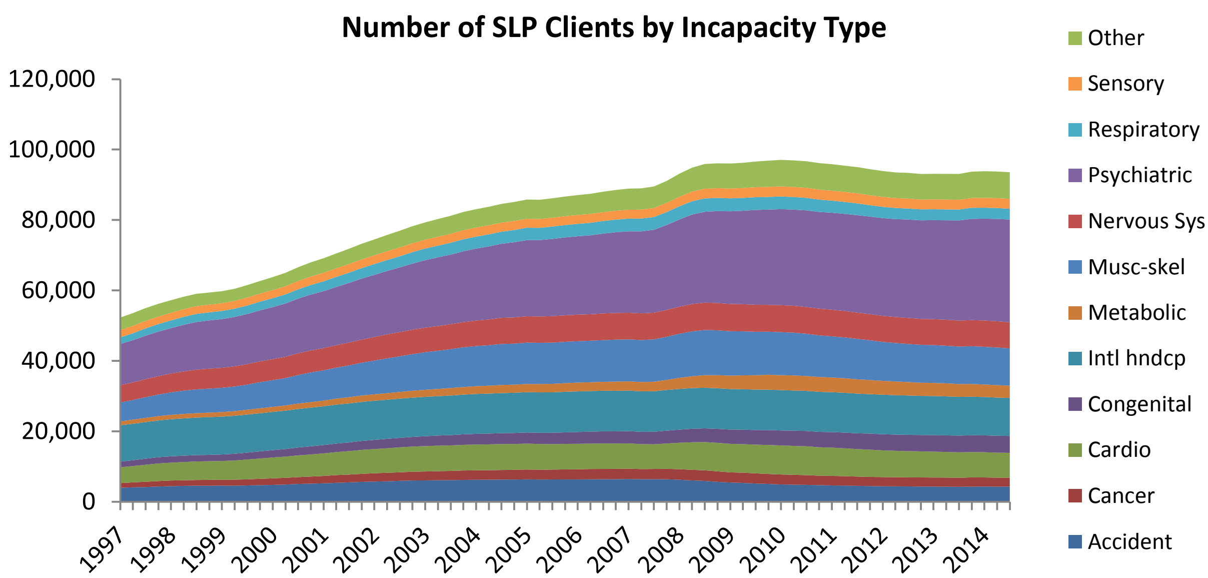
2.71 It is important to note that clients transferring from JS and SPS do not represent an average of clients receiving JS and SPS. Those transferring tend, on average, to be older and have longer benefit duration. This means they already have a higher than average risk of long-term benefit dependency and so the impact on liability is not as large as might be expected. We estimate the liability impact of clients transitioning to SLP during the year to be +$45m. This is relatively immaterial in the context of the $2.2bn decrease in benefit system liability (under management influence) over the year.

2.72 That said, it is important to closely monitor this gateway. SLP trends tend to move slowly and liability impacts can build up over a number of years.

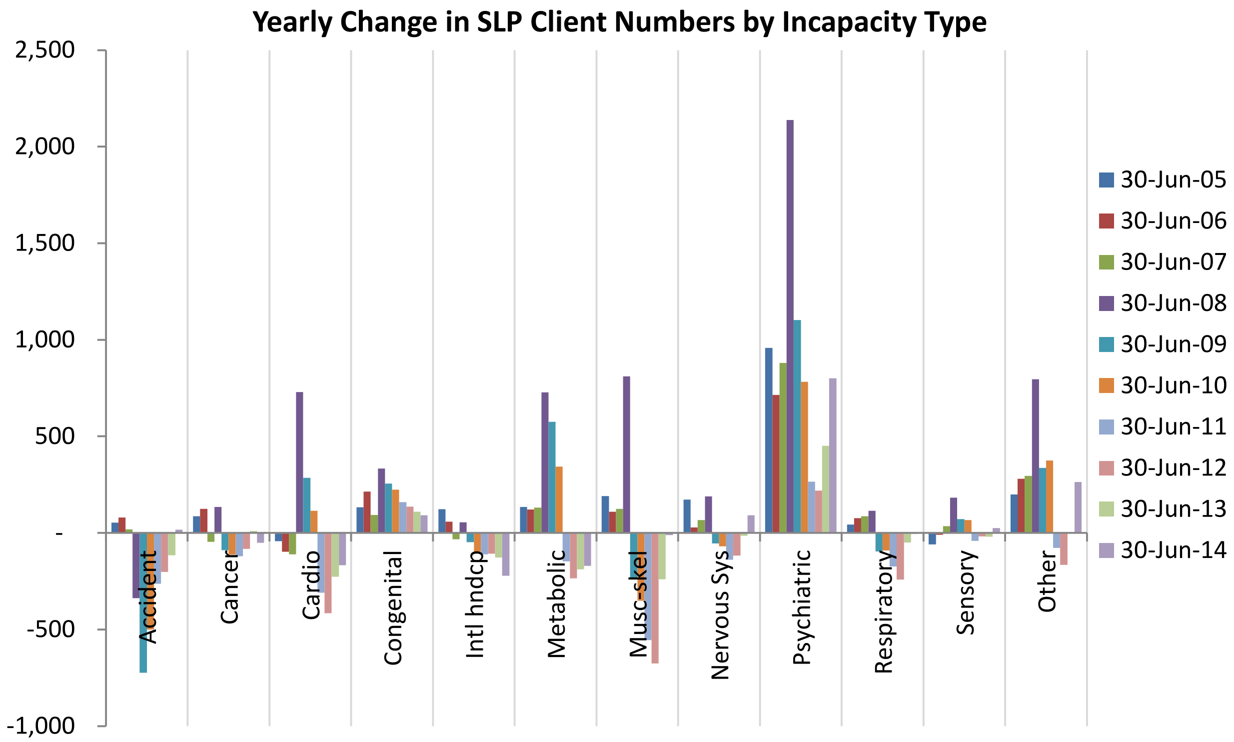
SLP Clients with a Psychiatric Condition

2.73 One of the key trends impacting the benefit system is the increasing prevalence of clients with psychiatric conditions. This is not unique to New Zealand. Most developed countries are experiencing a similar increase, with consequences for health and welfare provision.

2.74 Psychiatric conditions are varied in nature and severity. Conditions include schizophrenia, bipolar disorder and depression. The following chart shows the increase in SLP numbers (excluding carers) over time, split by incapacity code.



2.75 The increase in clients with a psychiatric condition is very clear and accounts for nearly 85% of the increase in SLP clients over the last ten years. This is further highlighted in the following chart that shows year by year change in SLP client numbers by incapacity type. Clients with a psychiatric condition (including JS-HCD clients) now represent nearly 17% of the benefit system client base (based on official beneficiary counts).



2.76 In September 2013 a Mental Health Employment Service (MHES) trial was implemented. The service is voluntary for JS clients with common mental health conditions who have part-time or deferred work obligations. It is designed to test whether people with common mental health conditions could, with the right support, be encouraged to move into work. At this stage it is too early to perform a conclusive assessment of the trial's effectiveness.

2.77 The wide range of conditions and degrees of severity mean it is difficult to apply general rules and case management approaches. It is likely that increasingly tailored services will need to be developed with increasingly specialised staff. It is also likely that future MSD operated services for these clients will need to work more closely with other government provided services (particularly health practitioners), to offer the best support to clients collectively.

Conclusion – While above projected levels, the elevated level of transfers to SLP is not a major concern at this stage. There may still be temporary effects of the July 2013 benefit structure changes to unwind. Operational planning should take into consideration the increasing share of clients receiving SLP (particularly the increase in clients with psychiatric conditions), in terms of the services provided and the skills needed by staff to help clients.

3 Valuation Results: Life-time Liability

Summary

- The liability has decreased by $7.5bn to $69.0bn over the year to 30 June 2014.
- $2.6bn of the decrease is due to lower inflation expectations and small changes to unemployment and discount rates. These factors are outside of Management's control.
- $2.2bn of the decrease resulted from an expectation that there would be a lower number of people receiving a benefit in the quarter to 30 June 2014 due to lower unemployment and improved experience observed up to 30 June 2013.
- A further $2.2bn of the decrease in liability is attributable to welfare reform, policy and operational changes not reflected in the 30 June 2013 valuation. Most of this reflects higher rates of exit from SPS and lower levels of former SPS clients returning to benefit.
- Welfare reform has reduced expected future time on main benefits by an average of 1.2 years for sole parents and 2.8 years for youth benefit clients.
- This valuation contains new analysis of the impact of family benefit history on long-term benefit dependency, enhancing understanding of the drivers of long-term benefit receipt.

Summary of Approach

3.1 To help inform Management and measure the performance of the welfare system an annual valuation of the benefit system for working-age adults is undertaken.

3.2 The liability is calculated by forecasting the expected future benefit payments up to age 65 for all working-age people who have received a benefit at any time in the 12 months preceding the valuation date. These payments are then discounted back to the valuation date using 'risk free' interest rates. Allowance is also made for the projected cost of employment support and services, the costs to administer the system, as well as loans and debts.

3.3 The 30 June 2014 liability assessment was undertaken by Taylor Fry Consulting Actuaries (Taylor Fry). Their report, *Valuation of the Benefit System for Working-age Adults as at 30 June 2014*, (the 2014 Valuation Report) was prepared by Alan Greenfield FIAA, Dr Hugh Miller FIAA, Kari Wolanski and Dr Gráinne McGuire FIAA. More detail on the valuation approach can be found in Part C of the 2014 Valuation Report.

3.4 The assumptions used in establishing the actuarial liability aim to be 'best estimate' (i.e. they should not contain any deliberate bias towards conservatism or optimism).

3.5 The liability is calculated based on, among other things, an expectation of future economic conditions. The future state of the economy cannot be predicted with accuracy which adds to the uncertainty inherent in these forecasts. In particular:

- The future unemployment rate will influence the number of people who enter the benefit system and the ability of existing clients to find appropriate employment. The number of people receiving JS is particularly sensitive to the state of the labour market. The methodology for deriving unemployment rate assumptions has changed this valuation to allow for regional level unemployment rates. In prior valuations, a single national level unemployment assumption was used.
- The liability assumes benefits will be increased in future years. Benefits will increase in line with actual inflation rates or as defined by future legislative changes. These will likely differ from assumptions.
- The liability is discounted using market rates for government bonds as at each valuation and so will change, sometimes significantly, from valuation to valuation. This can cause significant fluctuations in the value of the calculated liability, although it does not change the level of projected benefit payments.

3.6 The liability is also based on beneficiary related assumptions, including entry and exit rates from benefit, and rates of transfer between benefit categories. Compared with the 30 June 2013 valuation, a number of benefit transition rate assumptions were updated to reflect recent experience. These include:

- Increasing exit and transfer rates from SPS – Liability impact -$1.1bn.
- Lowering exit rates from JS-WR – Liability impact +$0.5bn.
- Lowering the re-entry rate onto benefit for recent exits – Liability impact -$0.3bn.

The general approach has been to partially allow for recent experience with a view to updating assumptions in future valuations should recent experience continue or change. We reviewed the changes to assumptions and agree that they are appropriate.

3.7 The purpose of the valuation is to help inform Management about drivers of long-term dependency and, as such, the quantum of the liability is of less importance than the reasons for any change in the liability.

Valuation Results

3.8 The liability as at 30 June 2014 was calculated to be $69.0bn, a decrease of $7.5bn from the $76.5bn assessed at 30 June 2013. The following table provides a breakdown of the change in liability over the year:

	Liability ($bn)	Change ($bn)
Liability as at 30 June 2013	$76.5	-
Updated Economic Assumptions	$73.9	-$2.6
Roll Forward (expected liability change)	$71.7	-$2.2
Update for Experience	$69.5	-$2.2

	Liability ($bn)	Change ($bn)
Other Methodology Changes	$69.0	-$0.5
Liability as at 30 June 2014	$69.0	-

Updated Economic Assumptions – Decrease of $2.6bn

3.9 The largest single impact on the liability has been a lowering of inflation expectations in the short to medium-term (reducing expected future benefit increases). This decreased the liability by $2.0bn.

3.10 Discount rates increased slightly, decreasing the liability by approximately $0.3bn.

3.11 The unemployment rate at 30 June 2014 was slightly lower than expected (5.6% vs 5.9%, seasonally adjusted) and the Treasury forecast unemployment rate sees a low of 4.5% reached four years earlier than last year's forecast. This lowers the expected number of people on benefit in the future and correspondingly decreases the liability by approximately $0.3bn.

Roll Forward (expected liability change) – Decrease of $2.2bn

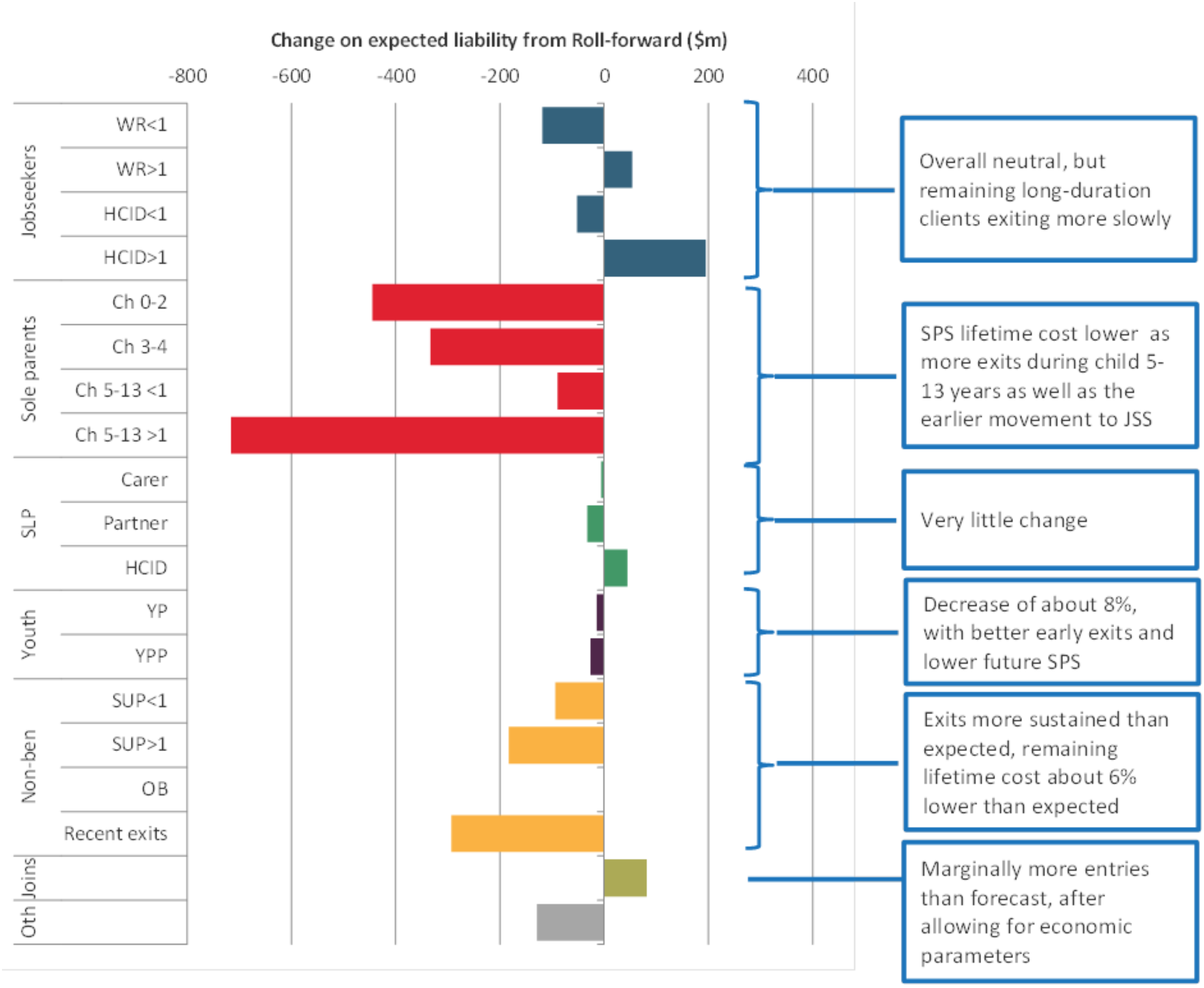
3.12 The expected movement (a decrease of $2.2 billion) from 2013 to 2014 allows for:

- a decrease arising from benefit payments being made and no longer forming part of the liability
- a group of people who were in the recent exits segment at June 2013 staying off benefit for longer than 12 months and therefore falling outside the scope of the liability definition
- new beneficiaries who either received a benefit for the first time during the year, or returned to benefit after being off the benefit for longer than 12 months
- interest on the opening liability (the unwinding of the discount rate applied to the liability over the year).

The net effect of these was a forecast reduction in beneficiary numbers, primarily as a result of an assumed improvement in the unemployment rate.

Update for Experience – Decrease of $2.2bn

3.13 After allowing for lower than expected unemployment over the year, there are still less people receiving benefits than expected. This decreases the liability both directly as a result of the lower numbers and as a result of the observed experience being used to inform updated assumptions for entry, exit, re-entry and transition rates between benefits (reducing projected numbers on benefit in the future). Higher rates of SPS exit and lower rates of re-entry over the year are the major contributors to the $2.2bn liability decrease. The following chart breaks this down by client segment.



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014

3.14 The overall contribution from JS was neutral. Exit rates among longer-duration clients declined slightly. As noted earlier, this may be partly due to the improvement in the labour market having been focused towards more skilled occupations.

3.15 The decrease in liability of $2.2bn can be attributed to welfare reform and operational changes not reflected in the 30 June 2013 valuation. Attributing this to changes made this year rather than the residual impact from changes made in prior years is difficult. However, it seems likely that July 2013 policy changes and the new service delivery model have both had positive impacts. In particular:

- Former DPB clients with older children and former widows/woman alone clients are exiting benefits at a faster rate than before July 2013.
- The rate of sole parents exiting benefits increased at about the same time as the new service delivery model was introduced in July 2013.

Other Methodology Changes – Decrease of $0.5bn

3.16 The methodology change primarily relates to better modeling of non-beneficiaries (recent exits and those receiving supplementary benefits only) through the introduction of a new 'previous benefit' variable.

3.17 The following table compares the liability at 30 June 2014 and 30 June 2013 by benefit category.

Benefit Category	Numbers*			Liability		
	June 13	June 14	Change	June 13 ($m)	June 14 ($m)	Change
Jobseeker Support	155,836	143,999	-7.6%	18,104	16,452	-9.1%
Sole Parents	84,897	76,533	-9.9%	18,005	14,628	-18.8%
Supported Living	101,444	102,490	+1.0%	17,155	16,992	-1.0%
Youth Payment	1,496	1,829	+22.3%	219	251	+14.6%
Young Parent Payment	1,361	1,192	-12.4%	335	254	-24.2%
Main Benefits	345,034	326,043	-5.5%	53,817	48,578	-9.7%
Sup Only	97,814	96,311	-1.5%	5,417	4,902	-9.5%
Orphan Only	4,928	5,085	+3.2%	474	486	+2.5%
Recent Exits	154,704	148,006	-4.3%	8,762	7,461	-14.8%
Sub-total	602,480	575,445	-4.5%	68,470	61,427	-10.3%
Future Expenses				7,698	7,245	-5.9%
Net Loan Cost				372	330	-11.3%
TOTAL LIABILITY				76,540	69,002	-9.8%

*Numbers are as at 30 June and include partners and 16/17 year olds

3.18 Note that the client numbers in the above table are as at 30 June 2014 whereas most other numbers in this report include all clients who have received a benefit in a quarter.

3.19 There have been falls in both the number of clients and liabilities across most benefit categories over the year:

- The number of people across all jobseeker clients reduced over the year, with an overall decrease of 7.6%. This was predominantly due to improving economic conditions. Short duration work-ready jobseekers reduced the least, partly due to a number of longer duration clients exiting benefits and then re-entering the shorter duration segment.
- The number of people receiving SPS decreased by 9.9%. Their liability decreased by almost double this amount (by 18.8%) reflecting increased sustainability of exits that has been incorporated in updated re-entry rate assumptions. The decrease in number of people receiving SPS is primarily due to the impact of the new service delivery model in combination with changes to work obligations in October 2012.
- The number of people receiving the YP benefit increased significantly over the year. This is likely due to a number of factors including lower levels of teen pregnancy (YPP client numbers have decreased) and the impact of the Youth Service. The Youth Service impact is difficult to precisely quantify. Initially it has likely contributed to the increased numbers. Eligible youth receive benefit payments while trying to improve their qualifications in the service. It is also likely

that the service reaches out to youth who are not in education, employment or training, but wouldn't otherwise have been receiving a benefit.

- While the number of clients receiving YP and YPP combined has increased, their liability has decreased. This is because fewer YP/YPP clients are transitioning on to main working-age benefits and increased exit rates and lower re-entry rates built into assumptions for SPS clients (SPS being a common future benefit category for female YP and YPP clients). The average future projected years on main benefits for Youth Payment clients has decreased from 15.8 years last valuation to 13.4 years (18.0 years to 15.2 years for YPP clients).
- The liability for non-beneficiaries (those receiving supplementary benefits only or those exiting benefits in the last 12 months) has decreased significantly by 12.3%. This is primarily due to a lower observed rate of clients returning to main benefits.

Sensitivity of Liability to Assumptions

3.20 The following table compares the liability (excluding loans and expenses) for alternative assumptions to give an indication of how the liability may be affected by experience over time.

	Liability ($bn)	Change ($bn)	Change (%)
Base	$61.4	-	-
Unemployment – Long term rate +1%	$64.1	+$2.7	+4.4%
Inflation +1%	$67.9	+$6.4	+10.5%
Discount Rate +1%	$55.9	-$5.5	-8.9%
JS Exit Rate +5% per quarter*	$60.8	-$0.6	-1.0%
SPS Exit Rate +5% per quarter*	$60.9	-$0.5	-0.8%
Re-entry Rate +5% per quarter*	$62.6	+$1.2	+2.0%

*e.g. a 20% rate is changed to 20% * 1.05 = 21%

3.21 The current liability is estimated assuming unemployment rates fall to 4.5% over the next four years. If we instead assumed a long-term rate of 5.5%, the liability would increase by $2.7 billion.

3.22 The table also shows the importance of sustainability of exits, with the liability being sensitive to the re-entry rate.

Projected Liability to 30 June 2019

3.23 The following table shows the projected movement in liability over the next five years under the valuation assumptions. In particular, the valuation assumes a gradual decrease in the unemployment rate to a long-term level of 4.5% by September 2018.

Top tier segment	June 14 ($m)	June 15 ($m)	June 16 ($m)	June 17 ($m)	June 18 ($m)	June 19 ($m)
Jobseeker Support	16,500	16,000	15,500	15,000	14,500	14,000
Sole Parents	14,600	14,200	14,100	13,900	13,800	13,500
Supported Living	17,000	17,000	17,200	17,400	17,500	17,700
Youth	500	500	400	400	400	400
Non-Beneficiary	12,800	11,900	11,500	11,300	11,100	10,900
All segment sub-total	61,400	59,600	58,800	58,000	57,300	56,700
Future Expenses plus Net Loan Cost	7,600	7,400	7,300	7,200	7,100	7,000
TOTAL LIABILITY	69,000	67,000	66,000	65,200	64,400	63,700

3.24 The liability is expected to fall by $2.0 billion over the coming year to $67.0 billion reflecting expectations of lower unemployment as well as an expected continuation of improved exit and re-entry experience observed in the year to 30 June 2014.

3.25 The proportion of the liability related to SLP clients is expected to increase from 24.6% in June 2014 to 27.8% in June 2019, highlighting the growing importance of this group of clients.

Comment on the Valuation

3.26 The 30 June 2014 valuation highlights further success in reducing long-term benefit dependency, particularly among SPS clients. It evidences the broad impact welfare reform and operational management changes have had on long-term benefit dependency. It contains a number of new areas of focus that are useful for Management to consider in the context of operational service design:

- The impact of family benefit history on benefit dependency is assessed (see paragraphs 4.6 to 4.16). This provides powerful insight and highlights that a person's future benefit dependency can be influenced by events occurring well before they become eligible for benefits.
- Analysis by region is included, with the impact of differing regional labour markets allowed for through regional level unemployment rate assumptions. The analysis could be used to help tailor operational services to specific regional needs.

3.27 The valuation uses the unemployment rate as a proxy for the strength of the labour market, with assumptions regarding the movement of beneficiaries through the system being adjusted according to assessed correlations. Any single proxy of the economy is subject to limitations, and there is a risk that economic developments that impact the welfare system might occur that are not fully captured by the unemployment rate. A number of proxies for the strength of the labour market have previously been considered. Other employment-based indicators may also be useful for modeling purposes and in different stages of the economic cycle, such as the participation rate. Valuation parameters and assumptions will be periodically revisited with each valuation.

3.28 As per paragraphs 4.25, 4.28 and 6.12, we recommend that CYF and Corrections data is used to inform the 30 June 2015 valuation.

4 Impact of Childhood Experience on Benefit Receipt

Summary

- 74% of under 25 year old clients (88% of youth benefit clients) were supported by benefits while they were a child.
- Clients with family benefit history have higher average lifetime costs. They are less likely to exit benefits than other clients, and if they do exit are more likely to return to benefits at a future date.
- Family benefit history is a factor influencing higher average lifetime costs for Māori. Further investigation is required to better understand this impact.
- Average liability is $20,000 (10%) higher for clients with CYF-CNP history. This difference increases the more significant the interaction with CYF-CNP, and increases with the age of a client (20% higher liability for 30-34 year olds). Average liability is also higher for female clients with CYF-YJ history.

Recommendations

- Management consider how family benefit history might influence operational service design.
- CYF data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency.

Introduction

4.1 To date, the Investment Approach has primarily focused on drivers of future benefit system cost that are specific to benefit receipt experience (e.g. benefit category and duration on benefit) and core client characteristics (e.g. age, gender and region). This chapter explores how a person's likelihood of benefit receipt is also influenced by their childhood experience and characterised through their interaction with other social services.

4.2 In this chapter we:

- provide operational context to the use of intergenerational data in the 30 June 2014 valuation. This data links current beneficiaries to their parents if they were supported by benefits during their childhood, and allows us to understand the importance of this on benefit dependency
- cross-reference CYF data with 30 June 2013 valuation data.

4.3 As analysis in the rest of this chapter shows, a person's interaction with other government services over their lifetime is intertwined and correlated. The current Investment Approach focus on the benefit system in isolation does limit the value it can add in respect of enhancing social outcomes and reducing taxpayer cost. There are opportunities to expand the scope of the Investment Approach to other areas within MSD and into other government departments. The value of any expansion would be maximised through an integrated approach that recognises the correlations between a person's interactions with different social sector services.

4.4 Analysis performed by MSD in 2012[1] showed for those young people who received benefits in their own right at age 16-17:

- Almost half were also supported by a benefit as a dependent child for some time at those ages, usually before receiving benefit in their own right.
- Had high rates of contact with the benefit system, and with care and protection, and CYF youth justice services in childhood. Of this group:
    - close to nine in 10 were supported by main benefits at some stage in childhood, half within their first eight weeks of life
    - two thirds were known to the care and protection system
    - for one third, there were recorded findings of substantiated emotional, physical, or sexual abuse, or neglect
    - for close to one quarter, there were recorded findings of behavioural or relationship difficulties
    - one in four had contact with CYF youth justice services in adolescence (for young men, the proportion was more than one in three)
    - at least three in 10 had experienced some out-of-home care, based on care episodes recorded in CYF data and data on Unsupported Child Benefit receipt.

4.5 Recent related MSD analysis also shows that approximately 45% of people born in the year to June 1994 who were supported by a benefit at birth received benefits themselves before reaching 18/19. This compares with approximately 8% among those who had no contact with the benefit system as a child.

Intergenerational Benefit Dependency

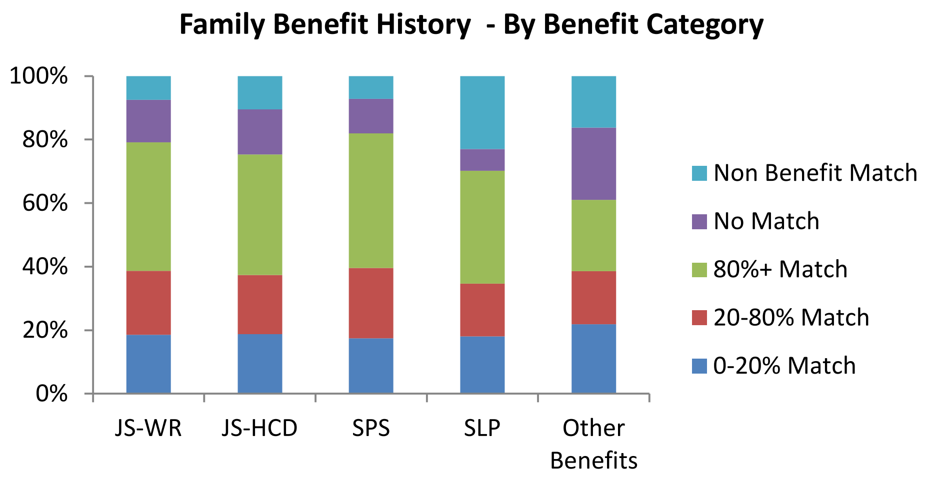
4.6 The 2013 Benefit System Performance Report highlighted the significance of a person's age when they first receive a benefit as a predictor of benefit dependency. In particular, it is estimated that 75% of the liability for all current clients is attributable to clients that first entered benefit under the age of 20. This is reflected in Work and Income's operational focus on youth (particularly the Youth Service).

4.7 Intuitively this makes sense. Intervene early to have the greatest long-term impact for clients. However, the introduction of intergenerational data into the 30 June 2014 valuation re-focuses what 'early intervention' conceptually means. The valuation used data identifying whether clients were supported by a parent on benefit during their childhood.

4.8 The following chart, based on analysis from the 30 June 2014 valuation report, shows

[1] "Young people supported by benefits at age 16-17: a profile" – Centre for Social Research and Evaluation. The analysis linked Work and Income data with care and protection and youth justice services data focused on young people born in the first half of 1993, who turned 18 in the first half of 2011.

the prevalence of family benefit history amongst current clients aged under 25. The analysis looks at the extent to which a client was supported by parents (or a parent) on benefits during their teenage years (0-20%, 20-80% or 80%+ of the time). Due to data constraints, it is limited to current clients aged under 25. Nevertheless, the analysis can be considered indicative of the importance of family benefit history on clients regardless of age, noting that the age a person first receives a benefit is one of the most important predictors of long-term benefit dependency.



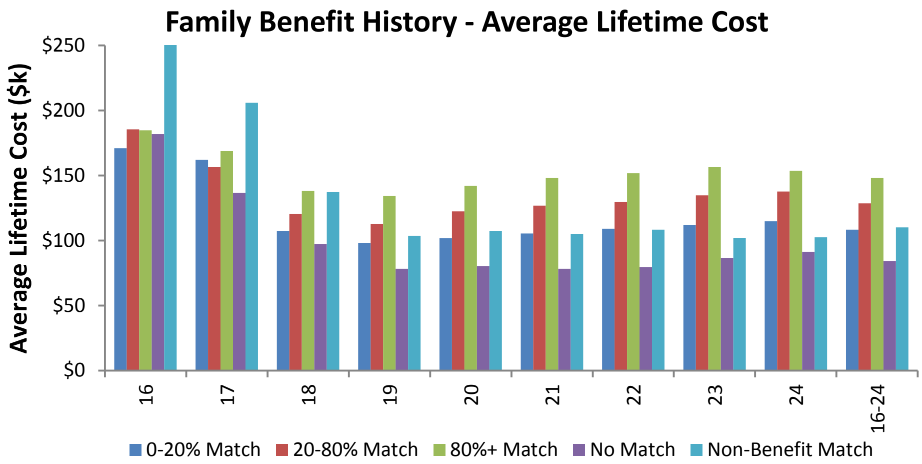
Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014

4.9 The 'Non Benefit Match' category mainly represents matches to the now discontinued 'family benefit'. This was a non-means tested benefit and so this group is a good comparison group. This is because we can be confident we have captured their family benefit history in our data and there is no history of receiving means-tested benefits.

4.10 74% of under 25 year old clients were supported by parents (or a parent) on benefits while they were a child, of which 35% were supported for at least 80% of their teenage years. This is a significant finding given that 75% of the benefit system liability relates to clients who first received a benefit before the age of 20. For context, approximately 200,000 under 18 year old children (or 19% of the under 18 year old population) are currently supported by parents on main benefits.

4.11 Family benefit history (particularly during teenage years) is a strong predictor of future benefit dependency. In particular, the greater the extent a client was supported during their teenage years by parents on benefits, the lower their likelihood of exiting benefits and the greater their likelihood of re-entering the benefit system should they exit. This equates to higher liability as shown in the following chart based on analysis from the 30 June 2014 valuation. Average lifetime costs for the 16-18 year old group are skewed by young entrants to SLP that have a very high liability. For ages 19-24 though there is a clear pattern with two key points:

- Where there is family benefit history, average lifetime costs are higher than the 'non-benefit match' group (and 'no match' group).
- Average lifetime costs increase with the amount of time a client was supported by parents (or a parent) on benefits in their teenage years.



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014

4.12 Māori are over-represented among clients with a family benefit history. 54% of current under 25 year old clients who were supported by parents (or a parent) on benefits for more than 80% of their teenage years are Māori. Family benefit history is a factor in influencing higher average lifetime costs for Māori.

4.13 A person's likelihood of long-term benefit receipt is increased if they were supported by benefits during their teenage years and this likelihood increases the greater the period they were supported. This means that investing now to improve a client's employment outcomes not only reduces their likelihood of long-term benefit receipt, but potentially also that of their children and presumably their children's children.

4.14 The notion that being supported by benefits during teenage years increases your likelihood of long-term benefit receipt is fairly easy to understand. A child's future socio-economic status is likely to be influenced by that of their parents. However, quantifying this through the valuation provides a firm basis for thinking about how this might influence operational service design.

4.15 Early intervention should not be limited to the period shortly before and after a person reaches the age of eligibility for benefits. This may have limited effectiveness in significantly altering benefit dependency. Early intervention could incorporate a person's childhood either by supporting their parents, maximising educational outcomes and/or responding with a future lifetime perspective to situations where children come to harm. Equally, early intervention could be a natural by-product of taking a household view to client management.

4.16 We recommend that Management consider how insights on intergenerational benefit dependency might be reflected in operational service design. For example, and at a simplistic level, beneficiaries with school age children might be given higher priority for intensive case management.

Impact of CYF Experience on Benefit Dependency

4.17 We have cross-referenced CYF data with benefit system data used for the 30 June 2013 valuation to give a perspective of the impact of past CYF interaction on long-term benefit dependency.

4.18 CYF data is not explicitly used to inform the annual valuation of the benefit system.

Any differences in liability referenced in the rest of this chapter result from differences in liability predictors that are correlated to a person's CYF history (e.g. age first received a benefit), rather than their CYF history directly. If CYF data was used to inform future valuations, it is possible that the liability differences would be greater than stated here.

4.19 CYF has legal powers to intervene to protect and help children who are being abused or neglected or who have behavioural problems. CYF works with the Police and the Courts in dealing with young offenders under the youth justice system, and provides residential and care services for children in need of care and protection. It also funds community organisations working with children, young people and their families to support the community's role in protecting and helping children.

4.20 Services are broadly split into 'Care and Protection' and 'Youth Justice'.

Care and Protection

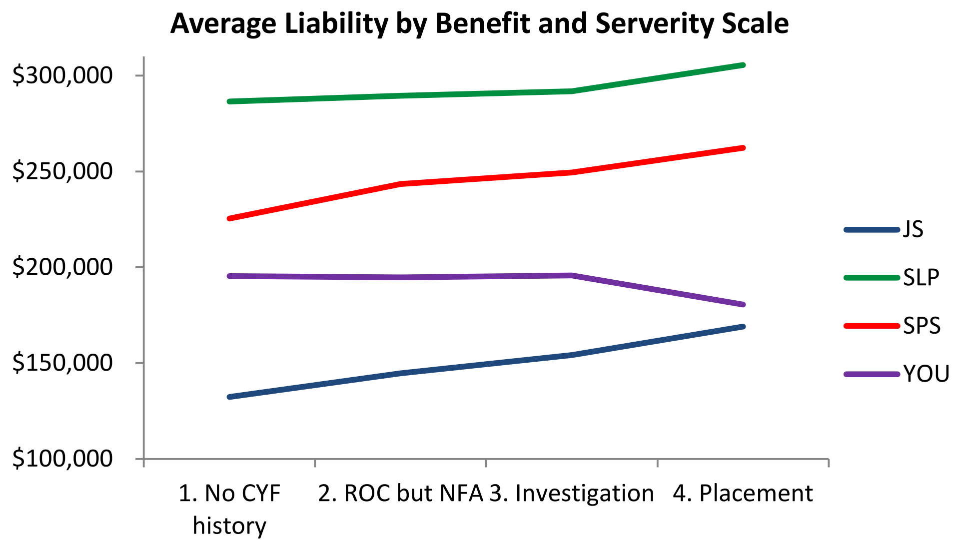
4.21 The extent to which a person interacts with CYF-CNP services varies significantly from low-level reports that require little or no follow-up, to serious cases of child abuse. For the purposes of analysis we have categorised people into four categories based on the severity of their interaction:

- 1. No Report(s) of concern or more severe interaction (No CYF-CNP history).
- 2. Report(s) of concern received but no further action required (ROC but NFA).
- 3. Investigation(s) or assessment(s) performed with or without substantiated findings.
- 4. Placement in care.

Where a person has had multiple interactions with CYF-CNP, they are categorised according to their highest level of interaction. Note also that category 2 does not include police family violence referrals or other referrals that don't result in a report of concern. These referrals don't usually result in direct action by CYF. Where this chapter refers to people having some form of CYF-CNP history this means people categorised as 2, 3 or 4 on the scale above.

4.22 The data considers those under the age of 35, as historical CYF-CNP data for people over the age of 35 is very limited.

4.23 The following chart shows average liability split by those with or without CYF-CNP history (and by benefit). With the exception of youth beneficiaries, average liability increases with severity of interaction with CYF. Overall, average liability is $20,000 (or 10%) higher for those with CYF-CNP history.



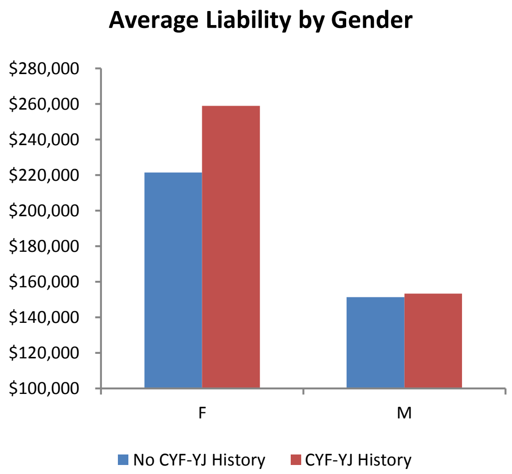
4.24 The limited age range of this analysis (under 35 year olds) impacts the differences in average liability. This is because some of the predictors of liability that the valuation model uses (notably benefit duration) have less time to develop for younger age groups. This is why the youth benefit numbers in the previous chart don't show the same pattern as other benefit categories. This is also evidenced by the fact that the percentage difference in average liability between those with and without CYF-CNP history increases with age band (18-19 year olds 6%, 20-24 year olds 12%, 25-29 year olds 16%, 30-34 year olds 20%).

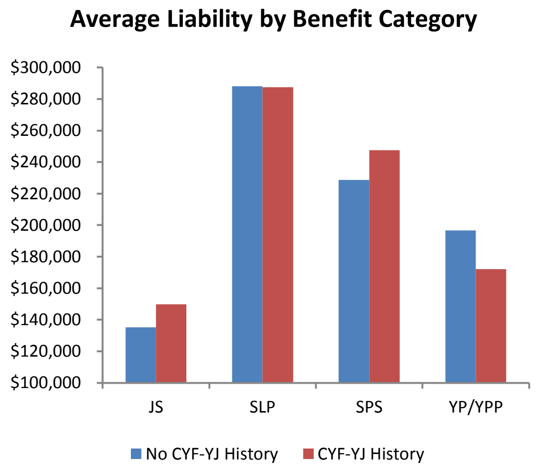
4.25 CYF-CNP history is likely to be a strong predictor of long-term benefit dependency. We recommend that the necessary steps are taken to allow CYF-CNP data to be used in the 30 June 2015 valuation. This will better inform the valuation model and allow for a deeper understanding of the correlation between CYF-CNP history and long-term benefit receipt.

Youth Justice

4.26 We have separately analysed CYF-YJ data, and categorised people according to whether they do or don't have CYF-YJ history. As for CYF-CNP, the analysis considers people aged under 35.

4.27 Overall, average liability is slightly lower for those with CYF-YJ history. This is because those with CYF-YJ history are more likely to be male than those without CYF-YJ history (61% vs 34%), and males have lower liabilities on average. The first chart below shows that average liability is $38k higher for females with CYF-YJ history, but only $2k higher for males. The second chart shows that average liability is higher for JS and SPS clients with CYF-YJ history, but not SLP clients.





4.28 As for CYF-CNP, the impact of CYF-YJ history on average liability may be understated. However, it seems likely that CYF-YJ history is a strong predictor of long-term benefit dependency. Therefore, we recommend the necessary steps are taken to allow CYF-YJ data to be used in the 30 June 2015 valuation.

4.29 The lack of difference in average liability for males with or without CYF-YJ history is noteworthy. This is likely to be a consequence of CYF-YJ data not currently being used to inform the valuation. In particular, 44% of male clients with CYF-YJ history have served prison sentences. Time in prison limits their benefit duration, which is a key predictor of liability. Consequently, their average liability is likely to be understated. Using CYF-YJ data to inform the 30 June 2015 valuation would help resolve any uncertainty on this matter.

5 A Household View of the Benefit System

Summary

- 126,126 main benefit clients (or 40%) live in a household with two or more people receiving main benefits.
- The more people in a household receiving a main benefit, the higher the per person average liability.
- Primary HNZ tenants receiving a main benefit have higher liabilities than other main benefit clients.

Recommendations

- Management consider differentiated operational responses for main benefit clients living in households with two or more people receiving main benefits.
- Management consider differentiated operational responses for main benefit clients who live in social housing.

Introduction

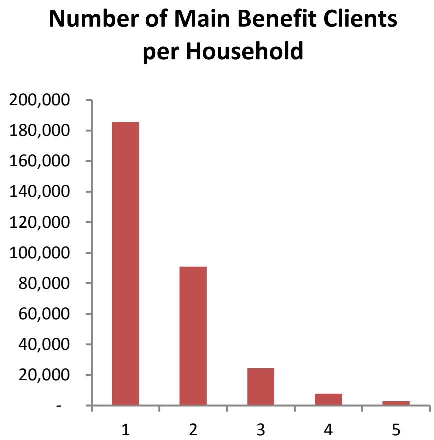
5.1 Work and Income usually view clients at an individual level. This individualised approach is necessary to allow for a client's specific circumstances. However, there may be situations where taking a family or household view has value in terms of understanding drivers of future benefit dependency and potentially tailoring service delivery. By 'household', we mean all occupants within a dwelling, whether or not they are related.

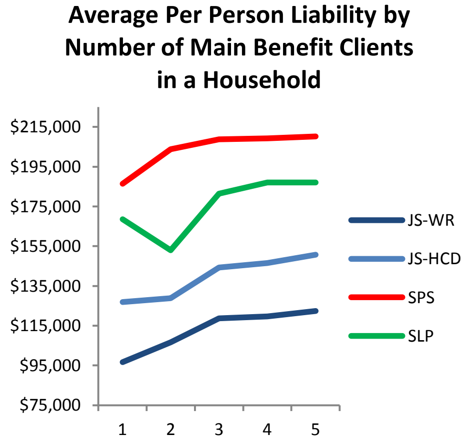
5.2 We have used 30 June 2014 valuation data to ascertain which clients share the same address, as a proxy for a household view of the benefit system. There were some limitations in this approach in that:

- the existence of more than one client with the same address does not guarantee that they share the same household, and
- an address may represent something other than a house e.g. a hostel or boarding house.

However, address matching gives a sufficiently good basis to perform analysis and draw conclusions.

5.3 The first of the following two charts shows the breakdown of the main benefit clients based on the number of people in a household receiving main benefits. The second chart shows the average per person liability, based on the number of people receiving main benefits in a household.



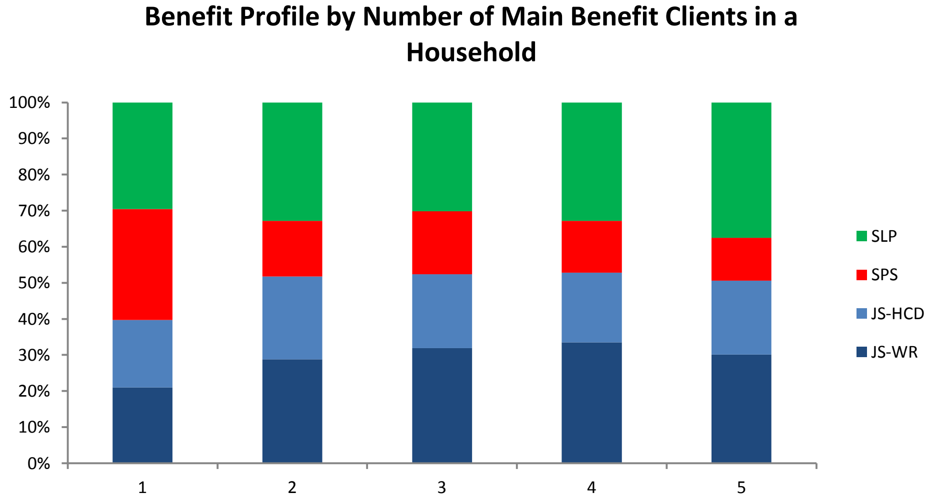


5.4 A small number of addresses with six or more main benefit clients have been excluded because they contain a number of locations that do not represent households. For example, there are four campgrounds linked to more than 100 main benefit clients each.

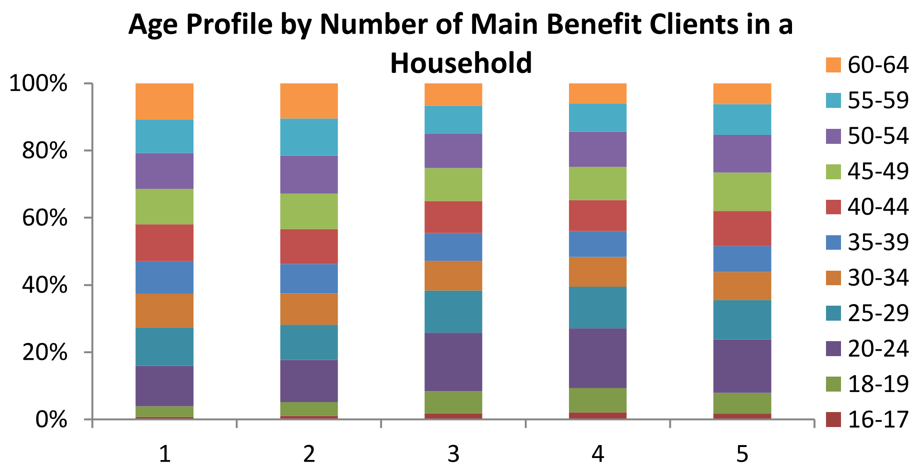
5.5 The charts highlight a number of key points:

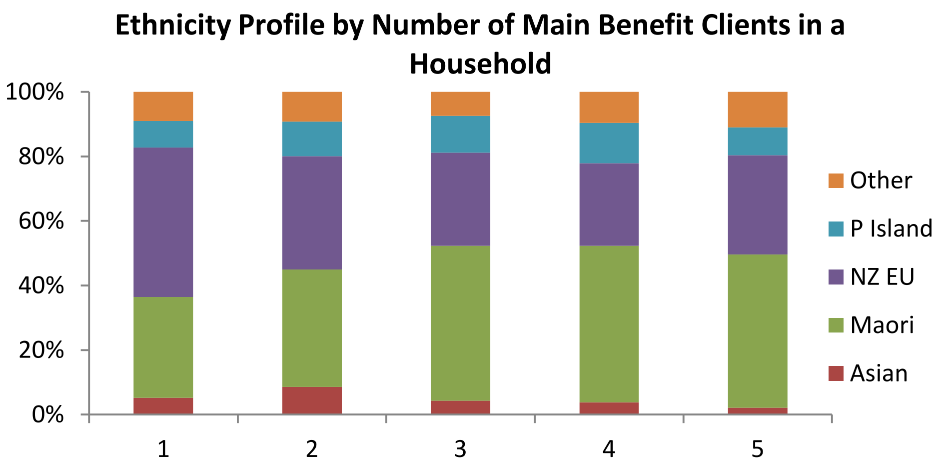
- 126,126 main benefit clients (or 40% of main benefit clients) live in a household with two or more people receiving main benefits. 30% of the 126,126 are partners on related benefits. While some correlation between employment prospects or health status of people in the same household is expected, the extent to which there are multi-beneficiary households seems high.
- 35,150 main benefit clients (or 11%) live in a household with three or more people receiving benefits.
- Average per person liability increases where there are two or more people in a household receiving a main benefit. For example, average per person liability is $13k-$22k higher (depending on benefit) for a three-beneficiary household compared with a one-beneficiary household. Increasing average per person liability suggests that the existence of other people in a household on benefits increases the likelihood that a client will remain on benefit. Multiple benefit incomes in one household may also reduce financial stress and the incentive to find employment.
- Increasing average per person liability is broadly consistent across benefit categories and notably pronounced for JS-WR clients. A JS-WR client from a household with three people receiving a main benefit has a 23% (or $22,013) higher liability than those who are the only person in their household receiving a main benefit.
- The one exception to the point above is SLP clients from households with two people receiving main benefits who have a lower average per person liability than those who are the only person in their household receiving a main benefit ($169k vs $153k). This is because many are partners sharing a partnered benefit rate which is lower than for singles.

5.6 The following chart shows that clients from multi-beneficiary households are more likely to be receiving JS and less likely to be receiving SPS (a high proportion of sole parents are the only adult in their household).



5.7 The profile of clients differ according to the number of beneficiaries in a household. The following charts show age and ethnicity profile by number of people in a household on main benefits.





5.8 Those living in households with two or more people receiving a main benefit tend to be younger on average, and are more likely to be Māori.

5.9 We recommend Management consider differentiated operational responses for clients in households with two or more people receiving a main benefit, noting their higher average liability. Their situation (i.e. living in a household with other beneficiaries) may represent different challenges in terms of supporting and encouraging sustainable employment, compared with those clients who are the only beneficiary in their household.

Benefit System Clients and Social Housing

5.10 We have also cross-referenced benefit system data with data for primary Housing New Zealand (HNZ) tenants as at 30 June 2014. The data contains only primary tenants and so doesn't capture all people in HNZ managed houses. It also doesn't capture people on HNZ's waitlists or people living in other forms of social housing e.g. housing supported by community housing providers. Nevertheless, it gives a good picture of the overlap between people receiving benefits and those who are supported in social housing.

5.11 Of the 63,981 primary tenants, 31,973 (or 50%) received a main benefit in the quarter to 30 June 2014. A further 1,129 received supplementary benefits, but not a main benefit. 13,618 (or 21%) are over 65 and receiving NZ Superannuation.

5.12 The following chart and table show the breakdowns by benefit type and ethnicity, and their average age, benefit duration and benefit system liability (as at 30 June 2014).

	Main Benefit + HNZ	Main Benefit + Accommodation Supplement	Main Benefit Only	Supplementary Benefit + HNZ	Accommodation Supplement Only	HNZ Only*
Number	31,973	216,732	82,423	1,129	115,000**	30,879
Average Age	45.6	39.0	44.1	41.6	50.0	n/a
Average Benefit Duration	9.4	5.4	6.6	6.2	n/a	n/a
Benefit Mix:						
JS-WR	16%	28%	19%	n/a	n/a	n/a
JS-HCD	17%	22%	15%	n/a	n/a	n/a
SPS	32%	26%	18%	n/a	n/a	n/a
SLP	35%	24%	47%	n/a	n/a	n/a
Ethnicity Mix:						
NZ EU	25%	42%	44%	25%	n/a	n/a
Māori	44%	35%	28%	34%	n/a	n/a
P. Islander	20%	8%	10%	31%	n/a	n/a
Asian	3%	6%	6%	4%	n/a	n/a
Other	8%	8%	12%	6%	n/a	n/a
Average Liability	$161k	$151k	$135k	$82k	n/a	n/a

* Including those receiving NZ Superannuation
** Approximate number and includes over 65 year olds
n/a = not available or not applicable

5.13 The table highlights some key points:

- 67% of primary HNZ tenants who also receive a main benefit either receive SPS or SLP. This compares with 50% for clients who receive Accommodation Supplement (AS) and a main benefit. SPS and SLP are high liability benefit categories and so the average benefit system liability is higher ($161k) for primary HNZ tenants than for those who receive AS and a main benefit ($151k) or a main benefit only ($135k). The higher average liability is also reflected in the average benefit duration for primary HNZ tenants.
- Māori and Pacific Island ethnicities are over-represented in the benefit system. They are even more over-represented if they are a primary HNZ tenant and receiving a main benefit, compared with if they are receiving AS and a main benefit (or a main benefit only). 44% of those who are a primary HNZ tenant and receiving a main benefit are Māori and 20% are Pacific Islanders. This is almost three times their representation in the whole NZ population.

5.14 The overlap of benefit system and HNZ clients highlights that the cost of welfare assistance in respect of benefit system clients extends beyond the cost of benefits and providing employment assistance. Helping a client into sustainable employment not only saves the cost of paying benefits, but also reduces the likelihood that a client needs on-going social housing assistance, justifying a higher investment in benefit system clients with social housing needs. It also further highlights the importance of focusing on sustainability of employment outcomes. On the other hand, some HNZ tenants receiving a main benefit may perceive there is a risk that finding sustainable employment (and exiting benefits) will impact on their housing situation.

5.15 Social housing is also particularly important in the context of the focus on intergenerational benefit dependency in the previous chapter. The risk of benefit dependency extends through generations because of a client's higher likelihood of long-term benefit dependency if they've been supported by benefits in childhood. Hence, supporting the parents of children today may also have future social and cost benefits by lowering the likelihood of their children requiring social assistance in the future.

5.16 Understanding the drivers of social housing need and the correlations with the benefit system is important in managing the welfare system as a whole. Consideration should be given to extending the existing MSD Investment Approach to social housing. Extending the approach should be done in a coordinated and consistent manner. In particular, there is value in combining social housing and the benefit system under the same actuarial valuation model.

5.17 In the current absence of an Investment Approach applied to housing, we recommend that Management consider how Work and Income's services might differentiate clients who live in social housing to better reflect client needs and the broader cost of social housing and the benefit system combined. For example, this might involve giving higher priority for intensive case management to clients in social housing.

6 Beneficiaries with Criminal Convictions

Summary

- Nearly one-third of clients receiving a main benefit have some form of Corrections history.
- Conversely, approximately one-quarter of people with a Corrections history receive a main benefit.
- Average liability is consistently higher for people with a Corrections history across all benefit categories (except YP/YPP), genders and ethnicities. Jobseekers with a Corrections history have a 29% higher liability than those without.

Recommendations

- Corrections data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency.

Introduction

6.1 In this chapter, we cross-reference Corrections data with benefit system data used for the 30 June 2013 valuation. This helps to develop an understanding of the correlation between a person's Corrections and benefit histories. Both datasets contain a large amount of historical data (Corrections back to 1960, benefit system back to 1996) and so provide a good basis for analysis.

6.2 Corrections data is not explicitly used to inform the annual valuation of the benefit system. This means that any differences in liability referenced in this chapter result from differences in liability predictors that are in some way correlated to a person's Corrections history (e.g. age first received a benefit), rather than their Corrections history directly. If Corrections data was used to inform future valuations, the liability differences between people who do and don't have Corrections history may be greater than stated here.

6.3 Conversely, some people who have an elevated likelihood of future periods of incarceration may have lower benefit system liability on average because during periods of incarceration they aren't eligible to receive a benefit. The costs of keeping somebody in prison far outweigh the cost of paying a benefit.

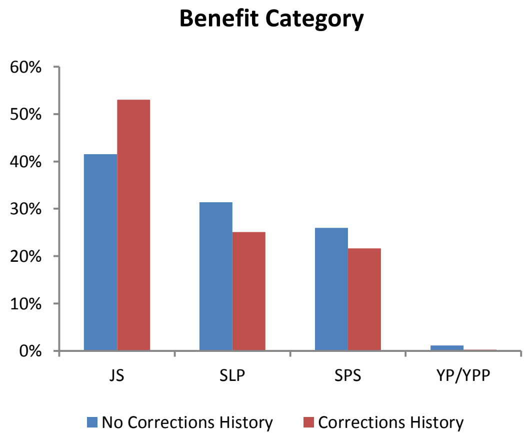
6.4 An existing Memorandum of Understanding between MSD and Corrections allows MSD to access Corrections data for the purposes of research only. This is the intent of the analysis in this chapter.

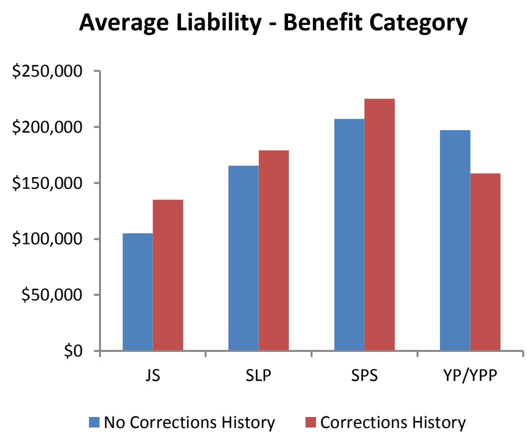
Impact of Corrections Experience on Benefit Dependency

6.5 A history of criminal convictions makes finding suitable and sustainable employment more difficult. Hence, it is easy to understand that people with Corrections history are likely to be over represented in the benefit system. Of all people with some form of Corrections history post-1960 that are still under the age of 65 (390,581 people), 28% (or 108,462 people) were receiving a main benefit at 30 June 2013. This compares with approximately 11% of the NZ working-age population as a whole.

6.6 Conversely, of clients receiving a main benefit at 30 June 2013 (345,018 people), 31% (or 108,462 people) have some form of Corrections history.

6.7 The following charts split those with or without Corrections history according to the benefit they receive (first chart) and their average liability (second chart).

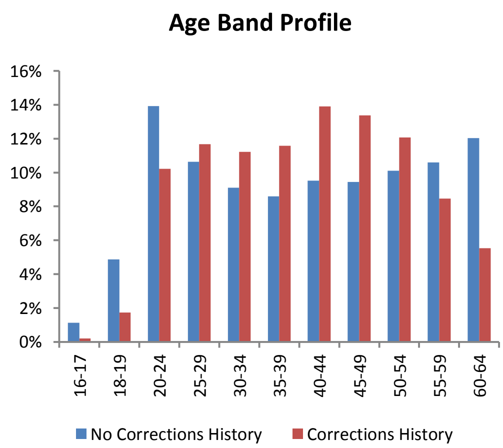


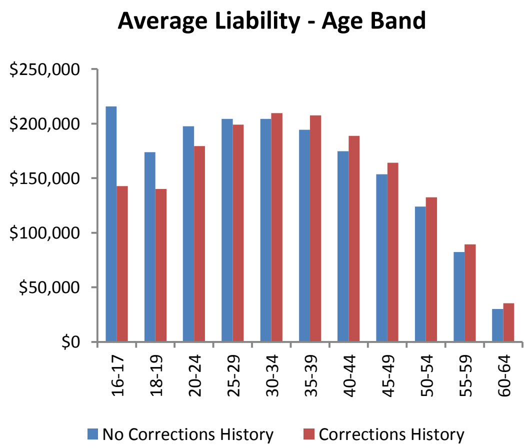


6.8 Those with Corrections history are more likely to be receiving JS than those without (53% vs 42%) and correspondingly less likely to be receiving SLP or SPS. This partly reflects the prevalence of males in the Corrections data. Beneficiaries with a Corrections history are twice as likely to be male than those without (62% vs 31%).

6.9 Across all benefit categories except YP/YPP, those with Corrections history have a higher average liability. For example, JS clients with Corrections history have an average liability of $135k, compared with $105k for those without.

6.10 As for CYF data, the analysis may understate the impact of Corrections history on benefit dependency because the valuation doesn’t use Corrections data. In particular, average liability at younger ages is impacted by periods of incarceration. This limits a person’s benefit duration (prisoners are not eligible for benefits), which is a key predictor of liability in the valuation model. Therefore, the following charts suggest that higher average liability is only evident from age band 30-34 upwards.





6.11 Main benefit clients with a Corrections history are nearly twice as likely to be of Māori ethnicity compared with those without a Corrections history (50% vs 26%). For both males and females, and across all ethnicities, average liability is higher for clients with a Corrections history.

6.12 Corrections history is a strong predictor of long-term benefit dependency. We recommend the necessary steps are taken to allow Corrections data to be used in the 30 June 2015 valuation. This will better inform the valuation model and allow for a deeper understanding of the correlation between Corrections history and long-term benefit receipt.

7 Intervention Trials

7.1 Work and Income has started a number of trials aimed at improving client outcomes. This section reviews progress to date.

7.2 A number of employment assistance trials are underway or due to start in the near future. Of those that are underway, none are yet sufficiently progressed to allow a firm assessment of effectiveness. Also, the cost modeling and liability estimation tools for assessing the impact of individual initiatives are under development.

Mental Health Employment Service (MHES)

7.3 MHES is a voluntary contracted case management service for people in receipt of JS with common mental health conditions who have part-time or deferred work obligations. The service is currently available only in Auckland, Canterbury, Waikato and Southern regions. The goal is to test whether people with common mental health conditions can be encouraged to move into work with the right support.

7.4 Nearly 50% of people offered the service have opted in, which is higher than expected. However, 62% of participants have since dropped out.

7.5 Off-benefit outcomes are being monitored for clients in the trial and compared with a control group. At this stage, no tangible difference in off-benefit outcomes between the trial and control group has been observed, though it is too early in the trial to make a conclusive assessment. It will be at least six months before enough time has elapsed to make an initial assessment.

7.6 Given the high drop-out rate we suggest the mechanics of the trial are formally reviewed.

Sole Parent Employment Service (SPES)

7.7 SPES is another contracted case management service. It was initially restricted to sole parents in receipt of JS who have full-time work obligations in Auckland, Bay of Plenty, East Coast, Taranaki, Wellington, Nelson and Canterbury. It has since been extended to SPS clients with youngest dependent child aged 5-13.

7.8 Similar to MHES, SPES provides wrap around services to encourage clients to find suitable employment.

7.9 Off-benefit outcomes are being monitored for clients in the trial and compared with a control group. At this stage there appears to be some positive impact when comparing off-benefit outcomes for the treatment and control groups. However, it is too early in the trial to make a conclusive assessment. It will be at least six months before enough time has elapsed to make an initial assessment.

Flexible Childcare Assistance

7.10 Sole parents receiving JS or SPS in WFCM can receive a payment enabling them to take up work of more than 20 hours per week (outside of standard working hours). The payments last for 13 weeks. The aim is to support clients into employment with hours not normally covered by standard childcare options e.g. daycare.

7.11 The trial started in August 2014 in all regions and, as at 26 January 2015, 183 sole parents are involved.

7.12 Of the 99 clients who have finished the 13 week payment period, 97 remain off-benefit (as at 26 January 2015). We estimate that about 20 of the 99 clients would have returned to benefit if they had not been part of the trial. This is based on analysis of general re-entry rates for sole parent clients. While this is a promising start, it's too early in the trial to perform a return on investment assessment and draw firm conclusions.

In-Work Support

7.13 This is a national inbound and outbound calling campaign supporting former clients in work. It is aimed at addressing the barriers clients may face to sustain employment.

7.14 The trial started on 17 February 2015.

Intensive Client Support

7.15 This trial involves case conferences, budgeting/literacy/numeracy assessments, employment subsidies, industry partnerships and in-work support to improve work-readiness outcomes for high-complexity clients.

7.16 The trial started on 23 March 2015.

Young Supported Living Payment

7.17 This trial involves active case management for young SLP clients, including access to support and services such as in-work support, case conferences, work ability assessment and employment subsidies. Participation is optional.

7.18 The trial started on 3 November 2014.

Inland Revenue Data Match

7.19 Work and Income conducts an information sharing programme with Inland Revenue. This initiative has been used to identify people in receipt of a benefit who may be receiving income from employment, whether through inadvertent overpayment or fraud. The programme started in March 2013.

7.20 9,320 benefits have been cancelled through this programme between March 2013 and December 2014. We estimate the liability reduction from this exercise to be approximately $185m in respect of these cancellations. This liability reduction estimate doesn't include any recovery of overpayments.

8 Progress against 2013 Report Recommendations

8.1 This section details progress MSD has made against the recommendations from the 2013 Benefit System Performance Report. Progress has been reported to the Work and Income Board on a quarterly basis. Many of these recommendations related to broad areas of focus and were not necessarily expected to be completed within a year. Hence, some are carried forward for the next year. While the rest of this report is written by MSD's actuarial team, the comments in this chapter are from Work and Income Management.

Clients with Health Conditions and/or Disabilities

Recommendation 1

8.2 Further investigations into what is causing the increasing rate of transfer onto HCD benefits.

Management comment

8.1 Rates of transfer onto HCD benefits (JS-HCD and SLP) have been closely monitored through the quarterly drivers of valuation report. Rates have been impacted by the change in benefit structure in July 2013. In particular, former widow's benefit and DPB clients (youngest child 14 and over) were re-classified to JS-WR with full-time work obligations. Many have since transitioned to JS-HCD. It is likely that many would have previously qualified for SB before July 2013 but had no incentive to transfer. This is likely to be a temporary impact, though rates of transition between JS-WR and JS-HCD should be expected to remain higher than before July 2013. This is because transition now involves a re-classification within a benefit category (i.e. from JS-WR to JS-HCD), rather than a complete change of benefit before July 2013 (i.e. UB to SB). More broadly, the increasing prevalence of clients with psychiatric conditions is also having an impact.

8.2 Welfare reforms considered peoples' access to health and disability-related benefits and introduced a simplified access process to SLP for client with severe health conditions, disabilities or incapacity. Management is confident that SLP is being appropriately managed according to current eligibility criteria.

8.3 We are working proactively with more people on health and disability benefits to understand which interventions are most effective at promoting work and sustainable outcomes. Going forward, MSD will improve the accuracy of service level matching for health and disability clients, while providing case managers with the tools to better determine clients' support needs.

8.4 MSD has a contracted case management trial underway for clients with mild to moderate mental health conditions (see paragraphs 7.3 to 7.6). This service provides employment-related case management, placement and post-placement support to help participants gain and maintain employment. Providers are expected to deliver these services in an integrated way with participants' existing health and clinical support providers and, where appropriate, support participants to access any additional support services they may require.

8.5 After consultation with the health and disability sector, a voluntary trial has been implemented in 16 service centres to test whether the existing health and disability case management service (a form of Work Focused Case Management for Jobseeker HCD clients) can be effective for SLP clients aged 16-29 years to focus on work, up-skilling and higher education outcomes. The trial is voluntary for clients who wish to opt in. The trial also acknowledges the need for both funding of traditional services (such as wage subsidies) and potentially new forms of investment.

8.6 As part of the BPS cross-agency work stream report back to Ministers, a number of health/welfare interface initiatives have been identified and are being proposed for implementation in the short-term. For example, an employer-led trial working with around 300 HCD clients in Christchurch was launched in April, with further trials planned aiming to understand health needs of clients by locating Work and Income staff in GP practices and DHBs.

Further work in this area is 'business as usual' and this recommendation is closed.

Youth Service

Recommendation 2

8.7 Management consider extending the education and training goals of the Youth Service to those who recently would have qualified for a youth benefit but have transferred onto a main benefit without the encouragement into education or training that the Youth Service now provides.

Management comment

8.8 Management notes that this work is now part of the government's manifesto commitments.

Once the government has made its final decision through the budget process, this recommendation will be able to be passed to business as usual and closed.

Māori Clients

Recommendation 3

8.9 Investigation into the causes of greater levels of vulnerability to long-term benefit receipt for Māori. Strategies should be considered for supporting more Māori into work and new initiatives trialed to target the barriers that cause the disparity between ethnic groups.

Management comment

8.10 The Ministry supports a whole-of-government approach for working with Māori and Pacific communities where there are options for economic development and investment.

8.11 The use of an investment approach means the Ministry is well placed to leverage off the services other agencies and the private sector can bring to communities that need the most help, while ensuring the Ministry gets the best return for the services and supports in which it invests.

8.12 We know that Māori and Pacific people are over-represented in benefit receipt and long-term dependency. The Ministry is working hard to understand what works best for these communities.

8.13 As at December 2014, the number of Māori and Pacific beneficiaries shows some improvement, though Pacific people are faring better than Māori. The number of work-ready Māori on JS has increased slightly (by 1%) over the year, while the number of Pacific recipients were down 6.9%. Non-Māori / non-Pacific recipients for JS-WR were down 5.6% in comparison.

This recommendation is still in progress and has been held open for the following year.

Management Reporting

Recommendation 4

8.14 Extend management reporting to include the non-beneficiary segments of the valuation client base and consider further use of in-work support initiatives that focus on those people who have exited from a benefit to help sustain their return to work.

Management comment

8.15 Information has been reported in the quarterly drivers of valuation report. There is further opportunity to improve reporting, particularly on AS which accounts for $8.6bn (or 12.4%) of the 2014 liability.

8.16 A 'High Entry-Exit Client' flag was implemented in September 2014. This allows staff to identify clients with a history of going on and off benefit, and tailor their approach accordingly.

8.17 A trial providing in-work support to people that go on and off benefit started in February 2015. This involves a national inbound and outbound calling campaign supporting former clients in work and is aimed at addressing the barriers that clients may face to sustain employment. Sustainability of employment outcomes for clients is a high priority area and so the performance of the trial will be carefully monitored.

Further enhancements to reporting will pass to 'business as usual' and this recommendation is considered to be complete and closed.

Data Access and Quality

Recommendation 5

8.18 Work and Income investigate what data can be provided from other agencies, in particular education, care and protection, and youth justice services, for use in future liability valuations. This would enable better analysis of early entrants' vulnerability to long-term dependency, including intergenerational effects and other drivers of youth welfare dependency.

Management comment

8.19 The impact of CYF and Corrections history on benefit dependency are considered in chapters 4 and 6 of this report. Recommendations have been made in these chapters to use data from these agencies to inform the 30 June 2015 valuation.

8.20 Intergenerational data (or family benefit history information) was used to inform the 30 June 2014 valuation. See paragraphs 4.6 to 4.16 of this report.

8.21 Reliable, historical education data has not been attained at this point.

This recommendation is closed – Education data is covered under recommendation 6.

Recommendation 6

8.22 A link to education data from the Ministry of Education is needed to inform the valuation and better understand the correlations between education and benefit dependency.

Management comment

8.23 Reliable historic education data is currently unavailable. The social sector is currently considering wider options for integrating data, and this includes education data.

8.24 Education data in Statistics NZ's Integrated Data Infrastructure (IDI) might be useful for valuation purposes, though IDI protocols don't currently allow us to use this data outside of the IDI framework.

This recommendation is still in progress and has been held open for the following year.

Recommendation 7

8.25 Data collection for youth clients is improved to provide a separate benefit code for YP and YPP benefits (or YPP flag) and improve education and child information data collection for these clients.

Management comment

8.26 A proxy split between YP and YPP has been used for the 30 June 2014 valuation. This is appropriate for that purpose.

8.27 The actuarial team will look to analyse education and child information data held by Youth Service providers.

This recommendation is still in progress and has been held over for the following year.

Segmentation

Recommendation 8

8.28 Further investigation into segmentation and whether segmenting the client base using the current continuous duration approach gives the best separation for understanding the drivers of liability. Possible alternatives include age at entry into the benefit system or proportion of time spent on benefit since first benefit receipt.

Management comment

8.29 Internal actuarial resources have not been available to perform this exercise. Consequently this recommendation has not been progressed.

8.30 Further data sources are due to be added to the 30 June 2015 valuation (see recommendation 5). These datasets may help inform segmentation approaches.

This recommendation is still in progress and has been held over for the following year.

Appendix A: Background

Review of the Welfare System

A.1 Cabinet established the Welfare Working Group (WWG) in April 2010 to conduct a review of the welfare system. Its findings were reported in February 2011 in a report titled *Reducing Long-Term Benefit Dependency*.

A.2 A key theme of the report was to take a long-term view of the social, economic and fiscal costs of welfare dependency. The report recommended adopting an actuarial approach to measuring the forward liability associated with the welfare system and using this as a tool to inform management.

A.3 In November 2011, the Government announced it would move forward with an Investment Approach to managing the welfare system. The Investment Approach is the framework underpinning its programme of Welfare Reform. This has included:

- merging benefit categories
- extending work obligations to more clients
- introducing new work preparation and other obligations
- funding a more active approach to work with clients who need more assistance to find work.

The changes to benefit categories and obligations were designed to embed a work focus throughout the benefit system and to support the Investment Approach to welfare. These changes have increased the number of people with active work expectations and given Work and Income more flexibility to provide services to people, appropriate to their circumstances.

A.4 A key tool in the Investment Approach to managing the welfare system is the development of an actuarial valuation and reporting framework. Its primary aims are to provide:

- an insight into what is driving people's risk of long-term benefit dependency
- a financial assessment of the total cost of the welfare system
- an understanding of what is driving the change in cost of the welfare system
- a means of measuring performance in managing the welfare system over time
- a means of analysing the financial impact of policy and operational changes.

A.5 This detailed understanding can be used to help Management better target services to help those most in need of support.

Purpose of this Report

A.6 This report is addressed to the Chief Executive of the Ministry of Social Development and the Work and Income Advisory Board with the understanding that it will also be provided to the Minister of Finance and the Minister for Social Development.

A.7 The report has been prepared by Herwig Raubal, FNZSA, FIAA in the capacity of Chief Actuary, and Eric Judd, FNZSA, FIAA in the capacity of Head of Actuarial for the Ministry of Social Development, and is in respect of the period ended 30 June 2014.

A.8 This is the second internal actuarial report produced in relation to the forward liabilities of the welfare system. The purpose of the report is for the Chief Actuary to independently:

- review experience over the year in terms of exit rates, numbers of new clients and clients transitioning between benefits
- review overall performance of the welfare system and the effectiveness of investments made to reduce benefit dependency
- review and comment on the valuation of the forward liability and what can be learned from analysis of the change in liability
- identify areas for attention to help manage long-term benefit dependency.

A.9 Some of the analysis in this report relies on the liability calculations performed by Taylor Fry Consulting Actuaries and detailed in their report titled *Valuation of the Benefit System for Working-age Adults as at 30 June 2014* (the 2014 Valuation Report) which was publicly released in February 2015. Prior liability calculations were also performed by Taylor Fry for the years ended 30 June 2011, 30 June 2012 and 30 June 2013.

Professional Standards

A.10 There are currently no actuarial professional standards which strictly apply to the valuation of unfunded social welfare liabilities. Where relevant, this report and the valuation calculations have been carried out consistent with the professional standards of the New Zealand Society of Actuaries.

A.11 In particular, the valuation has been carried out consistent with standards that apply to the valuation of accident compensation liabilities, namely the New Zealand Society of Actuaries Professional Standard No. 30 entitled *Valuation of general insurance claims* and this report complies with relevant sections of Professional Standard No. 31 entitled *General Insurers – Financial Condition Reports*.

Scope

A.12 This report covers the actuarial valuation, analysis and, where appropriate, the implementation and management of the Investment Approach within the operation of Work and Income.

A.13 The forward liability is defined to be:

> *All future lifetime costs of benefit payments and associated expenses for working-age clients who received a benefit payment in the 12 months up to and including the effective date of the valuation.*

A.14 This means recent exits from the benefit system are included in the scope of the liability until they have been without benefit assistance for at least 12 months, even though they may not currently be receiving any financial assistance from Work and Income.

A.15 These recent exits have been included in the scope of the liability because there is a high rate of return to the welfare system for previous benefit recipients. This continuing vulnerability means that people who have been off benefit for less than 12 months should continue to be viewed as 'clients' and, in particular, included in management reporting. This will help provide a management focus on sustainable exits from the welfare system.

A.16 The liability and this report cover working age people. Benefits payable to people over the eligibility age for superannuation are excluded from the scope of this report. Student Loans and Jobseeker Support Student Hardship have also been excluded from the liability.

A.17 The scope of this report does not extend to:

- benefit design
- the impact of any proposed new policies or benefit structure post June 2014
- discussions on the appropriateness or feasibility of pre-funding this valuation liability.

Appendix B: Nature of the Business

Purpose

B.1 Work and Income is an operational arm of MSD, tasked with administering the benefit system for working age adults. The role of Work and Income is to help people throughout New Zealand find work and to provide income support based on entitlements set out in the *Social Security Act 1964* (the Act).

B.2 Some of the key responsibilities outlined in the Act are:

- to provide, where appropriate, financial support to those not in paid employment and help them find employment where they are able to work
- to provide financial support to help alleviate financial hardship
- to provide services to encourage young people to receive education, training or employment
- where appropriate, to impose work requirements on those receiving financial support or in the case of young people, requirements relating to education, budget management and parenting.

B.3 In carrying out duties under the Act, the following general principles, outlined in section 1B, are to apply:

- work in paid employment offers the best opportunity for people to achieve social and economic well-being
- the priority for people of working age should be to find and retain work
- people for whom work may not currently be an appropriate outcome should be assisted to prepare for work in the future and develop employment-focused skills
- people for whom work is not appropriate should be provided support in accordance with the Act.

Governance

B.4 The Act confers powers and authorities on the CE of MSD to oversee the administration of the benefit system and requires the CE to follow written directions from the Minister. Reporting to the CE are several Deputy Chief Executives (DCE) including a DCE of Work and Income.

B.5 In May 2012, the Minister for Social Development appointed an advisory Board to Work and Income to oversee the investment approach to welfare. The Board is responsible for overseeing delivery of reforms that aim to see fewer people on welfare for long periods.

B.6 The role of the Board is to:

- advise and support the CE of MSD in the implementation of welfare reforms and the Investment Approach, and
- report to the Minister for Social Development, the Minister of Finance and the Minister of State Services on Work and Income's performance.

B.7 Ministers have established Treasury in an external monitoring function, tasked with giving an independent view of the progress of implementation of the investment approach and Work and Income's performance.

Benefit Structure

B.8 Until July 2013 financial assistance was provided to eligible working age clients through:

Benefit Type	Purpose
Domestic Purposes Benefit (DPB)	• Financial support for: - Single parents living without a partner, irrespective of whether the other parent is contributing to maintenance payments and irrespective of fault - People caring for the sick and infirm - Women living alone who were aged 50 or more and lose financial support of their partner or spouse, or a dependent child in their care for at least 15 years has left care
Sickness Benefit (SB)	• Financial support for people temporarily incapacitated from working full-time through sickness or accident, who would otherwise be available for full-time work
Invalid's Benefit (IB)	• Financial support for people permanently and severely restricted in capacity for work due to sickness, injury or disability or who are totally blind
Unemployment Benefit (UB)	• Financial support for people not in full-time work but available for and looking for full-time work
Widows Benefit (WB)	• Financial support for women with children who have been married or in de-facto relationship for 15 years or more (or five years if over 50) and whose partner has died
Emergency Benefit (EB)	• Financial support for people who are not eligible for another main benefit and are in hardship and unable to earn a sufficient livelihood due to their health condition, domestic circumstances, residence or another reason.
Orphans Benefit	• Financial support to people (aged 18 or over) caring for an orphan or unsupported child for a period likely to exceed one year
Supplementary Benefits	• Additional financial assistance depending on circumstances - Accommodation Supplement to help with rent, board or home ownership costs - Childcare Subsidy to help with cost of pre-school

Benefit Type	Purpose
	care - Disability Allowances to help with ongoing costs because of a disability - Unsupported Child's Benefit to help carers support a child or young person whose parents are unable to care for them because of a family breakdown
Hardship Payments	• Financial support for essential one-off needs

B.9 Eligibility criteria for main benefits (DPB, IB, SB, UB, WB) generally required recipients to have continuously lived in New Zealand for two years since becoming a citizen or permanent resident.

B.10 From 15 July 2013, the benefit structure was consolidated from the multiple benefit types listed in paragraph B.8 to three main benefit types plus two youth benefits (which started from August 2012). These changes, along with the increase in the number of people with active work expectations, were made to embed a work focus to the benefit system. The new benefit structure is summarised below:

Benefit Type (and former type)	Purpose
Jobseeker Support which incorporates the former - UB, SB - DPB, WB with youngest child aged 14 or over	To provide financial support to those not in full-time work but actively seeking and available for work and those who are temporarily exempt due to a health condition or disability but who will soon be able to work
Sole Parent Support Which incorporates the former - DPB, WB or Women Living Alone Benefit with youngest child aged 13 or under	To provide financial support for single parents with school age or under school age children Part-time work obligations start once the youngest child is aged five Note: If another child is born while on the benefit, once that child turns one, the obligations are dependent on the next youngest child's age
Supported Living Payment Which incorporates the former - IB - DPB – Care of Sick and Infirm	To provide financial support to people unable to work because they are permanently and severely restricted due to a health condition or disability or are totally blind or caring for a person who requires full-time care and attention at home
Youth Payment Which incorporates the former - under 18 receiving UB, SB or EB - Note that young people formerly receiving IB are included in Supported Living Payment	To provide financial support to people aged 16 to 18 years old (subject to education, training or work obligations)
Young Parent Payment Which incorporates the former - under 19 receiving DPB	To provide financial support to people aged 16 to 19 years old with a dependent child (subject to budgeting and early childhood education obligations)
Supplementary Benefits	No change

B.11 Benefit payment amounts are income tested. Abatement rates vary by benefit type.

B.12 The new Jobseeker benefit reflects the work focus under the welfare reforms by including those sole parents with full-time work obligations (children 14 or over). It also includes people with short term deferrals of their work obligations.

B.13 Creating the two new youth benefits highlights the importance of working with vulnerable young people who, without support, are likely to go on to long-term benefit dependency. The focus for these benefits is training and education as a precursor to work.

Recent Reforms

Future Focus

B.14 The Social Security (New Work Tests, Incentives and Obligations) Amendment Bill passed into law on 23 August 2010. This bill supported changes announced under the Future Focus initiative.

- From 27 September 2010:
  - UB recipients are required to reapply for their benefit and complete a Comprehensive Work Assessment interview every 52 weeks.
  - DPB Sole Parent clients whose youngest child is six years or older are subject to part-time work obligations.
  - Repeat applicants for hardship assistance are subject to new budgeting obligations.
  - Hardship applicants are able to receive their first and second grants in a year over the phone.
- From 2 May 2011:
  - Clients in receipt of SB for 52 weeks are required to attend a reassessment interview with a case manager.
  - New SB clients are required to undergo an additional medical assessment by a health practitioner eight weeks after their grant date (shifting out the dates of 13 weekly reassessments thereafter).
  - Clients issued with a medical certificate indicating they are capable of work for 15–29 hours a week have part-time work obligations.
- The Bill also required people on a youth benefit to be in education, work or training and introduced graduated sanctions when obligations are not met.

Welfare Reforms

B.15 On 30 May 2011, Cabinet agreed to a programme of work to develop the Government's response to the WWG. Cabinet agreed the reforms should focus on ensuring sustainable paid work is the goal for as many beneficiaries as possible and increase investment in people with high long-term social and economic needs.

The package has been phased in over three stages.

- Phase One: The YP and YPP benefits and delivery of the new Youth Service began from 20 August 2012. The Youth Service targets 16-18 year olds at risk of long-term benefit dependency and aims to help them work towards independence through education, training or work based learning with the support of community based providers.
- Phase Two: Greater work expectations were introduced from 15 October 2012 for DPB - Sole Parent, Woman Alone and Widows Benefit recipients.
- Phase Three: From 15 July 2013 three new benefit categories were introduced - JS, SPS and SLP. In addition, new policy and processes were introduced such as social obligations for parents, pre-employment drug testing, work ability assessments for job seekers with deferred work obligations, and checks for warrants to arrest.

B.16 In July 2012, Cabinet agreed to provide Work and Income with greater flexibility to use contracted service providers to support beneficiaries to meet their obligations and achieve sustainable employment outcomes. The aim is to draw on the expertise in the Non-Government Organisation and private sectors to achieve employment outcomes for more people.

B.17 Following these changes, the main purposes of administering welfare in line with the Act and assisting people to find work are largely unchanged. From a practical perspective, however, since the welfare reforms, more of the spend on services and interventions has been directed towards activities such as employment assistance and providing services to people appropriate to their circumstances, with increased numbers of case managers working one-to-one with clients.

Operational Service Model

B.18 Work and Income is the largest service line of MSD, with 11 regional offices, more than 140 service centres, a contact centre located in five sites, and a centralised processing unit.

B.19 Before the rollout of a new service delivery model in all Work and Income support sites from July 2013, the service offered to clients was a generalist approach. This was a one-to-many service to provide income support and support to prepare for work. Essentially clients weren't allocated specifically to a set case manager, but were assisted according to availability.

B.20 From July 2013, the service delivery framework has been extended to incorporate five distinct internal case management services:

- Work Focused Case Management (WFCM - General): provides intensive one-to-one, face-to-face case management support for clients likely to remain on benefit for a long time without intervention. The goal of this service is to address a client's barriers to employment and find them work.
- Work Focused Case Management - Health Condition, Injury or Disability (WFCM - HCD): provides customised case management for Jobseekers with a deferred work obligation who display indicators that, with support, they will be able to return to work.

- Work Focused Case Management - Integrated Service (WFCM - IS): provides intensive wrap around case management for clients aged 24 or under and who began receiving a benefit as a youth, giving them a high risk of long-term welfare dependence. The service also provides case management for clients who are identified as having multiple and complex needs and so require additional support to address barriers to work.
- Work Search Support (WSS): is a service for work-ready JS clients that increases in intensity with time on benefit. It starts with clients doing self-directed job search and progressing to support from outbound calls to the client then to Work Search Assessment and various Work Development Workshops to help clients who have more connections to the labour market stay focused on finding employment.
- General Case Management (GCM): is a one-to-many service to provide income support and support to prepare for work. This service is for clients for whom employment is not a short-term goal, who are receiving non-beneficiary assistance, or who are yet to be assigned to a more intensive service.

B.21 Clients are allocated into services depending on a range of eligibility factors. Streaming rules are reviewed to ensure appropriate allocation of clients to services.

B.22 A separate case management service is provided for clients receiving a youth benefit, i.e. those aged under 18 (and parents up to age 19). This service is co-managed by contracted providers and Work and Income. The service is more focused on educational and training goals than on immediate work outcomes.

B.23 Work and Income partners with employers, training providers, and social support providers, to help deliver tailored services, such as ongoing mentoring and wrap around support, to clients to help them into training or work.

B.24 Benefit payment administration is a major function of Work and Income, along with fraud prevention and detection. The business unit also handles Emergency Management (preparation and response for welfare responsibilities) on behalf of the Government.

Investment Approach

B.25 To achieve the goal of reducing long-term welfare dependency, the Government has implemented an Investment Approach to welfare. The aim of the Investment Approach is to better target appropriations to the needs of the clients. Its success relies on:

- a clear long-term outcome based on the external valuation and the factors over which MSD has influence
- strong accountability mechanisms where performance is measured transparently against the future liability
- flexible funding so MSD can allocate resources to where they are most effective at improving long-term employment outcomes. Increased flexibility entails the ability to stop, trial and expand programmes and services, and the ability to move funding to those programmes and services that improve client outcomes.

B.26 There are a number of elements in place that are essential to the successful delivery of the investment approach and to target funding better to reduce long-term dependency. They are explained in the following sections.

Annual Valuation of the Welfare System

B.27 A key component of the Investment Approach to managing the welfare system is the annual actuarial valuation of the forward liability for people of working age. This annual cycle of valuations has been established and the fourth such valuation as at 30 June 2014 was completed and publicly released in February 2015.

Multi-Category Appropriation (MCA)

B.28 MSD is provided appropriations to fund the administration of the welfare system and to meet its duties to help people find work. Crucial to being able to direct investment funds best towards interventions that will most benefit clients is the introduction of the MCA, provides increased funding flexibility. The first MCA of its kind was agreed by Cabinet in September 2013 and approved by the Minister of Finance in October 2013 (for implementation from 1 January 2014). Operational flexibility provided by the delegation of decision-making rights from Ministers to the Chief Executive of MSD.

B.29 The use of an MCA places responsibility on Work and Income to use these public funds prudently and efficiently. The Investment Approach aims to direct the funding where it will do the most good, and to establish a clearer link between the application of funds and how they impact on peoples' risk of long-term benefit receipt.

Controls and governance of Investments

B.30 ***Randomised control trials***: To help better understand the impacts that can be attributed to investment initiatives, a process has been established of using trials where results from targeted groups of people can be compared with a randomly picked control group with similar attributes. Several trials have been initiated during the year (see Chapter 7).

B.31 ***Return on investment Framework***: Work and Income has developed (in conjunction with the Treasury) a Return on Investment (RoI) framework that will allow better understanding of the performance of investments.

Key elements of the framework are:

- to provide a consistent approach across all investments and all clients to make strategic decisions about how intervention funding should be allocated
- an approach to attribution of the impacts on the liability of various interventions
- a business case discipline to identify expected outcomes at the outset of significant investments and new initiatives (e.g. trials of new service delivery approaches, and cases for roll-out of successful trials). This can be used to monitor actual effectiveness and RoI against these expected outcomes.

The framework incorporates estimated liability impacts.

Under the framework, business cases will be developed to support new initiatives and future annual Benefit System Performance Reports will provide commentary on actual performance of these initiatives.

B.32 ***Quarterly Actuarial Reporting***: A quarterly valuation monitoring report is provided to the Minister for Social Development, the Minister of Finance and to the Board and Management of Work and Income. The purpose is to:

- monitor the key drivers of the liability, such as client numbers and benefit payments
- identify variances in trends projected from the valuation and MSD's actual experience
- over time, tell a performance story about Work and Income's management of the benefit system.

B.33 ***Benefit System Performance Report***: This annual report (and the quarterly monitoring) of the welfare system are tools available to provide greater transparency and accountability of the application of the MCA. The report provides the CE and the Work and Income Board with a review of the performance of the welfare system and the effectiveness of investments made to reduce benefit dependency. It also identifies areas for attention to help manage long-term benefit dependency.

Appendix C: Glossary

ACC – Accident Compensation Corporation

CE – Chief Executive

CYF – Child, Youth and Family

CYF-CNP – Child, Youth and Family-Care and Protection

CYF-YJ – Child, Youth and Family-Youth Justice

DCE – Deputy Chief Executive

Corrections – Department of Corrections

EB – Emergency Benefit

GCM – General Case Management

GFC – Global Financial Crisis

HCD – Health Conditions and Disabilities

HNZ – Housing New Zealand

JS – Jobseeker Support

JS-WR – Jobseeker Support-Work Ready

JS-HCD – Jobseeker Support-Health Conditions and Disabilities

MHES – Mental Health Employment Service

MSD – Ministry of Social Development

NEET – Not in Education, Employment or Training

NOB – Not on Benefit

OB – Orphans Benefit

ROC but NFA – Report of Concern but No Further Action

SB – Sickness Benefit

SLP – Supported Living Payment

SPES – Sole Parent Employment Service

SPS – Sole Parent Support

SUP – Supplementary Benefits Only

UB – Unemployment Benefit

WFCM – Work Focused Case Management

WSS – Work Search Support

YP – Youth Payment

YPP – Young Parent Payment