

Traffic Light System Evaluation Findings

Purpose of this report

This report summarises findings from the Traffic Light System (TLS) evaluation.

It is based on a statistical analysis of MSD Jobseeker Support – Work Ready (JS – WR) clients, a survey of JS – WR clients and sessions with a small number of MSD staff.

It covers information up to September 2025 (except for the latest non-financial sanctions data which is up to December 2025).

Key findings

- > Clients reported that the TLS helped them better understand and stay on track with their obligations. Around 96 percent of clients surveyed understood their obligations and around 90 percent said the TLS helped their understanding.
- > MSD staff reported that the colour-coded communication tool is especially useful because it helps clients re-comply quickly.
- > Staff described applying obligation failures and sanctions more consistently since the introduction of the TLS, viewing them as tools to help clients engage with MSD.
- > Since the TLS was introduced, analysis shows that service centres where obligation failure rates increased the most also had a statistically significant correlation with higher exit rates off benefit.
- > The TLS is operating as intended and some challenges navigating the obligation and sanction process remain. MSD has made some enhancements to address these challenges such as improvements to the notice of sanction letter.

What is the Traffic Light System?

The Traffic Light System introduced new measures to improve communication and compliance.

The TLS was launched on 12 August 2024 as part of Welfare that Works*, aimed at helping more people move off a main benefit and into employment.

The TLS is intended to make it clear to clients whether they are meeting their work-related and social obligations, strengthen enforcement of obligations and address non-compliance. It is made up of:

- > Phase one (from 12 August 2024): a colour-coded communication tool on top of existing obligation and sanction processes. This is accessible to clients through their online MyMSD portal.
- > Phase two (from 26 May 2025): implementation of new tools for MSD to respond to some clients who have not met their obligations for the first time, including non-financial sanctions such as Money Management and Community Work Experience; recording obligation failures for two years instead of one; mandatory Jobseeker Profile completion when applying for some benefit types; and youth clients with activity obligations being included in the TLS.
- > Phase three (from 20 October 2025): implementation of two additional non-financial sanctions - Report Job Search and Upskilling. Note: the findings in this report do not cover phase three.

Messaging about the upcoming TLS changes began from February 2024.

Before TLS phase one launched, staff were prompted to refresh their knowledge on client obligations and sanctions through e-learning and manager-led training. They were also required to complete new TLS modules on meaningful client conversations.

Clients were notified of the upcoming changes in early August 2024.

Before TLS phase two and three launched, staff were required to complete non-financial sanctions training modules.

Clients were again notified of upcoming changes in early May 2025.

* Welfare that Works introduced a suite of welfare changes aimed at reducing the number of people on Jobseeker support.

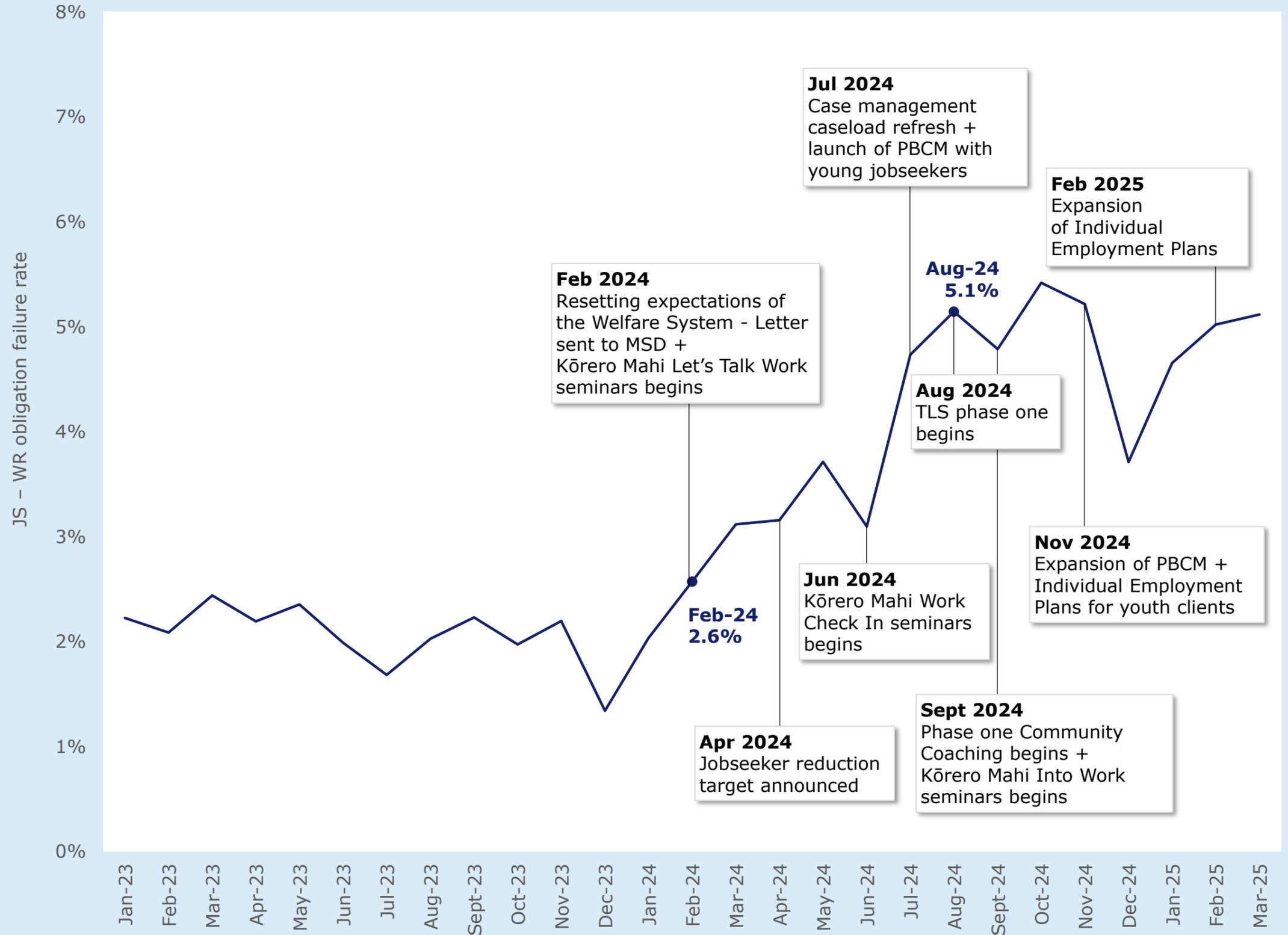
Early monitoring showed an initial increase in obligation failure rates coinciding with policy and operational changes as part of Welfare that Works.

Analysis of administrative data showed that from February 2024 onwards, there was an increase in obligation failure rates (the obligation failure rate for JS – WR clients increased from 2.6 percent in February 2024 to 5.1 percent in August 2024).

As shown in Figure 1, this increase coincided with a range of policy and operational changes as part of Welfare that Works.

These changes increased client activity and engagement with MSD, including a focus on ensuring the obligations of Jobseeker Support (JS) clients are met.

Figure 1: Following a range of policy and operational changes as part of Welfare that Works, there was an increase in obligation failure rates for JS – WR clients.



PBCM = Phone Based Case Management.

Most JS – WR clients surveyed understand their obligations well and meet these consistently.

Most JS – WR clients surveyed (96 percent) understood their obligations, with 77 percent reporting a good or very good understanding.

Analysis of administrative data also shows that most clients consistently meet their obligations.

Clients reported that case managers are their primary source of information about obligations and consequences, followed by MyMSD (MSD’s online service portal for clients and where TLS colours are communicated).

Whānau, family and friends also play a role, particularly for Māori, Pacific and young people.

Figure 2: How would you rate your understanding of the things you need to do (your obligations) when you’re getting payments from MSD?

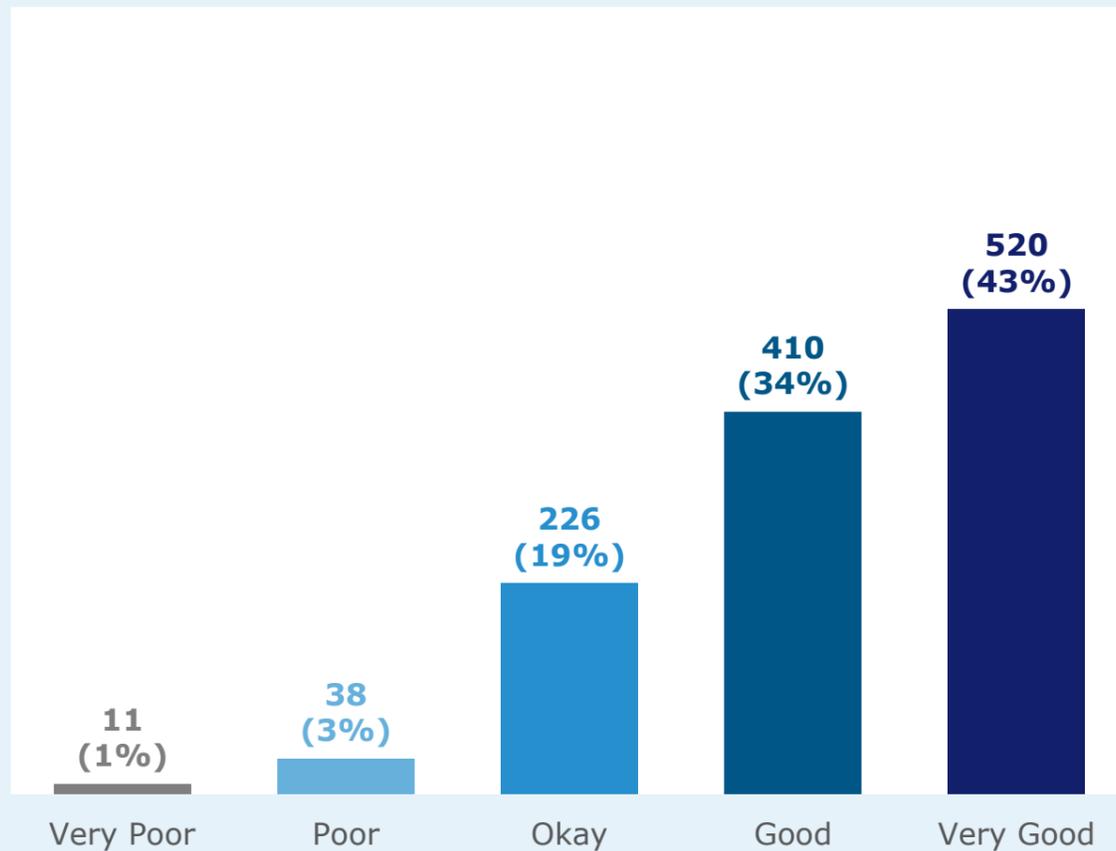
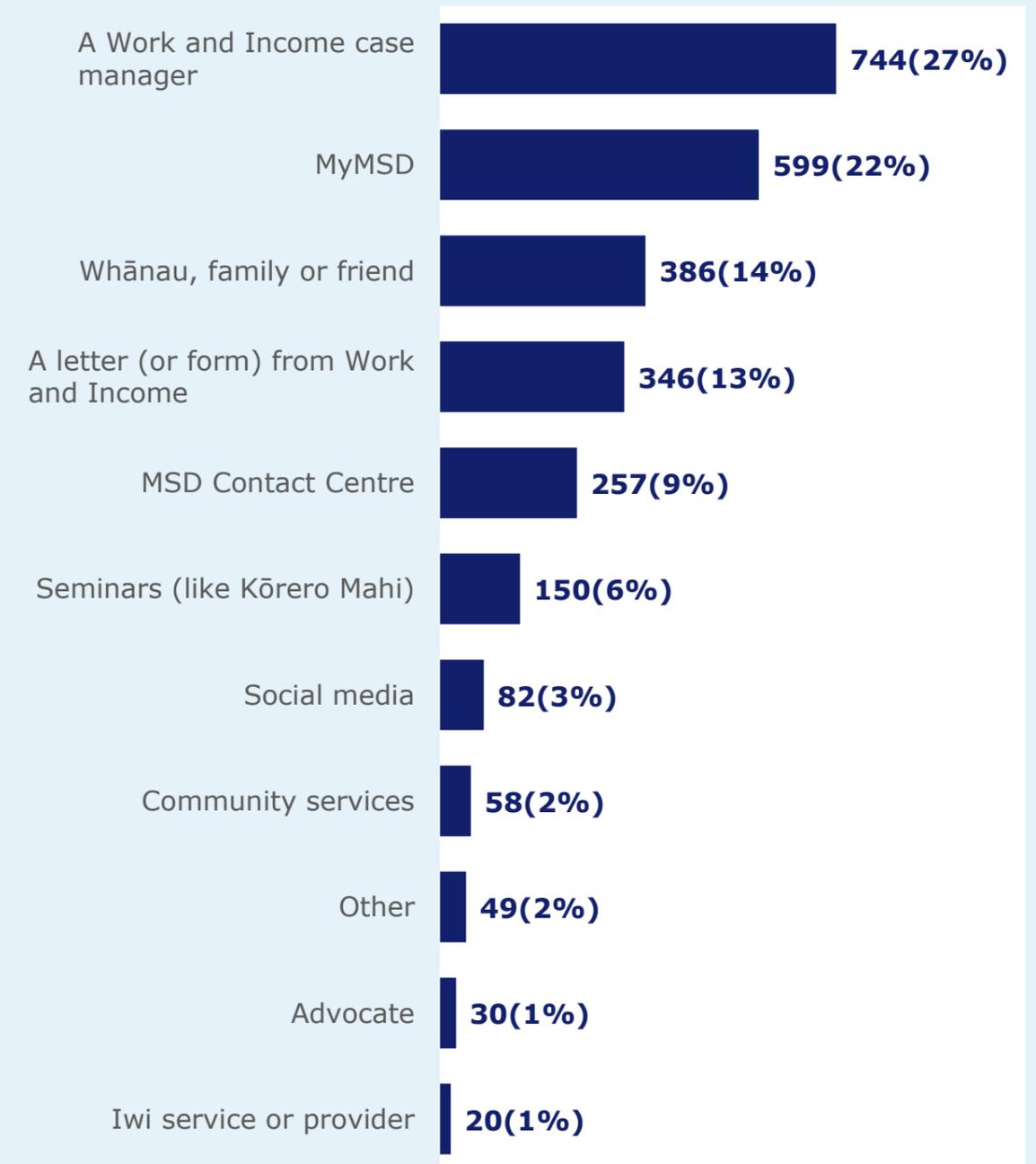


Figure 3: What, or who, has helped you understand the things you need to do (your obligations) when getting your payments?



Note: Respondents could select all options that apply.

The TLS helps clients understand and stay on track with their obligations and re-comply faster.

Most clients surveyed (90 percent) said the TLS helped them understand their obligations, with 63 percent reporting it helped them quite a bit or very much.

Staff expressed a similar sentiment, noting that the TLS, particularly the colour-coded communication system, makes clients more aware of what they need to do and helps them stay on track with compliance. This has been especially helpful for clients with literacy challenges or language barriers, as it is an easy way to identify their compliance status.

Staff describe clients as engaging more proactively, particularly when their status shifts from Green to Orange.

Analysis of administrative data corroborates this trend: more clients are re-complying with their obligations and they are doing so faster. The proportion of clients who re-comply while in Orange increased from 16.5 percent in August 2024 to 20.4 percent in March 2025.

As at the end of September 2025, 98.5 percent of clients with work and social obligations were classified as Green, indicating they were meeting their obligations.

Staff report that these changes have improved engagement. Conversations about obligations and consequences happen more often, more clients who have not met their obligations know what to expect from their interactions with MSD and they are more likely to accept the reason for their failure or sanction and move to resolution faster.

Analysis of administrative data showed improved appointment attendance and work-readiness activity. The proportion of JS – WR clients with a CV increased slightly from 94.3 percent in August 2024 to 95.7 percent in March 2025, while the proportion of JS – WR clients with a Jobseeker Profile increased from 80.9 percent in August 2024 to 84.5 percent in March 2025.

Figure 4: To what extent has the Traffic Light System helped you understand the things you need to do (your obligations) when you're getting payments from us?

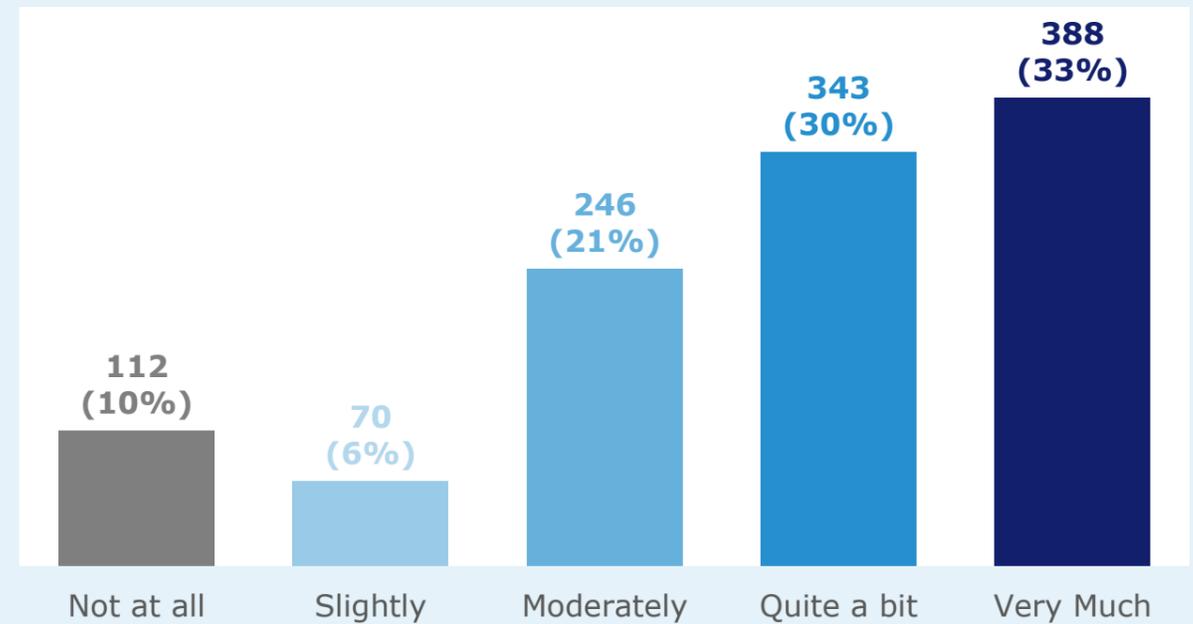
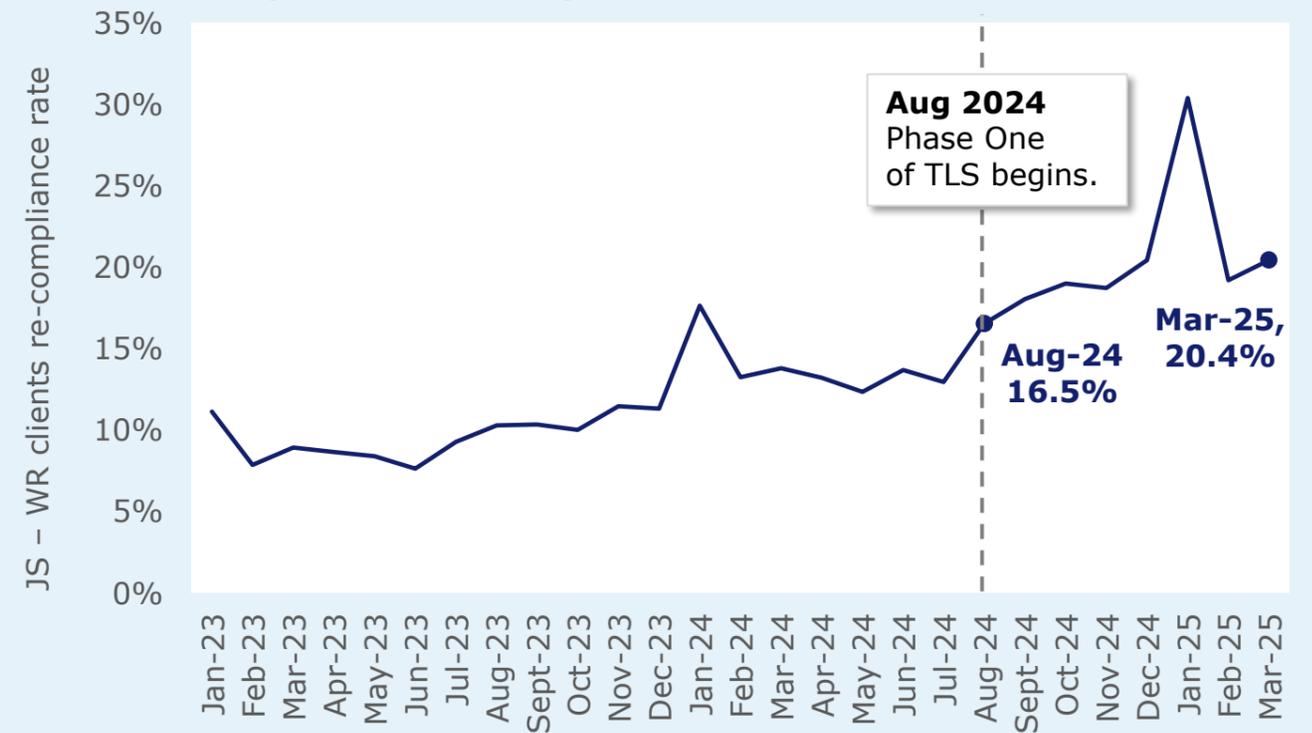


Figure 5: Proportion of JS – WR clients in Orange who re-complied with an obligation failure.



Staff describe applying obligation failures and sanctions more consistently following the introduction of the TLS.

Staff that were interviewed described applying obligation failures and sanctions more consistently following the introduction of the TLS. Most staff spoken to now view these measures as tools for engagement and accountability and feel more confident applying them to help clients engage with MSD.

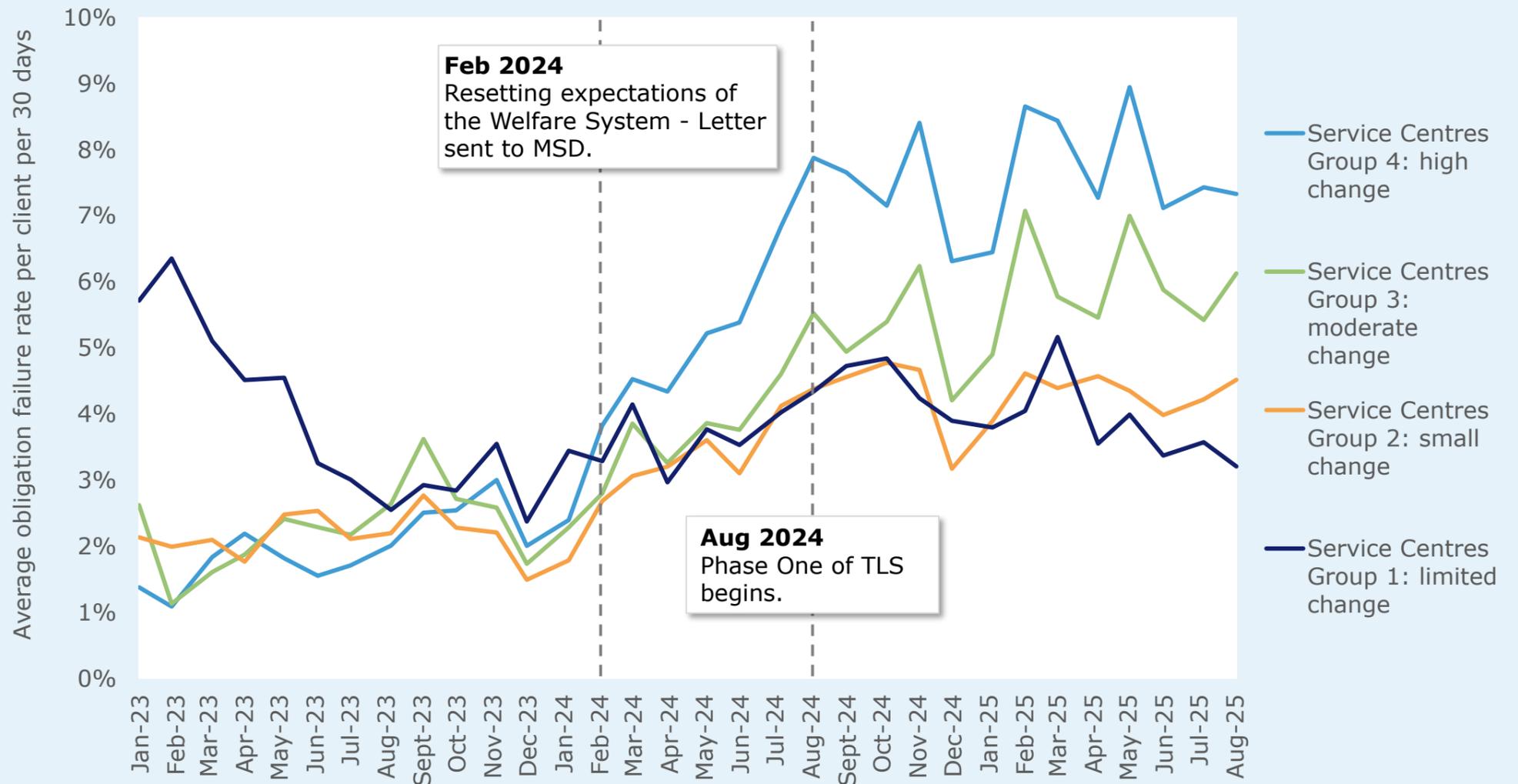
This aligns with increased messaging and training provided to staff ahead of phase one and before the start of phase two of the TLS.

The statistical analysis grouped service centres by how much their obligation failure rates changed before and after the introduction of the TLS. The results show that some service centres are applying obligation failures and sanctions at higher rates than before the TLS was introduced.

As shown in Figure 6, service centres that had relatively higher rates of obligation failures prior to the implementation of the TLS (Service Centres Group 1) continued to have high rates following introduction, from a monthly average of 4.1 percent obligation failure rate across the 12-month baseline period, remaining relatively consistent post implementation of TLS.

On the other hand, service centres with relatively lower obligation failure rates across the baseline period (Service Centres Group 4) saw larger increases. For these centres, the obligation failure rate increased from a monthly average of 1.6 percent across the 12-month baseline period to 7.6 percent following the implementation of the TLS.

Figure 6: Service centres that had higher rates of obligation failures continued this trend, while service centres with lower obligation failure rates saw larger increases following the introduction of the TLS.



Note: Further detailed data notes are provided on page 9.

The TLS, alongside other policy and operational changes, is associated with a slight increase in the benefit exit rate.

For the group of service centres with the largest increase in obligation failure rates (Service Centres Group 4), there was a statistically significant correlation with higher exit rates for clients on JS – WR, as shown in Figure 7.

For example, in the centres with the largest increases (Service Centres Group 4), the average JS – WR monthly obligation failure rate increased from 1.6 percent during the 12-month baseline period, prior to the TLS implementation period, to an average monthly JS – WR obligation failure rate of 7.6 percent in the post-TLS implementation period.

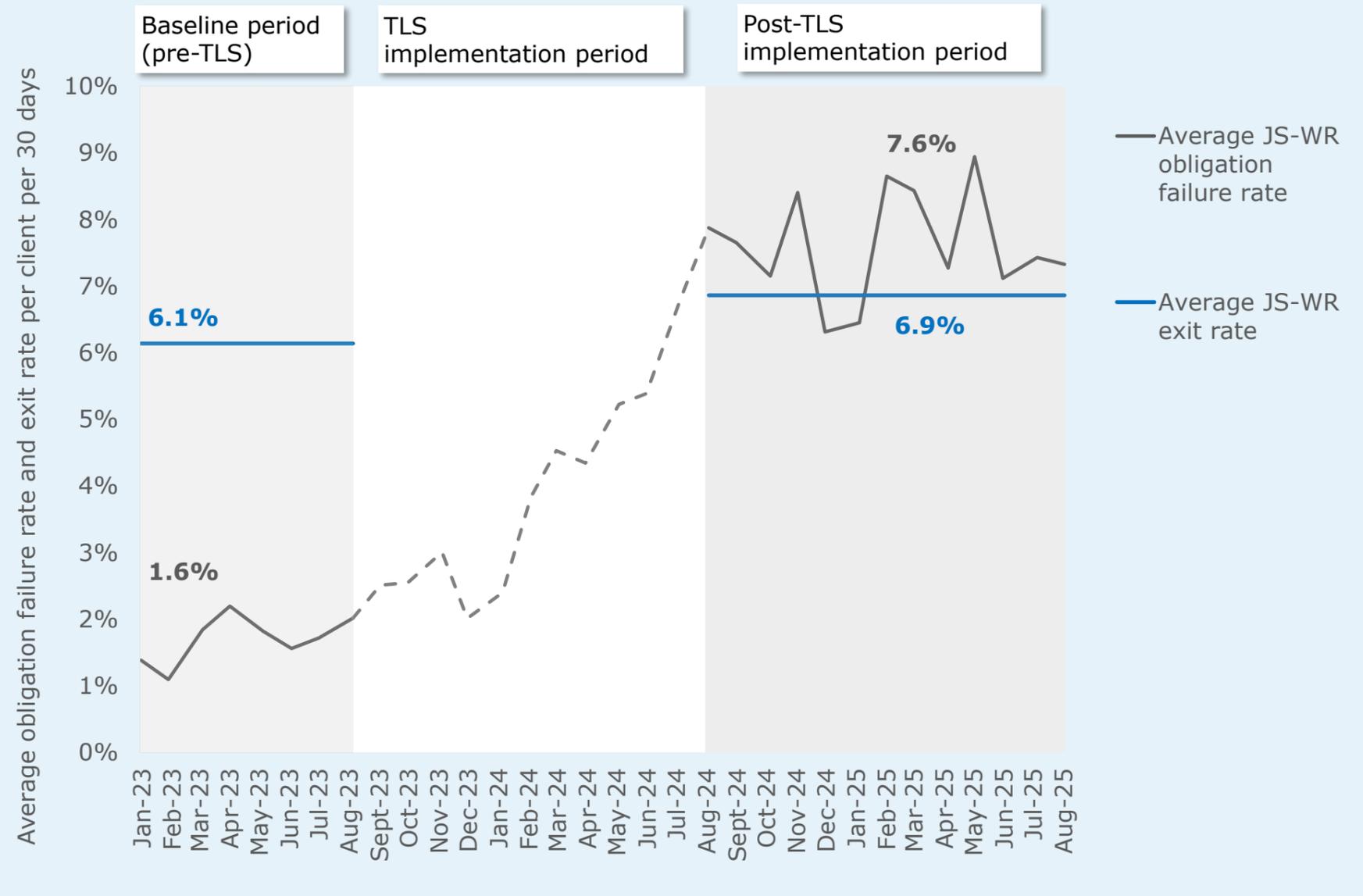
Over this same period, the benefit exit rate in those centres (Service Centres Group 4) increased from an average of 6.1 percent in the baseline period to 6.9 percent in the post TLS implementation period.

The increase in the obligation failure and benefit exit rates for these centres (Service Centres Group 4) coincided with other policy and operational changes as part of Welfare that Works. The specific impact of the TLS cannot be fully isolated from these other changes.

These findings align with international evidence. For example:

- > Sanctions (including the potential of a sanction) result in increased rates of benefit exits, as well as higher rates of exits into employment. However, the size of this impact varies across studies (McVicar, 2014).
- > Whether a person gains employment or not (including the quality of the employment) may differ depending on the sanctions regime and context of the sanction application (OECD, 2018).

Figure 7: Service centres with the biggest increases in obligation failure rates (Service Centres Group 4) also had a statistically significantly correlation with higher exit rates for people on JS – WR.



Note: Further detailed data notes are provided on page 9.

The TLS is part of a comprehensive package of changes to the welfare system and its impact cannot be fully isolated from these other changes.

Other policy and operational changes were introduced as part of Welfare that Works around the same time, including Kōrero Mahi seminars, Phone-based Case Management (PBCM) and Individual Employment Plans. This means the specific impact of the TLS on increased exits cannot be fully isolated from these other changes.

2024												2025											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
			Jobseeker target announced			Case management caseload refresh				Individual Employment Plans for youth clients			Expansion of Individual Employment Plans				26-week reapplications introduced						
						Launch of Phone-based Case Management with young jobseekers.				Expansion of PBCM													
	Kōrero Mahi – Let’s Talk Work seminars begins				Kōrero Mahi – Work Check In seminars begins			Kōrero Mahi – Into Work seminars begins															
								Phase One of Community Coaching begins														Phase Two of Community Job Coaching begins	
	Resetting expectations of the Welfare System – Letter sent to MSD							Phase One of TLS begins										Phase Two of TLS begins				Phase Three of TLS begins	
								Email communications to clients										Email communications to clients				Email communications to clients	
								Communication and training for staff										Non financial sanctions – training for staff				Non financial sanctions – training for staff	

There has been limited use of non-financial sanctions to date.

Insights in this section come from sessions with a small number of staff held in September 2025, except for the latest data on non-financial sanctions which go to December 2025.

Non-financial sanctions were introduced in May 2025 and have very specific eligibility criteria, significantly reducing the size of the eligible cohort. As at the end of December 2025, 18 clients have had a non-financial sanction applied.

Based on sessions held with a small number of staff in September 2025:

Staff reported feeling less familiar with the new processes of applying a non-financial sanction and assessing client suitability compared to the existing financial sanction system which staff have become accustomed to.

MSD expects staff will become more familiar with these processes over time and with the help of ongoing communication about the changes.

Although most staff had not applied a non-financial sanction, some staff communicated that they see positive potential in these tools if they are applied appropriately to the client’s individual circumstances, particularly for groups such as young people and sole parents. As non-financial sanctions are a new concept, MSD has committed to reviewing non-financial sanctions 12 months after their launch, to assess whether any changes are needed to increase their effectiveness.

The TLS is operating as intended, and some challenges navigating the obligation and sanction process remain.

While the TLS helps improve communication and some complexity around the structure of obligations, failures, and sanctions remains. For example, different failure grades (different grades are given depending on the number of failures within two years) correspond to different sanctions (e.g., reduction in benefit payment rate or non-financial sanctions), which can be hard for staff to explain clearly to clients.

When a client fails an obligation, they are notified through a letter via MyMSD or by post. These letters can be hard to understand for clients with literacy barriers and staff noted that some clients are unsure which activity they failed when moving from Green to Orange.

To address this, MSD improved the letter which is sent to clients when they fail their obligations. The letter provides them with more information on the activity they did not complete. MSD also introduced text messages to alert clients that they have failed an obligation and to read their letter. These changes went live on 20 October 2025, with further improvements implemented in February 2026.

Staff reported that digital access, along with available appointment options, can be a barrier for clients to re-comply within the 5 working-day dispute period. The introduction of text messages aims to help clients act quickly and meet this timeframe.

Staff also highlighted challenges with using multiple systems to set obligations and record or amend failures. They expressed the need for more streamlined processes and systems to reduce confusion.

Evaluation methodology

We evaluated the TLS to understand the difference it makes for MSD clients and how it is being delivered.

As part of this work, we drew on:

1. Analyses undertaken to identify the outcomes of the TLS, including:

- › Monitoring analyses of MSD JS – WR administrative data, examining changes in client outcomes when comparing periods before and after the introduction of the TLS.
- › Statistical analyses of MSD JS – WR administrative data that adjusted for factors likely to influence outcomes.

2. Analysis undertaken to understand the delivery of the TLS, including:

- › A survey of 1,212 JS – WR clients (with a 9 percent response rate), to explore clients' awareness of their obligations and whether the TLS helped improve this.
- › Sessions with 26 staff from diverse sites and roles, to explore how the TLS is being implemented in practice.

Data notes

- › **Figure 6** shows the average obligation failure rates per client per 30 days for service centres, grouped by how much their rates changed before and after the introduction of the TLS and other policy and operational changes as part of Welfare that Works.
- › **Figure 7** shows the average obligation failure rates per client per 30 days for the group of service centres that showed the largest increase in obligation failures rates (Service Centres Group 4) following the introduction of the TLS and other policy and operational changes as part of Welfare that Works.
- › **Figure 7** also presents the average exit off benefit rate per client per 30 days for the same group, averaged across two periods: Baseline period (September 2022 to September 2023) and post-TLS implementation period (September 2024 to August 2025).
- › The statistical analysis tracked changes over 48 months (from September 2021 to August 2025) and assessed whether service centres with rising obligation-failure rates following the introduction of the TLS and other changes as part of Welfare that Works also showed higher than expected benefit exit rates for JS – WR clients.
- › The statistical analysis used a custom dataset and adjusted for factors likely to influence outcomes, including the number of JS – WR clients at the start of the month (i.e. size of service centre), JS – WR client characteristics (gender, ethnicity, age, partnership status, number of children, benefit duration) and local employment rate. It excluded clients who transferred to another benefit.