MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

WORK AND INCOME

2013 Benefit System Performance Report

for the year ended 30 June 2013

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1 Executive Summary

Purpose of this Report

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

1.2 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.

1.3 This report:

- Reviews and comments on the valuation of the forward liability
- Reviews overall performance of the welfare system and the effectiveness of investments made to reduce benefit dependency
- Identifies areas for attention to assist in managing long-term benefit dependency, and
- Discusses material risks that could impact on successfully managing the forward liability and/or in meeting Better Public Service (BPS) or Key Performance Indicator (KPI) targets.

1.4 The report has been prepared by Herwig Raubal, FNZSA, FIAA and Eric Judd, FNZSA, FIAA and is in respect of the period ended 30 June 2013.

1.5 There are 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 principles of professional standards of the New Zealand Society of Actuaries.

1.6 As far as we are aware, this is the first such report prepared in respect of an unfunded welfare benefit system anywhere in the world. As such, the report is in some places developmental. Further data capture and analytic processes are required to allow the full benefit of this discipline to be realised.

Key Findings

<u>*Liability at 30 June 2013 (paragraphs 5.42 to 5.60)*</u>

People receiving a main benefit

Segment	Number			Liability		
	30-Jun-12	30-Jun-13	Change	30-Jun-12 $ million	30-Jun-13 $ million	Change
Jobseekers	164,169	155,836	-5.1%	20,525	18,104	-11.8%
Sole Parents	89,538	84,897	-5.2%	20,950	18,004	-14.1%
Supported Living	101,379	101,444	0.1%	17,927	17,155	-4.3%
Youth	2,949	2,857	-3.1%	705	554	-21.4%
Total on a main benefit	**358,035**	**345,034**	**-3.6%**	**60,107**	**53,817**	**-10.5%**

1.7 The numbers of beneficiaries in the table above will differ from officially reported figures. The main reasons are:

- Official numbers are reported immediately at the end of each month, whereas the data for the valuation is collected one month after the valuation date to allow for back-dated administration adjustments
- The valuation counts partners as separate clients whereas the official count does not

1.8 The number of people on a main benefit aged from 16 to 64 has decreased from 358,000 at June 2012 to 345,000 at June 2013, a decrease of 3.6%. Most of the decrease was in the number of Jobseekers and Sole Parents. The liability for this group decreased from $60.1 billion to $53.8 billion. Of the 10.5% decrease in liability, approximately 4.5% was due to the change in real discount rates.

1.9 The liability also includes people who are not currently on a benefit but who received a benefit payment within the 12 months prior to the valuation date and people only receiving supplementary payments such as accommodation support. For the purposes of the valuation and this report, they are referred to as non-beneficiaries. The recent exits have been included in the liability as there is a high rate of return to the welfare system for previous benefit recipients.

Not receiving a benefit

Segment	Number			Liability		
	30-Jun-12	30-Jun-13	Change	30-Jun-12 $ million	30-Jun-13 $ million	Change
Supplementary Benefits Only	105,638	102,742	-2.7%	6,672	5,891	-11.7%
Recent exits*	163,809	154,704	-5.6%	10,115	8,762	-13.4%
Future expenses				7,955	7,698	-3.2%
Net Loan cost				420	372	-11.4%
TOTAL	**269,447**	**257,446**	-4.5%	**25,162**	**22,723**	-9.7%

* Excludes those incorrectly included in current clients for 2012 valuation

1.10 The number of people receiving a supplementary payment only (including orphans benefit) decreased from 106,000 to 103,000, a decrease of 2.7% and the liability decreased from $6.7 billion to $5.9 billion.

1.11 The remainder of the liability ($16.8 billion at 30 June 2013) relates to people who had received a benefit in the previous 12 months, but were not on benefit at the valuation date, and to expenses, loans and debts.

1.12 The liability was expected to decrease from $86.8 billion at 30 June 2012 to $83.9 billion at 30 June 2013 based on 2012 forecasts[1]. The actual liability determined at 30 June 2013 was $76.5 billion, or $7.4 billion lower than expected.

1.13 $4.4 billion of this reduction was from improved experience in areas where welfare reforms and management actions are able to have influence. This can be broken down as follows:

- There were fewer people on benefit than expected at 30 June 2013. Almost $1.8 billion of the decrease is due to a higher than expected number of Jobseeker and Sole Parent beneficiaries going off benefit during the year (approximately $1.1 billion) and a lower number coming on to benefit (approximately $0.7 billion). This is the area where welfare reforms were initially targeted and case management efforts have had most impact.
- In the future, some segments of people are expected to spend less time on benefit. Changes to forecasting assumptions accounted for another $2.6 billion. The drivers for the largest changes were:

[1] Includes $1.5 billion reduction due to correction to opening liability (see paragraph 5.48)

- a lower rate of returning to benefit for recent exits, implying slightly better sustainability in off benefit outcomes. Maintaining a focus on sustainable employment outcomes will be important to reducing long-term benefit dependency, and
- a higher probability of Sole Parents exiting from benefit, and removing the upward trend in average benefit levels to Sole Parents (due to higher rates of part-time work).

1.14 The remaining $3.0 billion reduction was due to differences in actual unemployment, inflation and discount rates to those assumed in the June 2012 valuation.

1.15 Overall this is a strong result, with most areas of experience having been better than expected based on the 30 June 2012 valuation.

Youth Entrants to welfare (paragraphs 4.3 to 4.19)

1.16 Although the number of new youth entrants to benefit each year is small, they account for a significant proportion of the liability over time. More than 70% of the forward liability is in respect of people who first received a benefit before age 20, indicating that many remain vulnerable to benefit dependency for their entire lives. Some key observations regarding youth entrants (based on the 1993 birth cohort[2]) are:

- About 90% of new 16-17 year old beneficiaries have been supported by main benefits at some time in their childhood
- One third had recorded findings of substantiated abuse or neglect
- One third of new youth clients enter the system as parents.

1.17 A strong focus on youth is needed to help reduce the inflow of new people who are at risk of long-term benefit receipt. However, the problem is not a Work and Income one alone. For a large portion of youth the path to dependency is established long before they begin to receive benefits in their own right. An across agency strategy is needed.

1.18 For those who entered as youth and are now of working age, more support is likely to be needed to help overcome what are likely to be fairly entrenched barriers to sustainable employment.

Post Exit return to benefit (paragraphs 4.49 to 4.54)

1.19 A large proportion of new beneficiaries each year are people who have previously been on benefit. Of these returning clients, 44% had been off benefit for less than 12 months and a further 19% for less than two years. While seasonal labour markets are a cause of some of this cycle, there is a significant number of people who remain vulnerable to long-term benefit dependency even after being able to find work.

1.20 For these people, work placement alone is insufficient to overcome susceptibility to welfare dependence. Pre-work and in-work training along with post placement support is likely to be needed to achieve sustainable work outcomes for this group.

Impacts of the Global Financial Crisis (paragraphs 4.55 to 4.59)

1.21 There is a cohort of people who first came onto benefit during the Global Financial Crisis (GFC) who before that were connected to the labour market or in some form of study, but

[2] "Young people supported by benefits at age 16-17: a profile" – Centre for Social Research and Evaluation. Findings are based on cohort of young people born in the first half of 1993.

have yet been unable to return to work. Many of these have been re-entering the work force as the economy improves and opportunities arise.

1.22 However, a significant number of them, because they have been out of the labour market for some time, may not have skills suited to the current jobs that the economy is creating. Or, they may have developed a health condition following a long absence from the workforce. Targeted support will be required to overcome any barriers that may have developed over the time away from the labour market.

Ethnicity (paragraphs 5.61 to 5.68)

1.23 People in receipt of benefit who identify as Māori make up a significantly higher proportion of the people on benefit than their overall share of the population. They also have a higher average liability, indicating a greater risk of long term dependence. This applies to varying degrees across all geographic regions and levels of education.

1.24 Māori would appear to be the most vulnerable to long-term benefit dependency and further consideration is needed to determine if current levels and types of support are sufficient to help reduce the disparity between ethnic groups.

Benefit transfers to Health condition, Injury or Disability (HCID) state (paragraph 4.42)

1.25 The number of people receiving Supported Living benefits has tracked close to or slightly ahead of valuation forecasts, mainly because of a higher number of exits from the benefit than expected. Within these movements, however, the following observations can be made:

- While the number of people on Jobseeker and Sole Parent benefits has also been declining at a faster rate than the 2012 valuation projected, there has been a higher than expected rate of transition from Jobseeker – Work Ready to both the Jobseeker – HCID state and to Supported Living Payment.
- A higher than expected rate of transfer to Supported Living Payment is also occurring from both Jobseeker – HCID and Sole Parents.

1.26 Over the last few years, the probability of remaining on Jobseeker - HCID benefit has also been slowly increasing. Further investigation and monitoring of these trends is recommended.

Investment Performance

1.27 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 use appropriations better by providing services that best help people become independent of the welfare system as well as supporting those who are unable to work.

1.28 A key part of the Investment Approach is a multi-category appropriation (MCA) which provides greater flexibility for management to direct funding to where it will be most effective. This brings a responsibility to monitor the effectiveness of the various investments. The MCA begins from 1 January 2014.

1.29 Several policy and operational changes have occurred over the last three years. These have generally had a positive impact on reducing the number of people who are dependent on welfare.

1.30 The Future Focus changes were introduced from September 2010. They require reapplication for unemployment benefit every 52 weeks and place part-time work obligations on sole parents whose youngest child is aged five or more and full-time obligations if youngest child is aged 14 or more.

1.31 Both of these initiatives have led to a shorter average time spent on benefit for Jobseeker and Sole Parent clients of approximately one and a half weeks. There is no indication to date of an increase in the time spent off benefit for either group, which suggests greater focus is required to ensure off benefit outcomes are sustained.

1.32 A revised case management service was trialed in 24 Work and Income offices from October 2012. This is discussed further in paragraphs 6.13 to 6.16. The rate of people coming off Jobseeker and Sole Parent benefits (where the trial was targeted) was higher in these sites than in sites where the new service was not available and higher than the control groups within these sites. This new service model was extended to all service centres from July 2013.

1.33 Work and Income provides a series of incentives to assist with barriers to work, including training programmes and wage subsidies. Results from these targeted investments have been mixed. For example:

- Transition to Work has been an effective form of assistance (paragraphs 6.17 to 6.22) across all main benefit categories
- Training Incentive Allowance (TIA) and Course Participation Allowance (CPA) do not appear to have been effective (paragraphs 6.31 to 6.33). Changes to how this support is targeted may improve the programmes' effectiveness as the valuation shows the risk of long-term benefit receipt is reduced with higher levels of education and skills
- Foundation Focused Training Opportunities (FFTO), which has been the largest spend under employment assistance initiatives, has not been effective to date and has been discontinued for the 2014/15 fiscal year and replaced with a series of more targeted training options.

1.34 Trials of contracted case management services to clients with common mental health conditions and to sole parents with full-time work obligations commenced from July 2013, after the date of this valuation. It is too early to draw conclusions as to the effectiveness of either trial. Full cost effectiveness analysis is due in 2015. The Supported Living and Sole Parent segments have the highest expected durations on benefit. These and other targeted trials will help management decide what support works best to achieve appropriate quality of life or work readiness goals.

Data Issues

1.35 Work and Income has provided us with data for the purposes of this report. We consider the data provided to be suitable for the purpose. Where necessary, missing data has been interpolated to remove bias in the results. This is not considered to be material to the conclusions drawn. Specific issues to address in future are discussed in paragraphs 5.87 to 5.94.

1.36 Linking to data from other agencies, for example education and care and protection, would help resolve many of these issues and provide better historic information on which to base liability calculations and to segment the client base to target appropriate services better.

Better Public Services (BPS)

1.37 The BPS target with respect to long-term benefit dependency is to reduce the number of Jobseekers who have been on benefit continuously for more than 12 months to 55,000 by 2017. On the current rate of exits the target looks likely to be achieved, however:

- To continue to achieve the current rate of decrease, more will need to be achieved in respect of clients who have been on benefit for longer durations. As at 30 June 2013 there were approximately 55,000 Jobseekers who had been on benefit for more than two years. This has been fairly stable over the last two years.

- The number of Jobseekers with a deferment because of a health condition, injury or disability has remained fairly stable over the last few years. The proportion of Jobseeker–HCID clients has been slowly rising as the number of work ready clients has fallen, so that they now make up more than half the BPS target group.
- Economic conditions strongly influence benefit numbers. Valuation assumptions allow for the unemployment rate to reduce gradually to a long term rate of 4.5% and then remain level from June 2022. Any deterioration in the economy or failure to improve sufficiently to support the expected decline in unemployment will make the target difficult to achieve.

1.38 The type of assistance that may be needed to make lasting change for those people most vulnerable and at risk of long-term dependency, means it is likely to take time to achieve effective results. Without a reasonable level of success in respect of long-term beneficiaries, the BPS target will be difficult to achieve. This is to be expected as the target was an ambitious one designed to increase the focus on and level of support provided to long-term beneficiaries.

Recommendations

1.39 We recommend:

1) Further investigations into what is causing the increasing rate of transfer onto HCID benefits.
2) 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 main benefit without the encouragement into education or training that the youth service now provides.
3) 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.
4) 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.
5) 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.
6) A link to education data from the Ministry of Education (MoE) is needed to inform the valuation better and to understand better the correlations between education and benefit dependency.
7) 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.
8) 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 the liability. Possible alternatives include age at entry into the benefit system or proportion of time spent on benefit since first benefit receipt.

2 Background

Review of Welfare System

2.1 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"*.

2.2 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 the management thereof.

2.3 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.

2.4 The Cabinet paper[3] titled "Accountability and Funding Arrangements to Implement an Investment Approach to the Benefit System" noted that such an approach requires:

- Clarity about the long-term outcome being sought, namely a reduction in the future liability of the benefit system through investment to improve individuals' employment outcomes (noting that the wider welfare system will continue to deliver on other social priorities)
- Strong accountability mechanisms where performance is measured transparently and publicly against the forward liability
- Flexible funding arrangements, so resources can be allocated quickly to where they are most effective at improving long-term employment outcomes.

Actuarial Reporting Framework

2.5 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

[3] http://www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2011/public-release-accountability-and-funding-arrangements-to-implement-an-investment-approach-to-the-benefit-system.pdf

- A means of analysing the financial impact of policy and operational changes.

2.6 This detailed understanding can be used to assist management to target services better to assist those most in need of support.

Purpose of this Report

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

2.8 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 2013.

2.9 This is the first 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 and comment on the valuation of the forward liability and what can be learned from analysis of the change in liability
- Review overall performance of the welfare system and the effectiveness of the "investment portfolio"
- Identify areas for attention to assist in managing long-term benefit dependency
- Discuss material risks that could impact on successfully managing the forward liability and/or in meeting Better Public Service (BPS) or KPI targets.

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

2.11 The 2013 valuation is the first conducted after the welfare reform changes which commenced in the latter half of 2012 and gives the first results which include some impact from these changes. Impacts from the reform changes that commenced in July 2013 will appear in the next valuation due as at June 2014.

Professional Standards

2.12 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.

2.13 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. 4.1 entitled "Valuations of general insurance claims" and this report complies with relevant sections of Professional Standard No. 12 entitled "Non-Life Insurers – Financial Condition Report".

Scope

2.14 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.

2.15 The forward liability is defined to be:

> *All future lifetime costs of benefit payments and associated expenses for working-age clients[4] who received a benefit payment in the 12 months up to and including the effective date of the valuation.*

2.16 This means recent exits from the welfare 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.

2.17 These recent exits have been included in the scope of the liability as 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.

2.18 The liability and this report cover working age people who have, or but for deferments because of children or health conditions would have, work obligations. Benefits payable to people over the eligibility age for superannuation are excluded from the scope of this report. Student Loans and Student Emergency Hardship Support have also been excluded from the liability.

2.19 The scope of this report does not extend to:

- Discussion of Work and Income, MSD or general government policies and strategy
- Benefit design
- The impact of any proposed new policies or benefit structure post July 2013
- Discussions on the appropriateness or feasibility of pre-funding this valuation liability.

[4] Working age is defined to be from ages 16 to 64.

3 Nature of the Business

Purpose

3.1 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).

3.2 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[5] 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.

3.3 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

3.4 The Act confers powers and authorities on the CE of MSD to oversee the administration of the Welfare 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.

3.5 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 the delivery of reforms that aim to see fewer people on welfare for long periods.

3.6 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.

[5] Under age 18 or under age 19 with a dependent child

3.7 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.

3.8 There could be potential conflicts caused by differing goals of parties in the governance structure. The CE is responsible for delivering the requirements of the Act and the directives of the Minister including driving a programme that will deliver on the Better Public Service (BPS) target(s)[6]. None of these (as they currently stand) has any liability content to them. On the other hand, the Board oversees the investment approach to welfare, with a focus on reducing long-term benefit dependency as measured through the life-time liability of the welfare system. The BPS target group currently makes up approximately 16% of the liability.

3.9 These two differing goals are not mutually exclusive and have some commonality. The potential exists, however, that actions targeted at meeting BPS targets may not necessarily be optimal to achieve liability reduction, particularly if resources need to be directed away from higher liability clients outside of the target group.

Benefit Structure

3.10 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 who are 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

[6] See paragraphs 4.60 to 4.62

Benefit Type	Purpose
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 care - Disability Allowance 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

3.11 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.

3.12 From 15 July 2013, the benefit structure was consolidated from the multiple benefit types listed in paragraph 3.10 to three main benefit types plus two youth benefits (which commenced from August 2012). As mentioned in paragraph 2.3, 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, EB - 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, injury or disablement 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 commence once 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

Benefit Type (and former type)	Purpose
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, injury 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, WB/WA 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

3.13 Benefit payment amounts are income tested. Abatement rates can vary by benefit type.

3.14 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 those people with short term deferrals of their work obligations.

3.15 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.

3.16 Even though they did not come into effect until July 2013, the analysis and commentary in this report is based on the new benefit structures unless specifically stated otherwise.

Recent Reforms

Future Focus

3.17 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:
    - Unemployment Benefit (UB) recipients are required to reapply for their benefit and complete a Comprehensive Work Assessment interview every 52 weeks
    - Domestic Purposes Benefit – Sole Parent (DPB-SP) 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 Sickness Benefit (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.

3.18 These changes have now all been in place for over two years and therefore some time has elapsed to enable an initial assessment of the impact (in client numbers as well as forward liability) to be made. This is discussed in paragraphs 6.4 to 6.12.

Welfare Reforms

3.19 On 30 May 2011, Cabinet agreed to a programme of work to develop the Government's response to the Welfare Working Group (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 Youth Payment and Young Parent Payment 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 Domestic Purposes Benefit - Sole Parent, Woman Alone and Widows Benefit recipients.
- Phase Three: From 15 July 2013 three new benefit categories were introduced - Jobseeker Support, Sole Parent Support and Supported Living Payment. 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.

3.20 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 (NGO) and private sectors to achieve employment outcomes for more people. A full roll-out is currently underway.

3.21 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

3.22 Work and Income is the largest service line of MSD, with 11 regional offices, 143 service centres, a contact centre located in five sites, and a centralised processing unit.

3.23 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 were not allocated specifically to a set case manager, but were assisted according to availability.

3.24 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 who are likely to remain on benefit for a long time without intervention, but for whom employment is a plausible outcome. 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 - HCID): 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 who are currently 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): provides a service that increases in intensity with time on benefit. Commences 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.

3.25 Two streams of the new service delivery framework (Work Focused Case Management and Work Search Support) were piloted in 24 Work and Income sites from October 2012. This is discussed further in paragraphs 6.13 to 6.16.

3.26 A separate case management service is provided for clients receiving a youth benefit, ie, those aged under 18 (and sole 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.

3.27 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.

3.28 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.

Service Matching

3.29 Service matching was introduced as a part of the practice changes following Welfare Reform and supports the operational service model. Case management practice and service matching rules aim to place clients in the most appropriate service.

3.30 The implementation of service matching for July 2013 used different service matching rules for allocating clients into services from those trialed in October 2012. For the July implementation, caseload sizes for WFCM-General increased from 108 to 121. Both WSS and WFCM-General were allocated lower numbers of clients on Jobseeker Support with full-time work obligations than had been the case for the trial, because of an increased focus on working with clients with higher risk of long-term dependency.

3.31 From July 2013, clients are to be allocated into services depending on a range of eligibility factors. Clients who are eligible for more than one service are allocated into the higher intensive service available.

Investment Approach (Progress to Date)

3.32 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. The successful implementation of this requires:

- 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, and
- flexible funding so resources can be allocated by MSD 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.)

3.33 There are a number of elements now in place, and others being developed, 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

3.34 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 third such valuation as at 30 June 2013 was completed and publicly released in January 2014.

3.35 This report extends the actuarial analysis of the liability and provides an internal review of the management of the welfare system.

Multi-Category Appropriation (MCA)

3.36 MSD is provided appropriations to fund the administration of the welfare system and to meet its duties to assist people to find work. Crucial to being able to direct investment funds best towards interventions that will most benefit clients is the introduction of the MCA, which will provide increased operational and 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).

3.37 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

3.38 ***Randomised control trials***: To help understand better 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 to a randomly picked control group with similar attributes. Several trials have been initiated during the year.

3.39 ***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 (eg, 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.

This framework, which is currently in the initial stages of application, includes existing analysis from Work and Income's Cost Effectiveness methodology and extends this to include 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.

3.40 ***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.

3.41 ***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, and identifies areas for attention to assist in managing long-term benefit dependency.

3.42 ***Investment Committee***: An investment committee has been established to ensure appropriations are used to best drive client outcomes and review funding requests or proposed changes to services. The committee includes members of the Work and Income executive, including the General Manager of Investment Approach and the Chief Actuary.

4 Recent Experience

Introduction

4.1 What will ultimately determine the development of the forward liability for working age people over the years are the following:

- The number of people entering the benefit system
- How people transition between benefits
- The rate of benefit paid while on benefit, and
- The rate at which people leave the benefit system.

4.2 The state of the economy and the cycles it undergoes will have significant influence on benefit numbers. Nevertheless, Work and Income is able to influence benefit dependency within the limitations imposed by current economic conditions. The following sections discuss experience in various areas of operation over which Work and Income has influence.

Youth entrants to the welfare system

4.3 Although the number of people in the youth segments at any point of time is small, a large proportion of the liability is for people who first received a benefit as teenagers. This makes this segment an important one for management focus.

4.4 There were 2,001 youth clients who came onto benefit over the 12 months to 30 June 2013. The following table gives a summary of the profile of these young people. Youth clients are those aged 16 to 17, or 16 to 18 if they have a dependent child.

New Youth benefits for year to 30 June 2013

	Youth Payment			Young Parent Payment		
	Number	Average Liability	Total Liability ($m)	Number	Average Liability	Total Liability ($m)
Female						
- 16-17 years old	773	179,886	139	280	251,443	70
- 18 years old				380	240,272	91
Male						
- 16-17 years old	495	82,799	41	37	142,532	5
- 18 years old				36	143,480	5
TOTAL	**1,268**		**180**	**733**		**172**

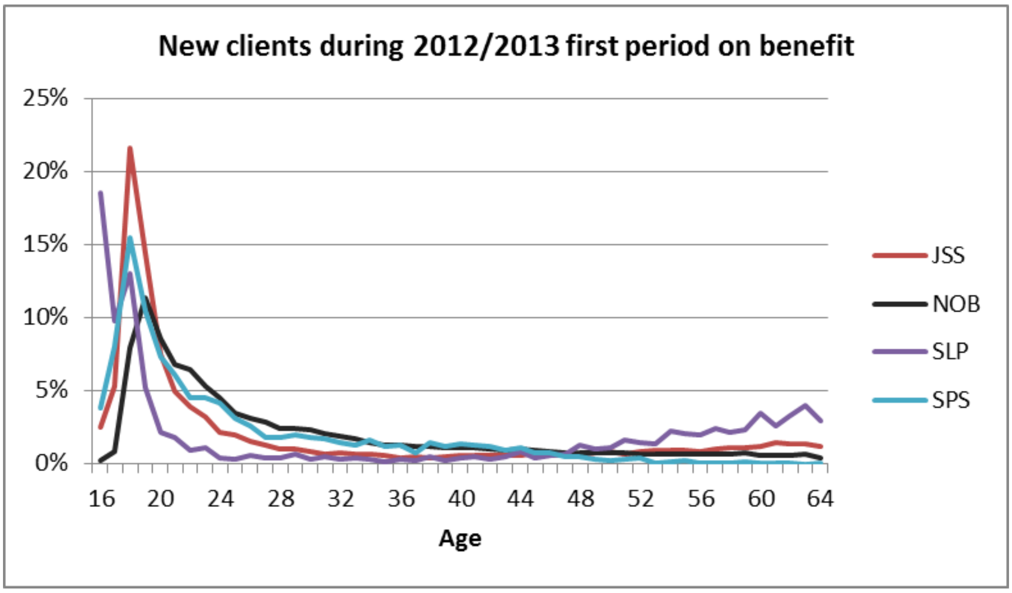
4.5 The following observations can be made:

- More than one third of all new youth clients entered the system as parents. Of those aged 16-17, one in five enter as parents.
- 72% of new youth beneficiaries are female and of these 46% are supporting a dependent child(ren). Of those females aged 16-17, 27% are supporting a child.
- 13% of new male youth clients are supporting a dependent child (7% of those aged 16-17).
- The average liability for new female Youth Payment clients is more than double that of male clients, indicating a high likelihood of becoming a sole parent on welfare in the future.

4.6 Analysis conducted in 2012 linking Work and Income data with care and protection, and youth justice services data focused on the cohort of young people who were born in the first half of 1993, and who turned 18 in the first half of 2011. It profiled those who received benefits in their own right at age 16-17. Some key findings of this analysis were:

- Almost half of the young people who received benefit in their own right at age 16 or 17 were also supported by a benefit as a dependent child for some time at those ages, usually before receiving benefit in their own right. In total, more than one in four young people born in the first half of 1993 were supported by the benefit system at some point when aged 16 or 17.
- Young people who received benefit in their own right at age 16 or 17 had very high rates of contact with the benefit system, and with care and protection, and Child, Youth and Family 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 Child, Youth and Family 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 Child Youth and Family data and data on Unsupported Child Benefit receipt (more than one third of all children in the birth cohort who experienced one of these forms of out-of home care in childhood received benefit in their own right at age 16 or 17).

4.7 The following chart shows the age distribution for new clients commencing benefit in the past year who are receiving a benefit for the first time. Young Parents have been included with Sole Parents and Youth Payments have been included with Jobseekers for this illustration.



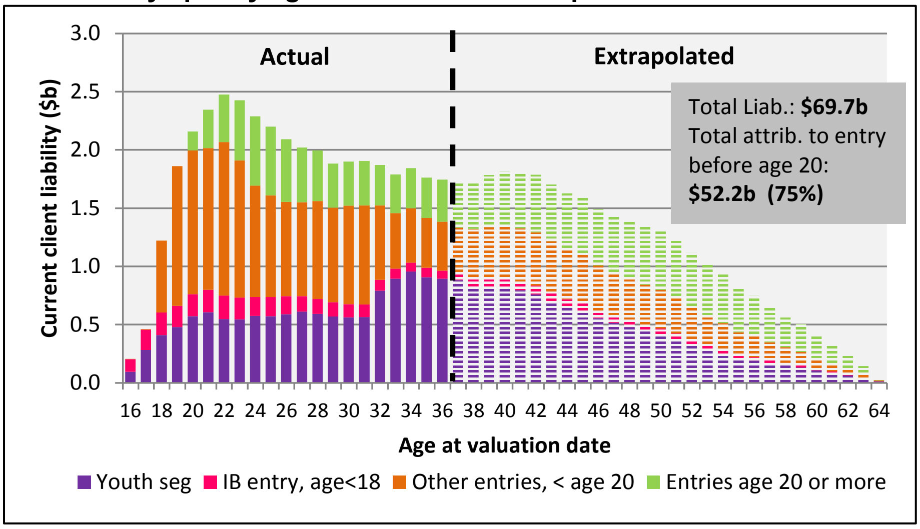
4.8 The largest proportion of all new beneficiaries by age in the Jobseeker (22%) and Supported Living (24%) segments are teenagers. Also, 16% of new sole parents are under age 20. However, when looking at those who have received a benefit for the first time during the past year (as in the chart above), the proportions increase to 44%, 47% and 38% respectively.

4.9 While the numbers of youth beneficiaries and their liability in the valuation are small, they make up the largest proportion of new entrants and are the biggest contributors to long-term dependent beneficiaries. Early support to youth beneficiaries is necessary if future long-term benefit numbers are to be reduced.

<u>Progress of Youth entrants through the welfare system</u>

4.10 Over time these youth entrants can be tracked through the benefit system. The chart below shows the liability for clients at each age, split according to the age they were when they first received a benefit. The portions above age 37 have been estimated as the data history does not go back far enough to determine the date of first benefit receipt for these clients.

Liability split by age of first benefit receipt



4.11 Approximately 75% of the total liability is for clients that would have first received a benefit before age 20. About one-third of the liability relates to clients who would have first entered in a youth segment (or its equivalent).

4.12 The following table shows the proportion of those people aged from 20 to 36 at 30 June 2013 (for whom full data history is available) whose first benefit receipt was before the age of 20:

	Age at first benefit receipt	Proportion of clients aged 20 to 36	
		by number	by liability
Duration of current benefit spell			
Less than 1 year	- 16 to 17	18%	28%
	- 18 to 19	38%	43%
Greater than 1 year	- 16 to 17	37%	45%
	- 18 to 19	40%	40%
All	- **16 to 17**	**26%**	**39%**
	- **18 to 19**	**38%**	**41%**
Benefit Type at 30 June 2013			
Jobseeker Support	- 16 to 17	26%	35%
	- 18 to 19	45%	45%
Sole Parent Support	- 16 to 17	38%	42%
	- 18 to 19	43%	43%

	Age at first benefit receipt	Proportion of clients aged 20 to 36	
		by number	by liability
Supported Living	- 16 to 17	55%	58%
	- 18 to 19	34%	33%
Recent Exits	- 16 to 17	17%	28%
	- 18 to 19	38%	44%

4.13 We see that people who first receive a benefit under age 20 comprise a very large portion (80%) of the total liability for this group of clients. Extrapolating further and including loans and expenses, we estimate approximately $57 billion (75%) of the total $76 billion liability relates to people who first received a benefit as teenagers.

4.14 The 16 to 17 year old age at first benefit cohort:

- has a high average liability, indicating a high risk of long term welfare dependence
- forms a significantly higher proportion of the greater than one year duration clients than they do the less than one year clients, again indicating greater vulnerability to long-term dependence
- make up a large proportion of the liability in respect of recent exits because of a high probability of returning to a benefit.

Conclusions/ Recommendations

4.15 These observations all point to the importance of early interventions in the lives of the more vulnerable. The strong focus on youth given through the creation of the youth benefits and the specialised youth service launched in August 2012 is a key step in reducing long-term benefit dependency.

4.16 It is worth considering extending the goals of the youth service regarding education and training to those who recently would have qualified for a youth benefit but who have transferred onto main benefit without the encouragement into education or training that the youth service provides.

4.17 The early years of life have a significant influence on a person's likelihood of long-term benefit dependency. Successful interventions that stem the flow of young people onto benefit are likely to involve more than Work and Income. An across agency strategy is needed.

4.18 Consideration should be given to what additional data can be collected to be able to analyse better this early vulnerability, including intergenerational effects. Being able to use relevant data from other agencies, in particular education, care and protection and youth justice services, would help to better understand the issues and drivers to youth welfare dependency.

4.19 We recommend Work and Income investigate what data can be provided from these other agencies for use in future liability valuations.

Other Entrants to the Welfare System

4.20 The following table shows the number of, and payments made to, beneficiaries at 30 June 2013 who were new to the benefit system during the year or who had been off benefit for more than 12 months at June 2012. This is compared to expected numbers and payments from the 2012 valuation forecasts.

New benefits for year to 30 June 2013 (excluding youth)

	Number at 30 June 2013			Payments to 30 June 2013 ($m)		
	Actual	Expected	Difference	Actual	Expected	Difference
Jobseeker - Work Ready	27,840	29,643	-6.1%	170	181	-6.1%
Jobseeker - HCID	13,425	14,529	-7.6%	90	102	-11.5%
Sole Parent	6,875	7,611	-9.7%	74	88	-16.0%
Supported Living	4,060	4,459	-9.0%	30	36	-15.4%
Supplementary only	20,666	22,176	-6.8%	38	43	-12.5%
TOTAL	**72,866**	**78,418**	**-7.1%**	**403**	**451**	**-10.6%**

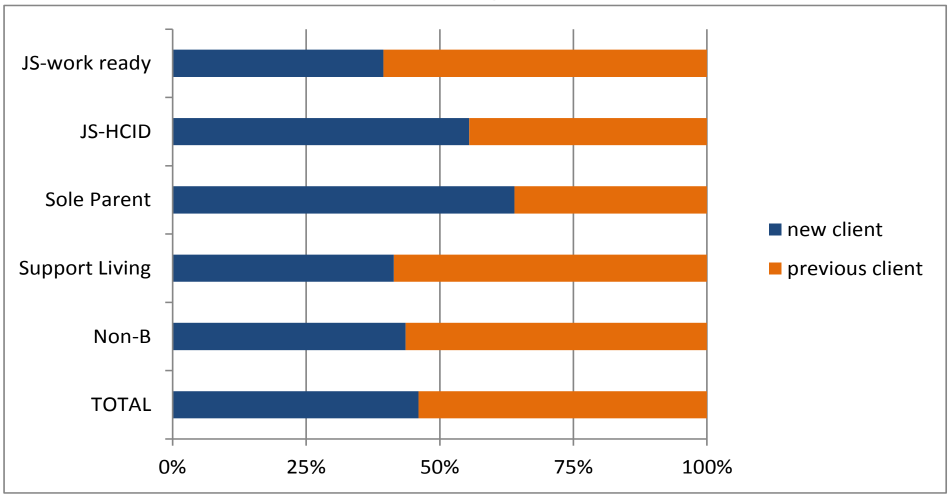
* excludes those who were no longer receiving a benefit at 30 June 2013

4.21 Both numbers and payments are significantly lower than expected based on historic experience. Likely contributing factors include:

- The number of widows and women alone applying for a benefit fell sharply from October 2012. While part of this may be because of an improving economy, the timing of the decline coincides with the changes to work expectations and the announcement of the widow's benefit being absorbed into Jobseekers from July 2013. The signaling effect of these changes and the increased focus of case managers to help them find work have likely been the key reasons behind this.
- The number of sole parents applying for a benefit also fell. This decrease commenced from the first quarter, although was more pronounced from October 2012, coinciding with the changes to work expectations. Falling birthrates over the last few years will also be having an influence (particularly in the under 20 age band). The rate of sole parents going off benefit also increased.
- Supported Living new entrants have been lower over the last 12 months than indicated by historic trends before 2012. This may (at least partly) be due to demographic trends, but we do not have enough data to confirm. In contrast, transitions from other benefit types to SLP are higher than expected (see paragraphs 4.41 and 4.42).
- Forecast entries to Jobseeker benefit have the highest sensitivity to the unemployment rate. Even though the unemployment rate did not decrease as much as expected over the last 12 months, the number of new entrants to the Jobseeker benefit has still fallen significantly. The largest falls were in areas where employment growth was strongest, especially Auckland and Canterbury.

4.22 The following chart shows the portion of new clients in each benefit type that are returning to benefit after being off benefit for more than 12 months at the last valuation compared to those receiving benefit for the first time.

Split of new clients and those returning to benefit



4.23 A little over half of the new clients are returning to the benefit system having received a benefit in the past. The highest rate of returning clients is in the Jobseeker – Work Ready segment. This shows the continuing vulnerability of clients that have previously been on benefit. This is discussed further in paragraphs 4.49 to 4.54.

4.24 The following table shows the distribution by age of first benefit receipt of those people who have returned to the benefit system having not received a benefit in the 12 months before the last valuation date. This is limited to those aged up to 39 due to historic data only going back to 1993.

Benefit Type - current age	**Age first received a benefit 16-17**	**18-19**	**20-24**	**25-29**	**30-34**	**35-39**	**Number**
Jobseeker							
- age 20-29	17%	58%	23%	1%			3,872
- age 30-39	29%	42%	18%	8%	3%	1%	3,371
Sole Parent							
- age 20-29	24%	53%	22%	1%			1,228
- age 30-39	30%	41%	17%	7%	3%	1%	1,492
Supported Living							
- age 20-29	18%	56%	25%	1%			153
- age 30-39	30%	38%	18%	10%	3%	1%	224
ALL							
- age 20-29	**19%**	**57%**	**23%**	**1%**			**5,253**
- age 30-39	**29%**	**42%**	**17%**	**8%**	**3%**	**1%**	**5,087**

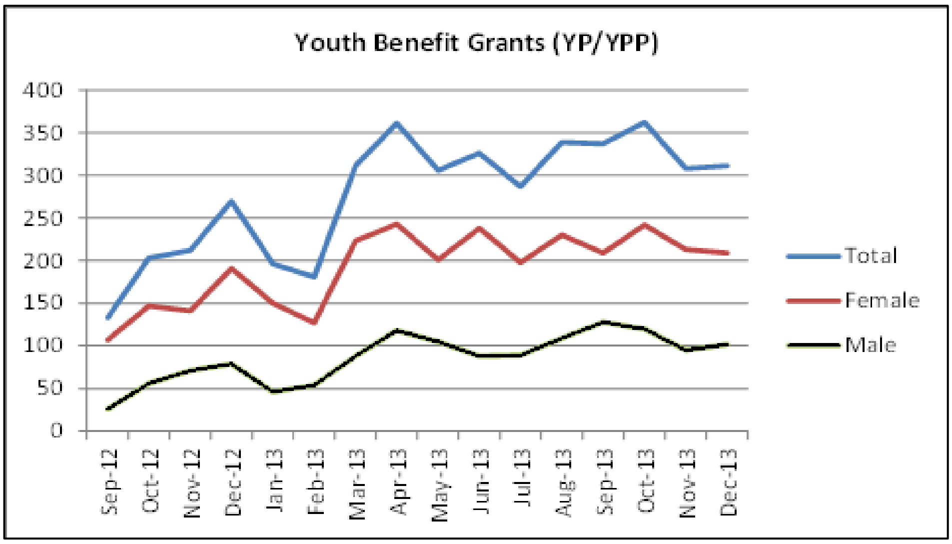
4.25 More than 70% of new clients over the past year aged 20 to 39 first received a benefit in their teenage years. Entering the benefit system as a youth is a key indicator of high risk of long-term dependency. The triggers for a youth benefit, many of which are discussed in paragraph 4.6, create barriers which can be challenging to overcome.

Benefit Grants

4.26 This section provides a summary of the trends in benefit grants over the recent past.

Youth

4.27 The following chart shows the number of grants of Youth Payment and Young Parent Payment benefits in the months since the launch of the youth service.



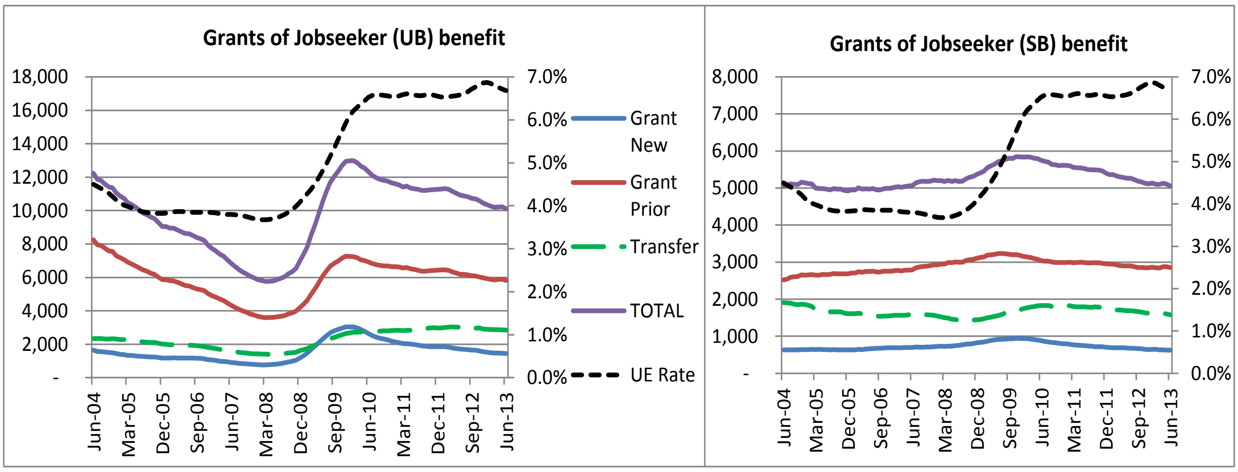
4.28 There has been a sharp increase in the number of young people coming onto the youth benefits from around March 2013. This is despite a flat estimated population for this age group from 2012 to 2013 and falling numbers of births to teenage parents in recent years (see chart in paragraph 4.34).

4.29 Since the increase in March 2013, grant numbers have remained stable. Further investigation is warranted to understand the increase in benefit grants. As a large proportion of the liability is driven by early entrants to the benefit system, understanding any trends in this group is necessary to be able to intervene early to overcome the barriers and build the skills needed to help reduce the risk of remaining on benefit.

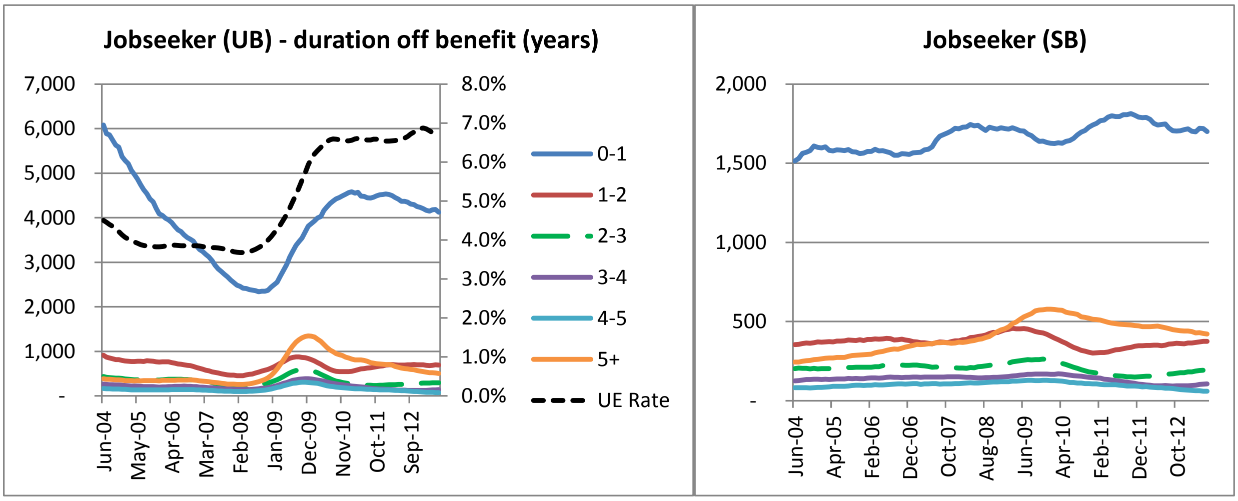
Jobseekers

4.30 The following charts show the numbers of grants of unemployment and sickness benefits, which comprise the majority of the Jobseeker segment, since June 2004 on a rolling 12 month average. The unemployment rate (rolling 12 month average) over the same period is overlaid in the chart (Right hand axis). It is clear that the overall economic environment has been a major driver – the impact of the GFC, starting in 2008, is evident.

Number of Benefit Grants (UB and SB)



Number of Benefit Grants for those returning to a benefit



4.31 The charts show:

- As expected, the number of grants of UB is highly correlated with the unemployment rate. The impact on SB grants is less pronounced.
- The greatest sensitivity to the unemployment rate is people who have previously been on benefit, showing their greater vulnerability to economic cycles, and, in particular, for those who have been off benefit for less than one year.
- The introduction of "Work for You" pre benefit seminars and Jobz4U software to assist case managers match job seeker skills with employer needs from 2004 saw more clients who were close to the labour market gaining employment rather than coming onto benefit for short periods. The impact of these initiatives coincides with the distinct divergence of the number of unemployment grants from the underlying unemployment rate from 2004 onwards. Before 2004 they were much more closely matched.
- This decreasing rate of UB grants continued during the improving economic times until the GFC began. The decrease was almost entirely in the less than one year on benefit group.
- Grants for UB have been trending lower following the peak that occurred after the GFC although they remain significantly higher than immediately before the GFC. In spite of the GFC, grant rates remain at lower levels than grants from 2000-2004 (which was before the introduction of the Work for You initiative).
- Over the past 10 years, the proportion of grants to people who are new to the benefit system has been only 14% for sickness benefits and 16% for unemployment benefits. Approximately 55% for sickness and 60% for unemployment are people returning to benefit after a spell of at least 14 days off benefit.
- Of those returning to benefit, more than 65% for unemployment and almost 60% for sickness are returning after less than one year off benefit.

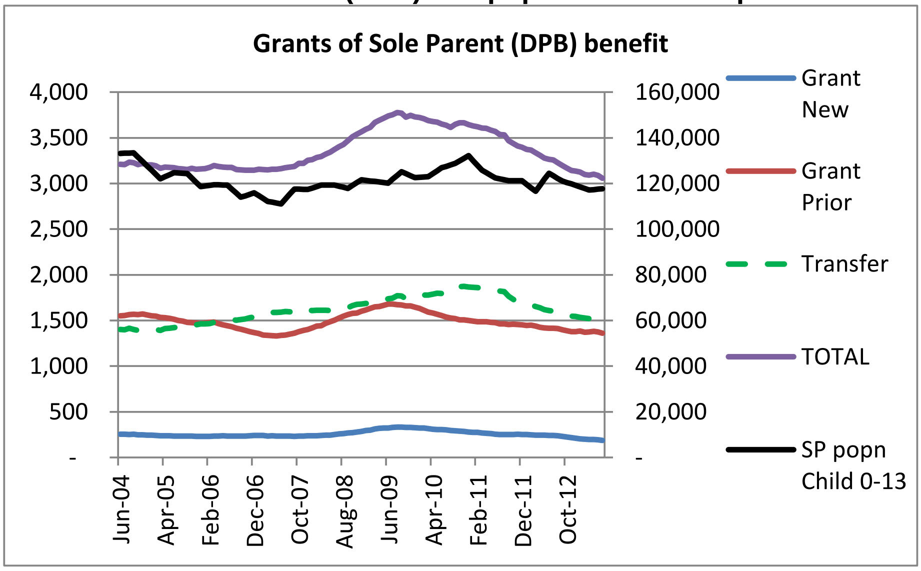
4.32 Economic growth since 2011 is not yet at a level to repeat the large benefit reductions seen in the 2000-2007 period. However, in spite of the unemployment rate remaining above 6% over the last three years, there has been a significant reduction in the number of new unemployment benefit grants. Improving labour markets make it easier for people to transition between jobs and reduce the need to short term benefit assistance. However, there still remains a significant number of people who remain vulnerable to return to a benefit, particularly if they have been off benefit for less than 1 year (see paragraphs 4.49 to 4.53).

Sole Parents

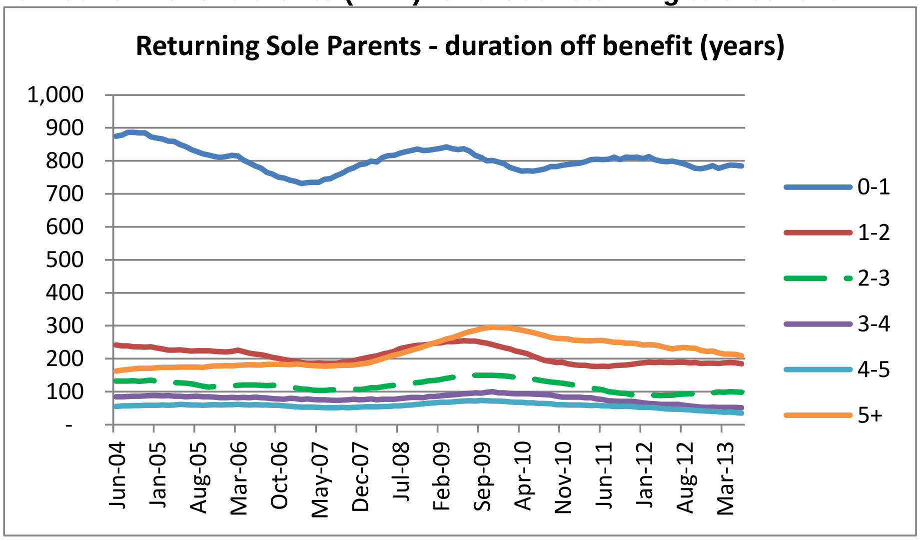
4.33 The following charts show the numbers of grants of DPB benefits (that make up the Sole Parent segment and part of the Jobseeker segment) monthly from June 2004 on a rolling 12 month average, derived from valuation data. The number of sole parents in the population[7] with children aged 0-13 is also overlaid on the chart (uses right hand axis). The second chart shows for those returning from a spell off benefit, the period of time that had elapsed since their last time in receipt of a benefit.

[7] Household Labour Force Survey

Number of Benefit Grants (DPB) and population of sole parents



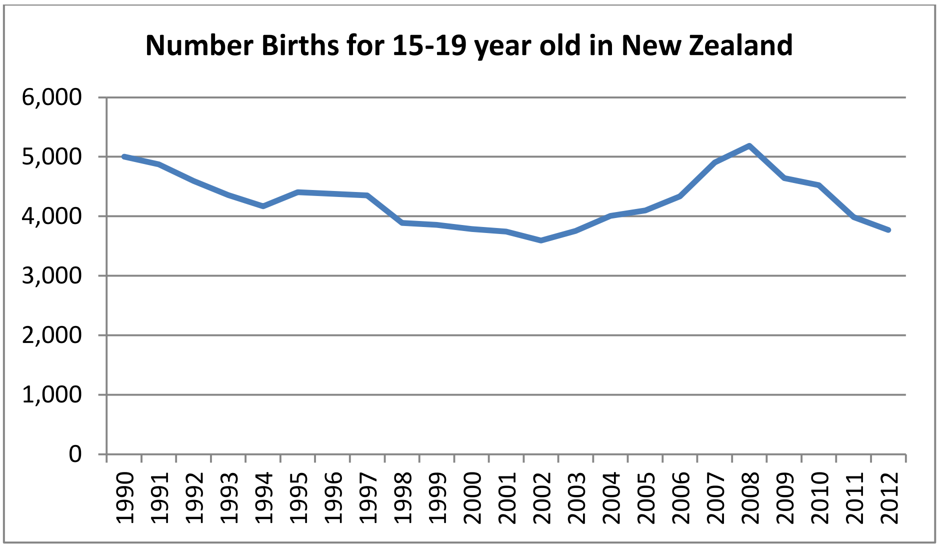
Number of Benefit Grants (DPB) for those returning to a benefit



4.34 The charts show:

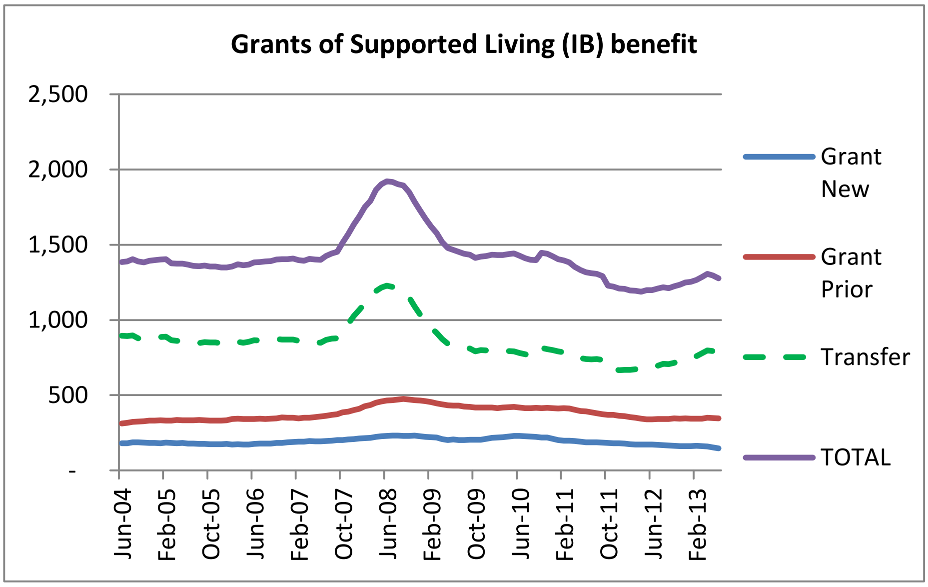
- Less than 10% of grants are to people new to the benefit system. Most (over 90%) of the grants for sole parent benefits are split fairly evenly between those returning to benefit having had a spell off benefit greater than 14 days and those who are transferring from another benefit type.
- Of those that are returning to benefit, approximately 55% have been off benefit for less than one year.
- Historically, there appears to be a high level of correlation between Grants for DPB and the numbers of sole parents in the general population.
- The population of sole parents with school age or younger children increased during the GFC as did the numbers of sole parents on benefit. Post the GFC, the numbers on benefit have decreased at a higher rate than the population in general. The welfare reforms introduced work expectations for sole parents with school age children from October 2012. This and the increased focus of case managers to help this segment find work appear to be having an impact.

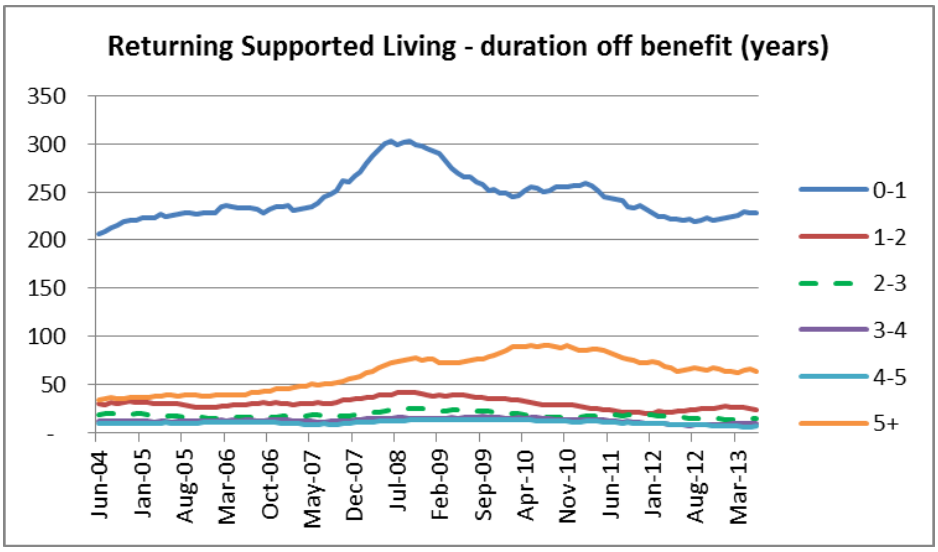
- Sole Parent benefit grants are at lower levels than before the GFC. This is due to a number of reasons:
  - Since 2010 the number of sole parents in the population has reduced by 10,900 (measured by the Household Labour Force Survey) and there are more sole parents in full-time (up 2,500 or 5.1%) and part-time (up 1,200 or 4.3%) employment. Sole Parents working more than 20 hours per week have the option to go off benefit and receive In-Work tax credit.
  - After peaking during the GFC, there has been a lower number of births for 15-19 year olds. Numbers declined from a peak in 2008 of 5,185 to 3,768 in 2012, back to pre-GFC levels.



Supported Living

4.35 The following chart shows the number of grants of Supported Living (IB) benefits (including partners) monthly from June 2004 on a rolling 12 month average, derived from valuation data.



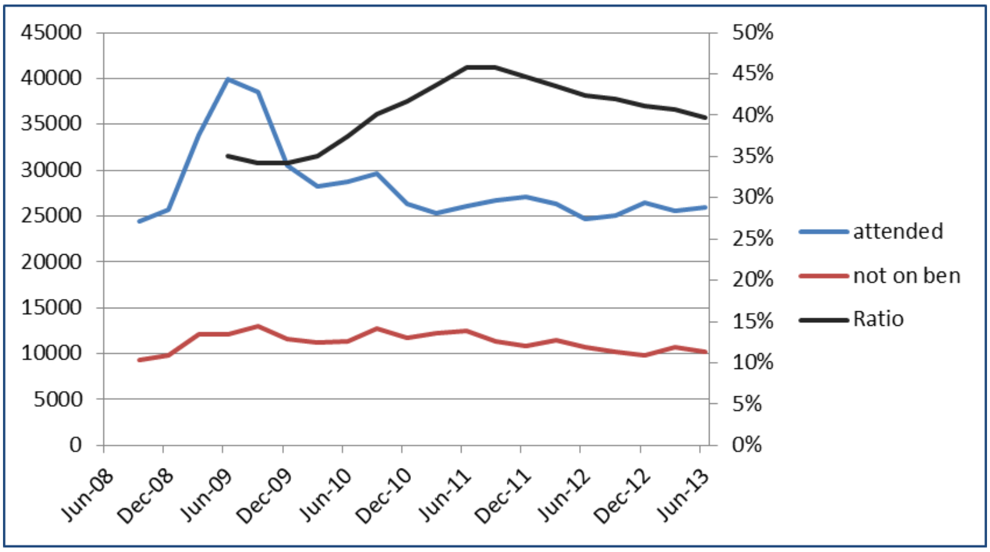


- Grant numbers were reasonably stable until 2007. The period from the second half of 2007 to the middle of 2008 coincided with an easing of the assessment of eligibility requirements which saw more people being given an invalid's benefit that would otherwise only have qualified for a sickness benefit. This was re-adjusted in the latter half of 2008.
- Approximately 60% of the grants come from transfers from other benefits, mostly sickness beneficiaries. Around 14% of grants are to people who are new to the benefit system while the other 27% are to people returning to the welfare system.
- After declining from 2009 to 2011, the rate of grants of Supported Living benefits has been increasing over the last couple of years because of a higher rate of transfers from other benefit types. More investigation is needed to understand what is driving this increasing trend as it represents deteriorating outcomes for the individuals concerned.

Triage

4.36 One of the services provided by Work and Income to help manage the inflow of people onto a benefit is "triage". When people first seek financial support, those that have work obligations are directed to "Work for You" seminars which are designed to assist people to find work quickly.

4.37 Work and Income began using this intervention from July 2004. The triage rate was included in external measures from July 2008. The following graph shows the number of people attending the Work For You seminars in each quarter and the number of them not on benefit 28 days after the seminar. The proportion of those who are not on benefit (the triage rate) is shown with the black line (using a rolling 12 month average).



4.38 The proportion of people remaining off benefit dipped to around 35% during the GFC, as the volumes of people applying for unemployment benefit increased, then rose steadily to 45% in June 2011. Over the last two years this average has drifted back to 40% which is the internal KPI target.

4.39 Since practically all new unemployed applicants attend this seminar, there is no control group against which to measure its success, which makes it difficult to assign an impact to this intervention. Further investigation is warranted to determine what impact this has on different client cohorts and what has been causing the decreasing success rate over the last two years.

Transition between benefits

4.40 The following table compares the actual number of people on different benefit types against where they were expected to be based on 2012 valuation forecasts. Reading across the rows shows for those people who were in each segment at 30 June 2012, what benefit they ended up receiving by June 2013. The columns show for each segment at 30 June 2013, what segment they were in for the 2012 valuation.

June 2012 Benefit Category		June 2013 Benefit Category JS - WR	JS - HCID	SPS	SLP	Youth	Supp / Orphan	Total
Jobseeker	Actual	50,194	6,005	2,349	1,572		4,212	64,332
- Work Ready	Expected	51,043	5,751	2,824	1,210		4,224	65,052
	A/E	98%	104%	83%	130%		100%	99%
Jobseeker	Actual	4,186	47,601	2,119	4,586		1,642	60,134
- HCID	Expected	4,442	47,724	2,366	3,773		1,722	60,028
	A/E	94%	100%	90%	122%		95%	100%
Sole Parent	Actual	4,469	1,147	71,917	788		3,744	82,065
	Expected	5,013	1,172	73,013	625		3,111	82,934
	A/E	89%	98%	98%	126%		120%	99%
Supported Living	Actual	793	1,064	411	90,310	3	373	92,954
	Expected	933	1,019	451	91,274	6	397	94,079
	A/E	85%	104%	91%	99%	54%	94%	99%
Youth	Actual	528	111	915	11	832	39	2,436
	Expected	534	112	924	22	790	54	2,435
	A/E	99%	99%	99%	51%	105%	73%	100%
Supplementary	Actual	3,569	2,362	2,888	421	16	69,348	78,604
or Orphan	Expected	4,475	2,515	3,439	556	11	68,471	79,467
	A/E	80%	94%	84%	76%	141%	101%	99%
Recent Exits	Actual	15,606	7,217	3,719	1,219	65	7,097	34,923
(re-entry to benefit)	Expected	18,209	8,564	5,134	1,652	63	9,008	42,630
	A/E	86%	84%	72%	74%	104%	79%	82%
TOTAL	**Actual**	**79,345**	**65,507**	**84,318**	**98,907**	**916**	**86,455**	**415,448**
	Expected	**84,649**	**66,858**	**88,152**	**99,111**	**869**	**86,987**	**426,625**
	A/E	**94%**	**98%**	**96%**	**100%**	**105%**	**99%**	**97%**

* Note: the expected numbers in the table use the 2012 valuation projections, which is based on the forecast unemployment rate.

4.41 Generally experience has been positive with fewer people remaining on benefit than expected. In particular:

- The experience in Jobseeker – Work Ready has been good, both in respect of higher exits than expected and lower levels of transition from other segments. This is mostly driven from those who were on benefit for less than one year as at 30 June 2012.
- The expected and actual numbers of Youth from the 2012 valuation (looking across the row labeled Youth) are the same, although the end of year benefit types differ slightly from expected. The liability calculations assume youth transition into Jobseeker and Sole Parents at ages 18 and 19 respectively, whereas in reality, young people are able to remain on these benefits until they finish school which explains most of the transfers variance.
- The transition from Recent Exits back onto main benefits has been lower than expected for all benefit types. This has been reflected in changes to re-entry assumptions (paragraphs 5.23 to 5.26)

4.42 In some cases, there has been a higher than expected rate of transfer:

- From Jobseeker – Work Ready to both the Jobseeker – HCID state and onto Supported Living Payment. This is driven from those who were on benefit for longer than one year at 30 June 2012.
- From both Jobseeker – HCID and Sole Parents to Supported Living Payment. Once again, this is mostly driven from those who were on benefit for longer than one year at 30 June 2012.

These are high impact transfers as they represent a transition to a high liability benefit, which in turn indicates an increased risk of long-term benefit receipt.

4.43 We recommend that the causes of the increasing rate of transfer onto the HCID benefits are investigated with a view to forming a management response.

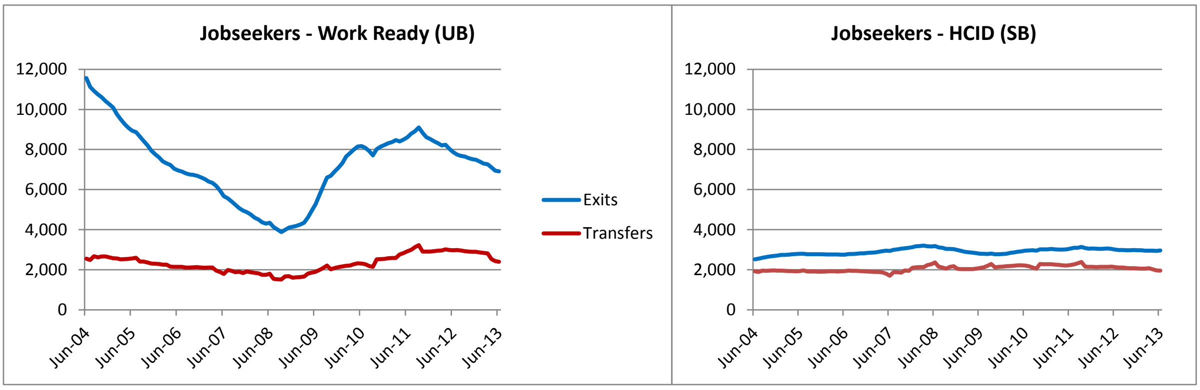
Off Benefit outcomes

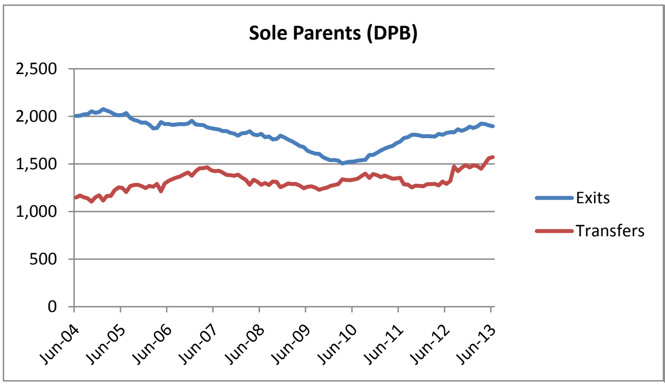
4.44 The following table compares the number of people on each benefit type who, according to the 2012 valuation forecasts, were expected to be off benefit at 30 June 2013, with the actual numbers from the 2013 data.

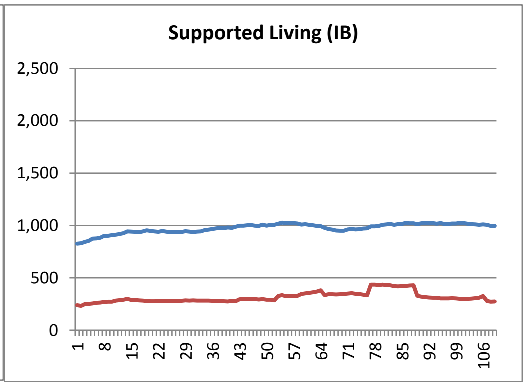
June 2012 Benefit Type	Number at 30 June 2013	
Jobseeker - Work Ready	Actual	28,215
	Expected	27,495
	A/E	103%
Jobseeker - HCID	Actual	11,488
	Expected	11,594
	A/E	99%
Sole Parent	Actual	7,473
	Expected	6,604
	A/E	113%
Supported Living	Actual	8,425
	Expected	7,300
	A/E	115%
Youth	Actual	513
	Expected	514
	A/E	100%
Supplementary or Orphan	Actual	27,034
	Expected	26,171
	A/E	103%
TOTAL	**Actual**	**83,148**
	Expected	**79,678**
	A/E	**104%**

4.45 Exits were higher than expected for most benefit types. The exception was Jobseeker – HCID (sickness benefit), although the difference is small. The higher number of exits for Jobseeker - Work Ready, is mostly in the less than one year duration group. It is to be expected that early success is likely to be with those closest to the labour market and those who have been on benefit for extended periods of time will require higher levels of support to return to work.

4.46 The following charts show, for the main benefit types, the numbers of people leaving benefit split by those who exited the benefit system (for a period of at least 14 days) and those that moved to another benefit.







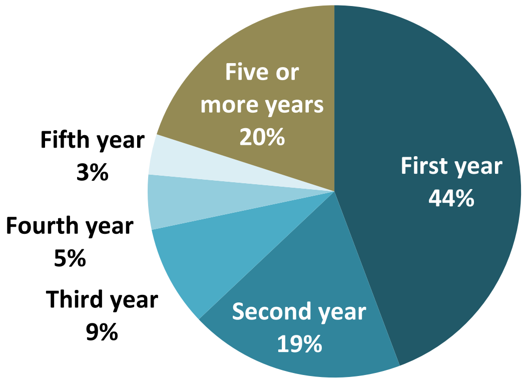
4.47 In summary:

- Transfer rates and cancellations from the Supported Living and Jobseeker – HCID (SB) benefits have been reasonably stable over the last 10 years
- Transfers from Jobseeker – Work Ready (UB) to other benefits were declining before the GFC as the job market was buoyant and growing. Post the GFC job markets tightened and transfers to other benefits began to increase with larger numbers transferring to HCID type benefits.
- Cancellations of benefit from Jobseeker – Work Ready clients is correlated to the state of the job market. The number of cancellations fell during the buoyant economy before the GFC and rose during the GFC. While this seems counter-intuitive it can be explained by the fact that a large portion of Jobseekers do not stay on benefit for long periods, even in tough labour market conditions. The numbers exiting benefit is affected by the number of people on the benefit at the time. The gap between grants and exits did, however, increase during the GFC.

4.48 The increased rate of transfers from the Jobseeker – Work Ready state to HCID benefit types warrants further investigation. There is potentially scope to work with these people to help them firstly to transition back to a work ready state and then to become independent of the welfare system.

Post Exit (Churn)

4.49 The valuation has highlighted the rate at which people return to benefit after having exited from the benefit system. The following chart shows for those people returning to benefit in the last two years, the length of time they had been off benefit.

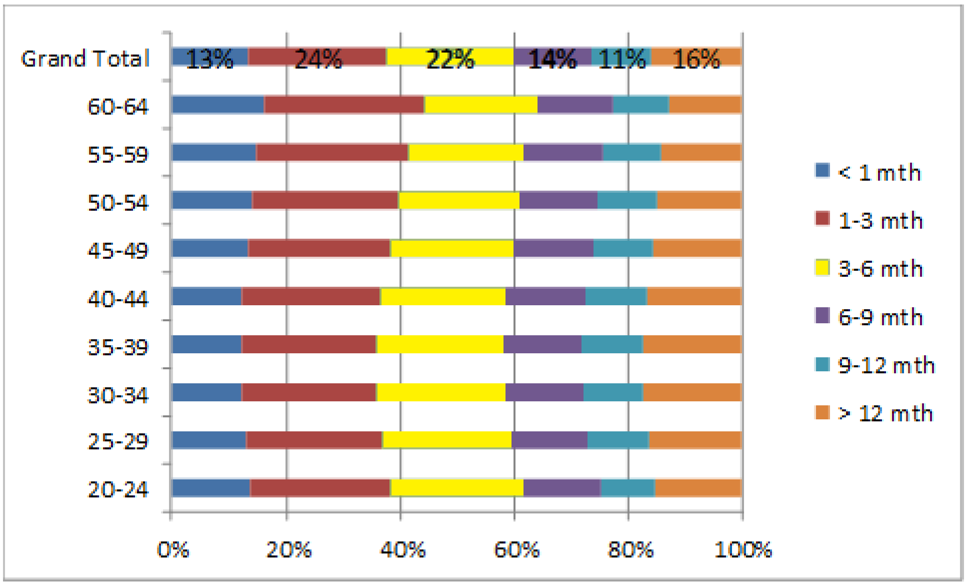


4.50 The largest portion of returning beneficiaries (44%) had been off benefit for less than one year. A further 19% had been off benefit for less than two years. Some possible causes are:

- Seasonal employment in regions which have industries like agriculture, horticulture and freezing works. These workers are entitled to receive Jobseeker Support in the out of season periods off work and intervention strategies for these people during their periods off work are likely to differ from other churn clients. Seasonal employment also is evident in major centres in education, hospitality and some retail sectors. These workers are expected to be found in the less than one year on benefit segments.
- Casual labour workers with a low skill level in low-income employment are characteristics that can create instability for people in this type of work and increase the likelihood of returning to benefit.
- The 90 day trial period also is likely to be a factor for those with barriers to sustainable employment. Figures published by the Ministry of Business, Innovation and Employment show that, in 2012, 27% of employers said they had fired at least one new employee during or at the end of their trial. For clients who have had multiple periods on and off benefits over the last five years, the greatest number of spells off benefit lasted between 31 and 90 days. Vulnerable clients with low skills and complex needs face increased barriers to staying in work.

4.51 A significant number of returning beneficiaries have been off benefit for many years. More investigation would be needed to understand what proportion of these returns is due to random events and how much is due to continuing vulnerability.

4.52 The following chart shows the distribution of length of spell off benefit, for all clients who first received a benefit before July 2008 and who have been off benefit two or more times over the last five years.



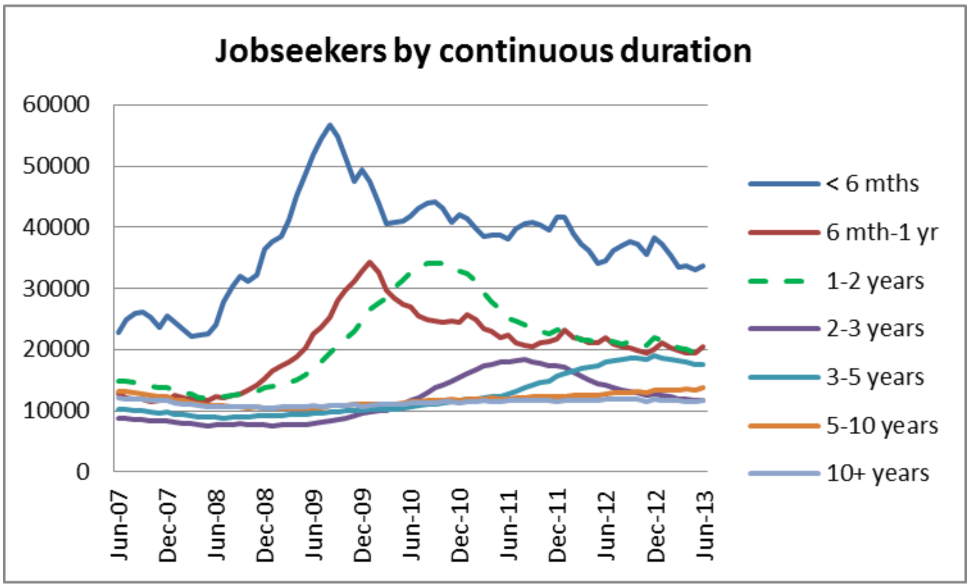
4.53 For those people who have had multiple spells on benefit over the last five years, 84% of the times off benefit lasted less than one year. There is a clear need to improve the quality of data surrounding the main issues that these clients face to distinguish between seasonal work influences and vulnerable clients, to better invest in providing an effective service to address these barriers.

4.54 A reasonable portion of these clients remain vulnerable to long-term dependency even after returning to work. To ensure some focus remains on these clients after initial placement in the workforce, we recommend including more post exit measures in management reporting for periods at least up to one year and developing strategies to help keep the more vulnerable in employment once they have been placed.

Impacts of the Global Financial Crisis

4.55 The GFC caused a sharp increase in the number of new Jobseekers entering the benefit system. The structural labour market changes that occurred from the middle of 2008 saw many people enter the benefit system who, before the GFC, were highly employable as they were connected to the labour market or in some form of study. Many have not yet been able to return to work.

4.56 The following chart shows the number of people on Jobseeker benefit for various lengths of continuous duration over the past six years.



4.57 The peak of clients who entered during the GFC can be seen working through the various duration on benefit cohorts and is currently moving from the three-five year to the five-10 year durations.

4.58 Many of these people have re-entered the work force as the economy improved and opportunities arose. However, a significant number of them, because they have been out of the labour market for some time, may not have skills suited to the current jobs that the economy is creating. Or, they may have developed a health condition following a long absence from the workforce and have higher risk of long-term benefit receipt.

4.59 Targeted support will be required to overcome any barriers that may have developed over the time away from the labour market.

Better Public Service (BPS) target

4.60 The Government has established 10 BPS targets for the public sector. The purpose is to highlight the key strategic issues the Government wishes the public sector to focus on and provide a means of measuring success in respect of these issues. The BPS target in respect of the welfare system is to:

Reduce the number of people continuously receiving Jobseeker Support for more than 12 months by 30%, from 78,000 in April 2012 to 55,000 by 2017.

4.61 At June 2013, the number of people in the segment had fallen to approximately 74,500. If current exit rates continue, then there is a high likelihood of this target being achieved.

4.62 There remain some risks to achieving the target, however. These include:

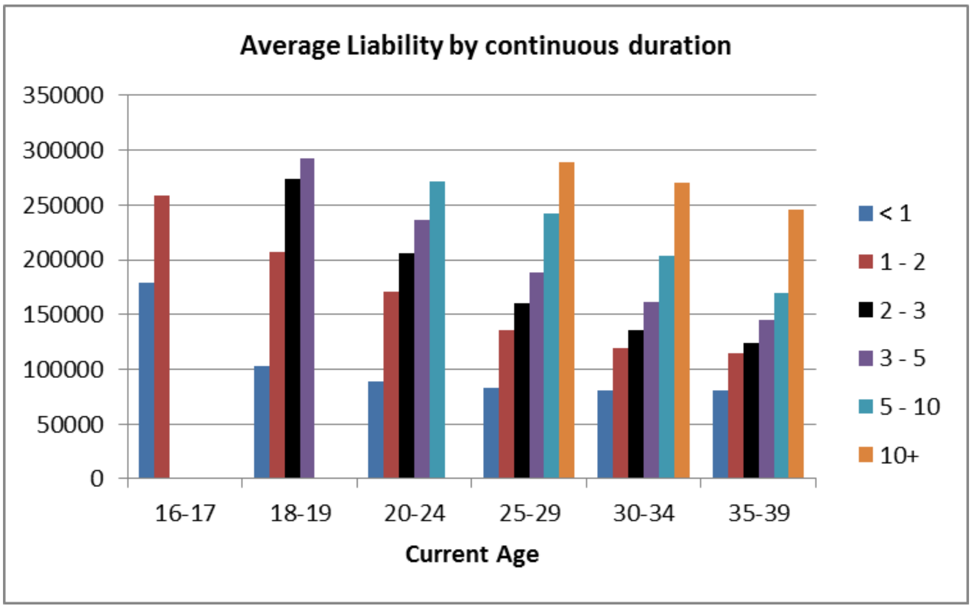
- Any deterioration in economic conditions that put upward pressure on unemployment rates.
- At 30 June 2013, there were almost 55,000 people on Jobseeker Support who had been on benefit for more than two years. This has remained fairly constant over the last two years. Of these, about half have deferred work obligations because of a health condition, injury or disability. To meet the target, it is likely that greater emphasis will need to be given to these longer term beneficiaries.
- The target could, in theory, be achieved by people finding short term work of more than 14 days duration, which resets the continuous duration start date, without necessarily resolving the issues that make these people vulnerable to long-term dependency. A focus on sustainable employment outcomes is needed to complement the target.

Segmentation

4.63 The following sections discuss some of the issues related to the current continuous duration on benefit measure which is used in the BPS target to define long-term jobseeker.

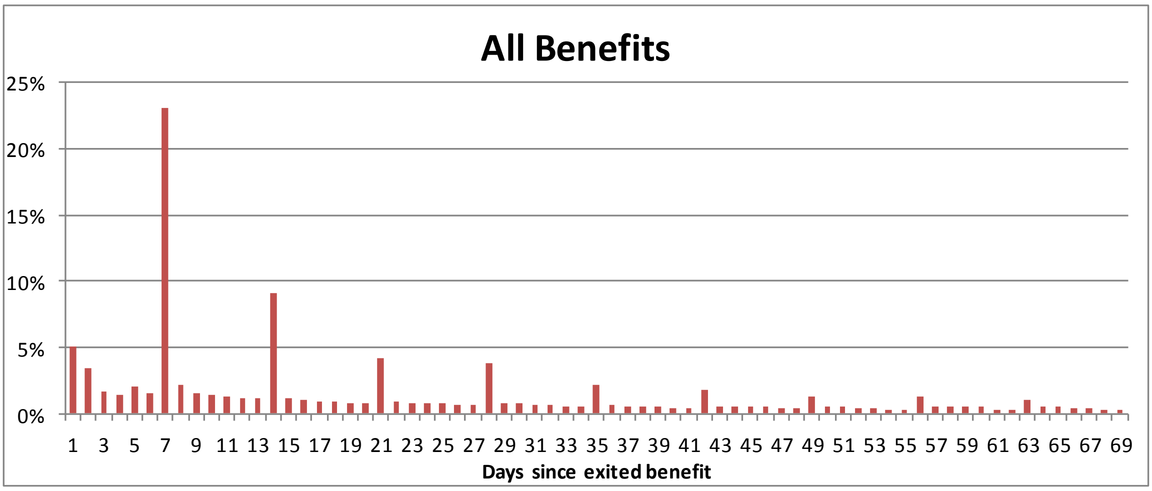
Duration

4.64 The following chart shows how average liability varies by age and according to how long a person has continuously been on benefit in their current spell. The continuous duration definition includes spells off benefit of fewer than 14 days as part of the continuous duration period.



4.65 Length of time on benefit in current spell is a determinant of how long a person may be expected to be on benefit throughout their lifetime. The current BPS target to reduce the number of people continuously receiving a Jobseeker benefit for more than 12 months is a target based on the continuous duration definition.

4.66 The graph below shows the number of days people are off benefit before they return, as a proportion of all people who return within 10 weeks of leaving the benefit.



4.67 Of those returning to benefit within 10 weeks of exit:

- 47% return within 14 days, however,
- a further 24% return between 15 and 28 days after exit, and
- another 13% return between 29 and 42 days after exit.

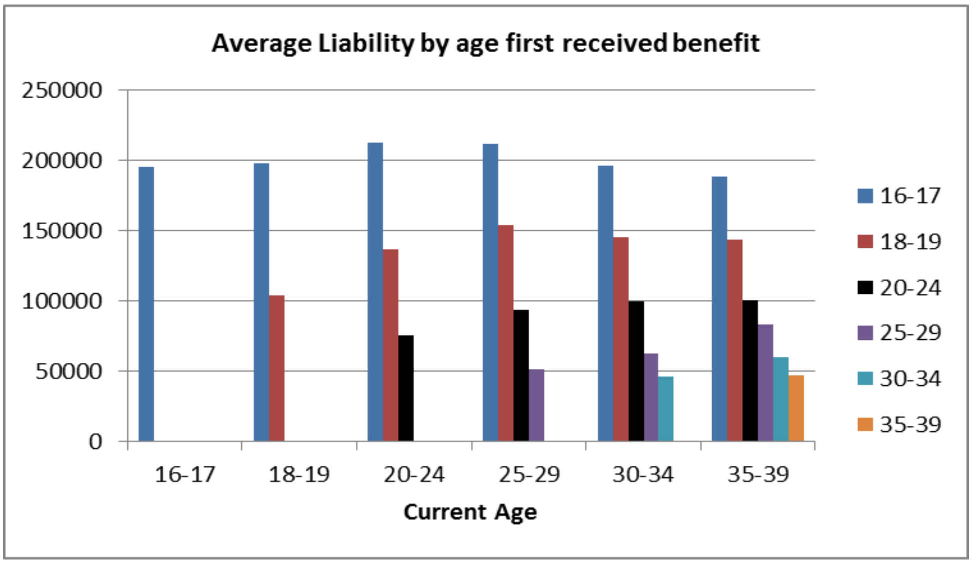
4.68 This means the large spike (9% of the re-joiners) that come in on day 15 have their duration reset to zero.

4.69 A large number of people would have a longer duration on benefit recorded if a definition were used that required a longer period off benefit to break the spell – with obvious implications for the KRA target relating to those people who have been more than one year on benefits and on segmentation of the client base.

Age first received benefit

4.70 An alternative way of looking at the same issue is the age a person was when they first received a benefit. This is likely to be highly correlated (inversely) to duration on benefit, since a person with higher durations on benefit is likely to have started at younger ages.

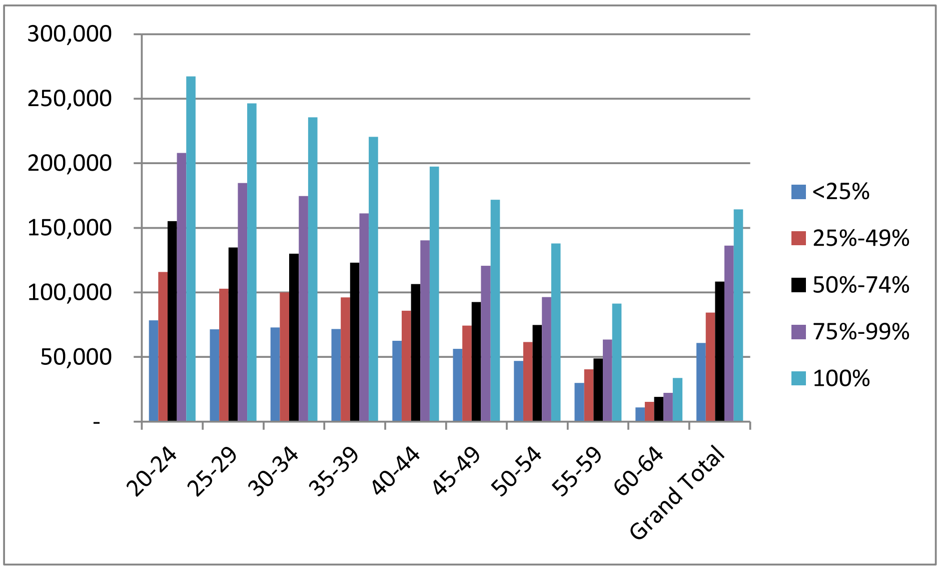
4.71 The following chart shows how average liability varies by current age and age at first benefit receipt.



4.72 The current segmentation separates Jobseekers and Sole Parents with school age children based on a duration of more or less than one year. Age of entry to the benefit system would appear to have a higher influence on liability than duration on current spell.

Time spent on benefit since first benefit

4.73 Another view can be taken based on the proportion of time a person has spent on benefit since their first time in the benefit system. The following chart shows how average liability varies by age group according to what portion of the last five years they have spent on benefit (for those people whose first benefit receipt was before June 2008).



4.74 The proportion of time spent on benefit would also appear to be a useful indicator to consider for future segmentation or at least a separator for different intervention strategies.

Recommendation

4.75 We recommend further investigation into segmentation and whether segmenting the client base using age at entry into the benefit system or period spent on benefit (or some similar alternative) may be more suitable than the current continuous duration approach.

5 Valuation Results: Life-time Liability

Summary of Approach

5.1 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.

5.2 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.

5.3 The 30 June 2013 liability assessment was undertaken by Taylor Fry Consulting Actuaries (Taylor Fry). Their report, "Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013", (the 2013 Valuation Report) was prepared by Alan Greenfield FIAA, Dr Hugh Miller FIAA and Dr Gráinne McGuire FIAA. More detail on the valuation approach can be found in Part D of the 2013 Valuation Report.

Opinion

5.4 In our opinion, the methodology adopted and the assumptions used for the valuation as at 30 June 2013 are appropriate and suitable for the purposes for which the valuation is intended and within the scope outlined in paragraphs 2.14 to 2.19.

5.5 Further development would be beneficial in the following areas:

- Including data from other agencies, in particular, more complete education data and data from child protection services and youth justice;
- A review of segmentation, in particular the appropriateness of the current continuous duration splits.

Key Assumptions

5.6 The assumptions used in establishing the actuarial liability aim to be "best estimate" (ie, they should not contain any deliberate bias towards conservatism or optimism). The liability produced from these assumptions is considered to be a "central estimate".

5.7 The key assumptions used can be separated into two broad groups:

- Economic assumptions - these apply to all payment types, being unemployment, discount and underlying inflation rates. The current and forecast unemployment rates are key drivers of the (assumed) rates of benefit entry, exit and switches between benefit.
- Beneficiary Number and Payment type assumptions - assumptions made to estimate future cashflows, primarily benefit payments, but also non recoverable loans, administration expenses to support benefit payments and work focused investments in clients. These are calculated separately by type of benefit and projected on a quarterly basis.

Economic Assumptions

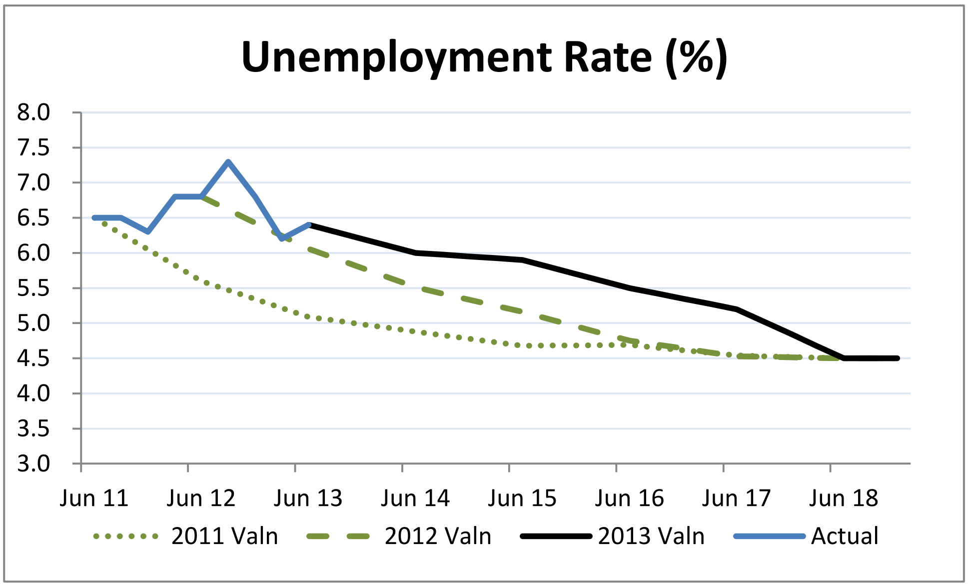
Unemployment Rate

5.8 The forecast assumptions for the unemployment rate are provided by the Treasury.

5.9 In the context of the actuarial valuation, the unemployment rate has three dimensions of impact:

- Actual unemployment rate as at the date of the valuation.
  - The current unemployment rate used is the official rate published by Statistics New Zealand.
  - This rate will have influenced the numbers of current beneficiaries at the valuation date and also becomes the starting point for the forecast path of future unemployment rate assumptions.
- A residual impact on future unemployment rates in the medium term.
  - For instance a spike in unemployment in a current quarter is likely to (depending on the cause of the spike) have an inertial impact of increased numbers of new unemployment (or other clients) in the subsequent quarters.
  - The unemployment rate also impacts the projected cost of current clients through the rate of leaving benefit and rates of transition between benefit types.
- Changes to the projection assumptions - in particular the long term.
  - Changes to the long term unemployment assumption should be infrequent. However the impact of any such change could be material.

5.10 The chart below shows the assumptions for the unemployment rate for the 30 June 2011, 2012 and 2013 valuations, as well as the official unemployment rate since 30 June 2011.



5.11 As can be seen there has been a significant increase in actual (and projected future) unemployment over the last two years.

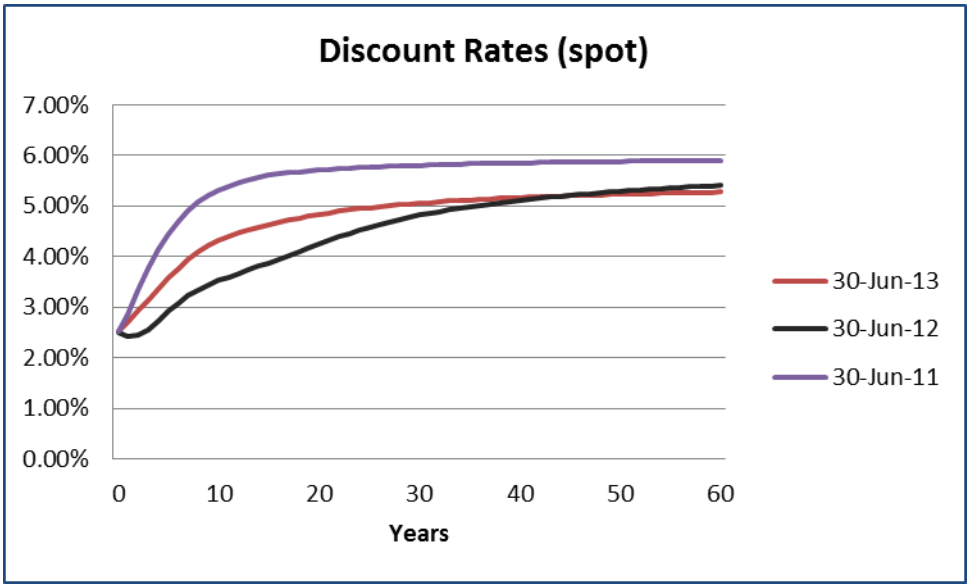
5.12 While the long-term assumption remains unchanged at 4.5%, the path to the long-term rate has changed with higher rates of unemployment expected in the period up to June 2018.

Discount Rates

5.13 The Treasury forecasts for Government interest rates have been adopted for discount rates to be consistent with the valuation of other balance sheet assets and liabilities in Crown accounts. We note, however, that this liability is determined to assist in the management of the welfare system and will not be recorded in the Crown accounts.

5.14 Short to medium term ("risk free") discount rates reflect the yields of New Zealand Government bonds. Long term discount rates are based on long term historical norms, as there are no long term Government bond yields to observe.

5.15 The discount rates used in the 30 June 2013 liability valuation, together with the rates used in the two previous valuations, are shown in the chart below:



5.16 During the 12 month periods between the valuation dates, interest rates have moved significantly. This has contributed to significant changes in liability between valuation dates ($13.4 billion increase from 2011 to 2012 and a $3.0 billion decrease from 2012 to 2013).

Inflation

5.17 Similarly, assumptions for future inflation are set by the Treasury. Both benefit inflation and expense inflation use the CPI. The assumptions used for the current and two previous valuations are shown in the table below:

	Valuation Date		
Projection Date	**30 June 2013**	**30 June 2012**	**30 June 2011**
2012			3.0%
2013		2.1%	2.5%
2014	1.9%	2.4%	2.5%
2015	2.3%	2.5%	2.5%
2016 and later	Merging to 2.5%	2.5%	2.5%

5.18 The long term inflation rate assumption remains unchanged. The shorter term assumptions have been reduced in each of the last two valuations, which have caused small reductions in the liability.

Client Number and Benefit Payment Assumptions

5.19 In forecasting the expected future benefit payments and associated expenses, assumptions are made regarding clients' movements through the welfare system. These are set with reference to historic experience. Generally future experience is assumed to follow recent experience quite closely, although allowance is made for trends when considered appropriate.

5.20 Some of the key assumptions relate to:

- Rates at which people on a particular benefit exit that benefit
- Rates at which people transition from one benefit type to another
- Rates at which people who have recently left benefit, re-enter the benefit system
- Average size of benefit payments
- Average size of supplementary assistance payments

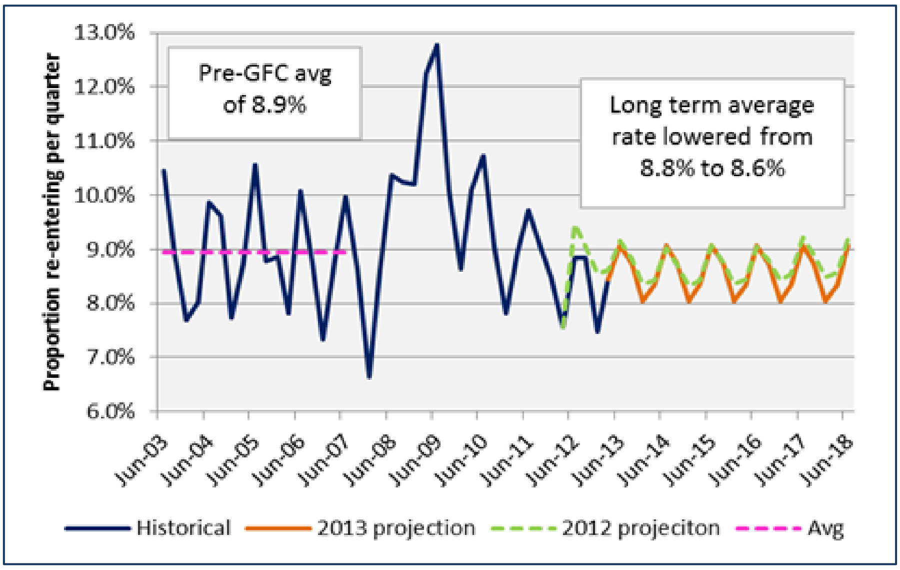
5.21 The following assumption changes for the 2013 valuation have had the largest impacts on the liability:

- Client re-entry rate ($1.2 billion decrease in liability)
- Sole Parent average rate of main benefit payments ($0.9 billion decrease in liability)
- Accommodation allowance for Sickness Benefit clients ($0.2 billion decrease in liability)
- Sole Parent rate of leaving benefit ($0.5 billion decrease in liability)

5.22 The changes to all other assumptions have had a fairly small net impact (increase in liability of $0.2 billion), so the four listed above are the ones we focus on in the following sections.

Client re-entry rate

5.23 The most important assumption to discuss is the re-entry rate for clients who have recently exited the benefit system. The following chart shows the proportion of people re-entering the benefit system within their first year of being off benefit:



5.24 The liability is very sensitive to this assumption – the change shown on the chart (green to orange) reduced the average return rate from 8.8% to 8.6% per quarter, which reduced the liability by $1.2b.

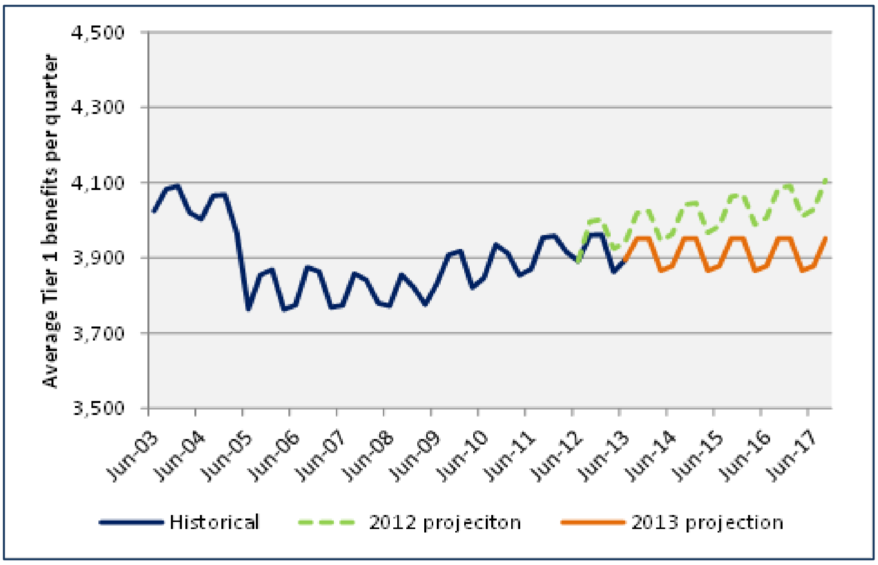
5.25 The average rate before the GFC was 8.9% and was trending down. Over the past two years the average rate has been 8.4%, so the adopted rate has made some allowance for lower recent experience but has not fully reflected the experience at this stage.

5.26 Our view is that there is justification for this reduction based on:

- both the experience and the October 2012 policy changes including the requirement for Sole Parents with youngest child 14 or older to seek work, and
- re-entry rates peaked during the GFC but have been steadily falling to levels lower than pre-GFC levels. This seems consistent with the relative intensity of triage before benefit grant. During the GFC the larger volume of applications meant more resource was taken up with benefit administration. Beyond the GFC, as volumes of applications have decreased, a greater emphasis on triage has been possible which has been successful in keeping more people who initially inquire about benefits, from actually progressing onto the benefit.

Main benefit payments to Sole Parents

5.27 The following chart shows the average past and projected main benefit payments per quarter for Sole Parent clients:



5.28 Payment rates had been growing fairly strongly (in real terms) from June 2008 until June 2012. The last valuation continued this trend for a number of years, as shown in the graph (green line).

5.29 Changes in the real level of benefit payments should only arise from policy, demographic (eg, numbers of children), or part time income changes. These would not be expected to continue indefinitely.

5.30 The upward trend during and following the GFC observed in the chart is most likely related to reductions in part time jobs. The numbers of beneficiaries receiving part-time income declined during the GFC and has started to increase in recent years. This has resulted in a leveling of the trend line.

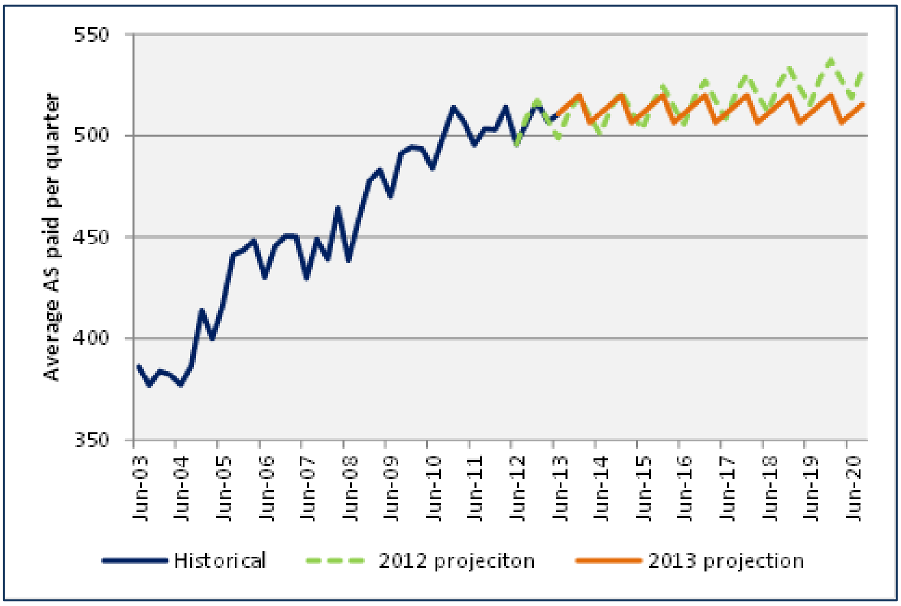
5.31 Last year's assumptions, therefore, appear to have overstated the period over which the upward trend would continue. We consider the removal of the upward trend to be appropriate. This change has resulted in a $0.9b decrease in the liability.

5.32 Future changes in the real rate of benefit payments are only likely to be driven by policy changes or increases or decreases in the proportion of part-time workers. This could occur through more (or fewer) sole parents being in part-time work, and so having abated income, or through more part-time workers increasing income to a point that they exit benefits completely, thus reducing the portion of part-time workers on a benefit.

5.33 There may be small one-off changes from year to year because of these factors, but the impact of this in any one year is expected to be small.

Accommodation allowance for Jobseeker Support (HCID) clients

5.34 The following chart shows the average past and projected Accommodation Support payments per quarter for Jobseeker Support clients with a health condition, injury or disability (formerly Sickness Benefit):

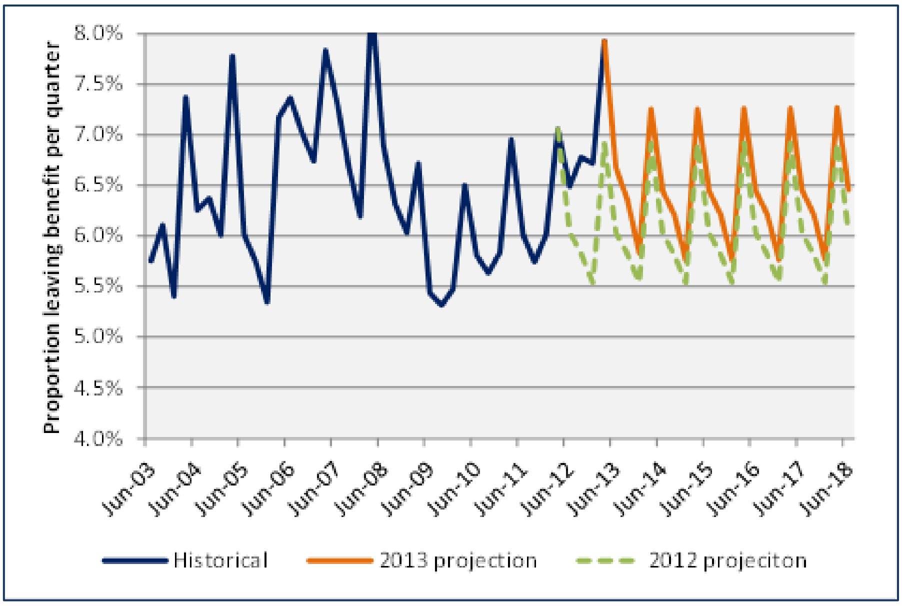


5.35 In a similar fashion to Sole Parent main benefit payments, the strong historical trend has flattened over the past 12 months and this has been reflected in the projection, causing a $0.2b decrease.

5.36 The accommodation supplement is not tied to changes in CPI but is tied to changes in housing costs. The assumption for the valuation is that over the long term, these costs will rise in line with CPI. Any future increases to maximum support limits that exceed CPI are only expected to have small impacts on the liability.

Sole Parent rate of leaving benefit

5.37 The following chart shows the average proportion of Sole Parent clients exiting the benefit each quarter, past and projected:



5.38 The rate of exits from Sole Parent benefit has spiked because of recent reforms, and assumptions have changed to project a fast return to historical rates. The rates adopted are a little higher than those used in the previous valuation, reflecting higher than expected rates seen in June and September 2012 (before welfare reforms). Although the ultimate post-reform rates are uncertain, we are comfortable that the small increase appropriately reflects that clients are likely to spend fewer years on Sole Parent benefit overall given the post-reform experience to date.

Expenses

5.39 The liability includes an allowance for the projected cost of employment support and services, as well as the costs to administer the system. The funding for expenses is appropriated each year by Parliament through the annual Budget process.

5.40 For the purposes of the valuation, aggregate expenses have been assumed to remain flat in real terms. With client numbers decreasing up to 30 June 2013, the average expense rate per client has increased slightly.

5.41 This is not an unreasonable assumption to make, given the welfare reform changes and a greater focus on more intensive case management and support to get more people back to work. As more focus is given to assisting those with longer histories of benefit dependence, a higher level of assistance is likely to be required which will increase the expense per individual of the services provided.

Valuation results

5.42 The liability as at 30 June 2013 was calculated to be $76.5 billion, a decrease of $10.3 billion since June 2012. The published liability as at 30 June 2012 was $86.8 billion. This opening liability has been adjusted down to $85.4 billion because of a modeling correction[8].

5.43 Work and Income segments its client base into 17 distinct and broadly homogenous groups to help understand how the liability is influenced by different client characteristics and to help better target services as and where they are needed.

[8] See Taylor Fry report "*Actuarial valuation of the Benefit System for Working-age adults as at 30 June 2013*" paragraph 16.4.1

5.44 The following table compares the liabilities at 30 June 2013 and 30 June 2012 by each of the 17 segments adopted by Work and Income:

Segment	Number 30-Jun-12	Number 30-Jun-13	Number Change	Liability 30-Jun-12 $ million	Liability 30-Jun-13 $ million	Liability Change
Jobseekers						
- Work-ready <1 year	47,175	44,859	-4.9%	4,823	4,141	-14.1%
- Work-ready > 1 year	45,372	40,116	-11.6%	5,623	4,608	-18.0%
- HCID < 1 year	24,603	24,132	-1.9%	3,153	2,897	-8.1%
- HCID > 1 year	47,019	46,729	-0.6%	6,927	6,458	-6.8%
	164,169	155,836	-5.1%	20,525	18,104	-11.8%
Sole Parents						
- Youngest child 0 - 2	31,332	29,502	-5.8%	8,172	6,949	-15.0%
- Youngest child 3 - 4	18,450	17,669	-4.2%	4,474	3,850	-13.9%
- Child 5 - 13 < 1 year	4,345	4,041	-7.0%	723	614	-15.1%
- Child 5 - 13 > 1 year	35,411	33,685	-4.9%	7,582	6,591	-13.1%
	89,538	84,897	-5.2%	20,950	18,004	-14.1%
Supported Living						
- Carer	7,773	8,203	5.5%	1,178	1,184	0.5%
- Partner	8,742	8,353	-4.4%	1,012	928	-8.3%
- HCID	84,864	84,888	0.0%	15,737	15,043	-4.4%
	101,379	101,444	0.1%	17,927	17,155	-4.3%
Youth						
- Youth payment < 18	1,405	1,496	6.5%	259	219	-15.4%
- Young parent payment < 19	1,544	1,361	-11.9%	446	335	-24.9%
	2,949	2,857	-3.1%	705	554	-21.4%
Total on a main benefit	**358,035**	**345,034**	**-3.6%**	**60,107**	**53,817**	**-10.5%**
Non-beneficiaries (not on main benefit)						
- Supplementary only < 1 year	36,416	34,604	-5.0%	2,074	1,762	-15.0%
- Supplementary only > 1 year	64,408	63,210	-1.9%	4,119	3,655	-11.3%
- Orphan	4,814	4,928	2.4%	479	474	-1.0%
Total Supplementary Only	105,638	102,742	-2.7%	6,672	5,891	-11.7%
- Recent exits < 1 year	163,809	154,704	-5.6%	10,264	8,762	-14.6%
Future expenses				7,814	7,698	-1.5%
Net Loan cost				412	372	-9.7%
TOTAL non-beneficiaries	**269,447**	**257,446**	-4.5%	**25,162**	**22,723**	-9.7%
TOTAL Liability				**85,269**	**76,540**	**-10.2%**

* Excludes those incorrectly included in current clients for 2012 valuation

5.45 There have been falls in both the number of people and liabilities across most segments over the year:

- In spite of the official unemployment rate not falling as expected the number of people receiving Jobseeker Support and Sole Parent Support has fallen significantly over the inter-valuation period. This has resulted from both higher rates of exit from and lower rates of entry to Jobseeker – Work Ready and Sole Parent benefits.
- The lower numbers in the Jobseeker – Work Ready segments is because of several factors. They include more people than expected transitioning to and fewer people transferring from HCID type benefits (sickness and invalids), fewer people than expected transitioning from Sole Parent benefits, and more success in people finding work. The

higher than expected transitions to HCID benefits result in higher liabilities and as such appears to indicate a poor outcome for these people. Further investigation is warranted into the reasons for these increased rates of transfer.

- Looking at Jobseekers with duration greater than one year at 30 June 2012 in isolation, the number of people still on benefit at 30 June 2013 was slightly more than numbers forecast from the 2012 valuation, although the forecasts did allow for a slightly lower unemployment rate than eventuated.
- The main driver of lower numbers in the Sole Parents segments is likely to be changes to work expectations and more focus from case managers in supporting them into work.
- The number of people on youth benefits has increased since 2012. In particular, the rate of new grants of Youth Payment and Young Parent Payment benefits increased from around March 2013 and has remained at this higher rate.

Strategies need to be developed to help long-term beneficiaries progress towards becoming independent of the welfare system.

5.46 The numbers of beneficiaries in the table above will differ from officially reported figures. The main reasons are:

- Official numbers are reported immediately at the end of each month, whereas the data for the valuation is collected one month after the valuation date to allow for back-dated administration adjustments (for example, part-time income adjustments which are provided after month end, and corrections to benefit status)
- The valuation counts partners as separate clients whereas the official count does not
- The valuation data includes people who have received a benefit within the last 12 months but were not in receipt of any benefit at the valuation data (recent exits).

A reconciliation of the valuation data to the official count of beneficiaries is provided in Appendix A.

Attribution of Liability Movement

5.47 The following table provides a breakdown of the causes of the change in the liability from 30 June 2012 to 30 June 2013 by benefit type:

	Jobseeker Support	Sole Parent Support	Supported Living	Youth	Not on main benefit	Expenses Loans	TOTAL
2012 Liability	**20,525**	**20,950**	**17,927**	**705**	**18,336**	**8,375**	**86,818**
Methodology correction					-1,400	-149	-1,549
forecast	-1,010	82	305	-42	-538	-147	-1,350
Expected Liability at 30 June 2013	**19,515**	**21,032**	**18,232**	**663**	**16,398**	**8,079**	**83,919**
Experience Differences - Economic							
- Unemployment Rate (current)	512	58	0	28	149	0	747
- Unemployment Rate (forecast)	420	215	53	7	415	6	1,116
- CPI (current)	-253	-273	-242	-9	-213	-103	-1,093
- CPI (forecast)	-171	-169	-161	-5	-148	-124	-778
- Discount rates	-695	-689	-634	-20	-638	-320	-2,996
Factors	-187	-858	-984	1	-435	-541	-3,004
Client Outcomes							
- 2013 experience	-447	-1,017	-191	-45	-71	-10	-1,781
- Future forecasts	-777	-1,153	98	-65	-1,239	542	-2,594
Total Movement from Client Outcomes	-1,224	-2,170	-93	-110	-1,310	532	-4,375
2013 Liability	**18,104**	**18,004**	**17,155**	**554**	**14,653**	**8,070**	**76,540**

5.48 The methodology correction related to a group of clients who had been off benefit for slightly longer than 12 months who were inadvertently included in the Recent Exits segment of the June 2012 liability.

Expected liability decrease

5.49 The expected movement (a decrease of $1.3 billion) from 2012 to 2013 allows for:

- A decrease because of the benefit payments that were forecast for the year being made and no longer forming part of the liability
- A group of people who were in the recent exits segment at June 2012 staying off benefit for longer than 12 months and therefore falling outside the scope of the liability definition and being removed from current clients
- New beneficiaries who either received a benefit for the first time during the year, or returned to benefit after having been 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 forecast reduction in beneficiary numbers allowed for some improvement in the unemployment rate.

5.50 The general state of the economy and the unemployment rate have a strong influence on the number of beneficiaries, particularly Jobseekers. Notwithstanding economic conditions, we believe there is potential for management to influence the numbers of unemployed by developing initiatives to improve the employment prospects for those who have been on benefit for long periods of time and, as such, over time reduce the number of long-term beneficiaries. Further comments are made in paragraphs 5.80 to 5.86.

Unemployment, Discount and Inflation Rates

5.51 Unemployment, discount and inflation rates are largely outside of Work and Income management influence and as such are not attributable to the Investment Approach. They do, however, have a large impact on the reported liability.

5.52 The largest single impact on the liability has been the change in discount rates. This is likely to be an annual phenomenon. Discount rates have no effect on either the amount or timing of the forecast benefit payments and therefore have no influence on the goal of "reducing long-term dependency". They do however play a role in determining and comparing the return on different investments.

5.53 The unemployment rate at 30 June 2013 was higher than expected, which also results in slightly higher forecast rates over the next 10 years. Also, the rate of benefit inflation in 2013 was less than expected. Forecast inflation rates have been reduced for the next couple of years.

Client outcomes

5.54 This is the area where the effects of welfare reforms and of management actions in reducing benefit dependency will be most apparent.

5.55 Lower client numbers than expected caused a $1.8 billion reduction in liability. The largest contributions to this are:

- $0.8 billion decrease in respect of Sole Parents with school age or younger children. This is evenly split between both those with and those without part-time work expectations.

- $0.3 billion from lower numbers of sole parents with youngest child aged 14 or over who now form part of the Jobseekers segment and have full-time work expectations.
- $0.5 billion because of lower numbers in the Jobseeker and Youth segments.

5.56 Approximately 60% of the $1.8 billion is because of more off benefit outcomes for the 2012 valuation clients and the balance is due to a lower number of new clients coming onto benefit.

5.57 Jobseekers, Sole Parents and Youth are where the welfare reforms have most been targeted and where the early focus of intensive case management has been targeted. These are the segments where most of the liability reduction has occurred.

5.58 The reduction in client numbers can be (at least partly) attributed to policy and operational initiatives taken during the period including the Future Focus initiatives, the new services provided in 24 trial sites and benefit cancellations following data matching with the IRD. This is discussed further in section 6.

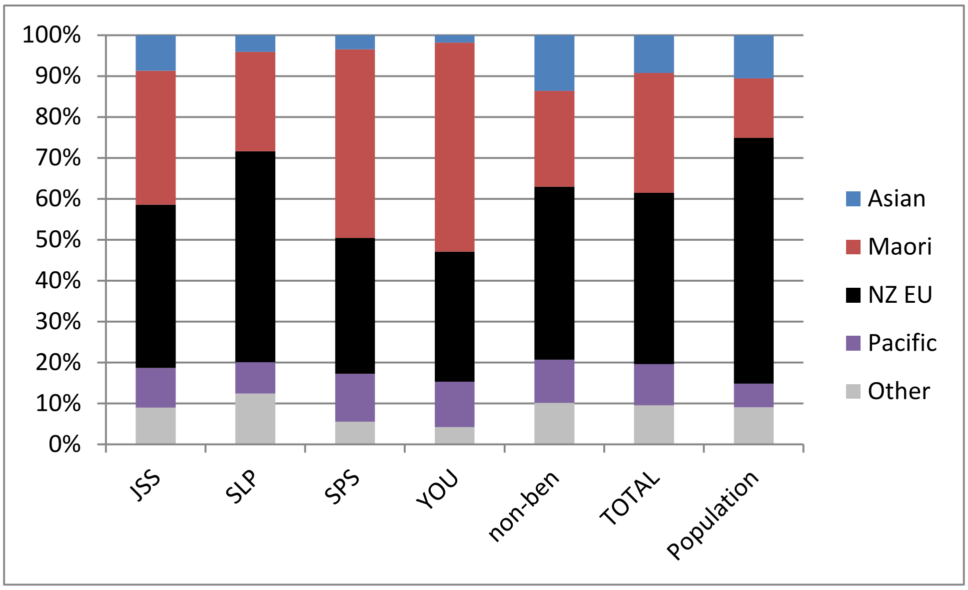
5.59 The decrease in liability for Supported Living is due mostly to economic factors.

5.60 The bulk of the $2.6 billion reduction in liability because of changes to the forecasting models can also be attributed to the effects of welfare reforms and of management actions. When experience changes significantly it will cause a change to the assumptions used for projecting future benefit payments. In effect this brings forward the impact of future savings from these more successful ways of helping clients. We expect future reductions in the liability will be more challenging to achieve as case managers work with a higher proportion of those clients at risk of long term dependency.

Ethnicity

Share of liability

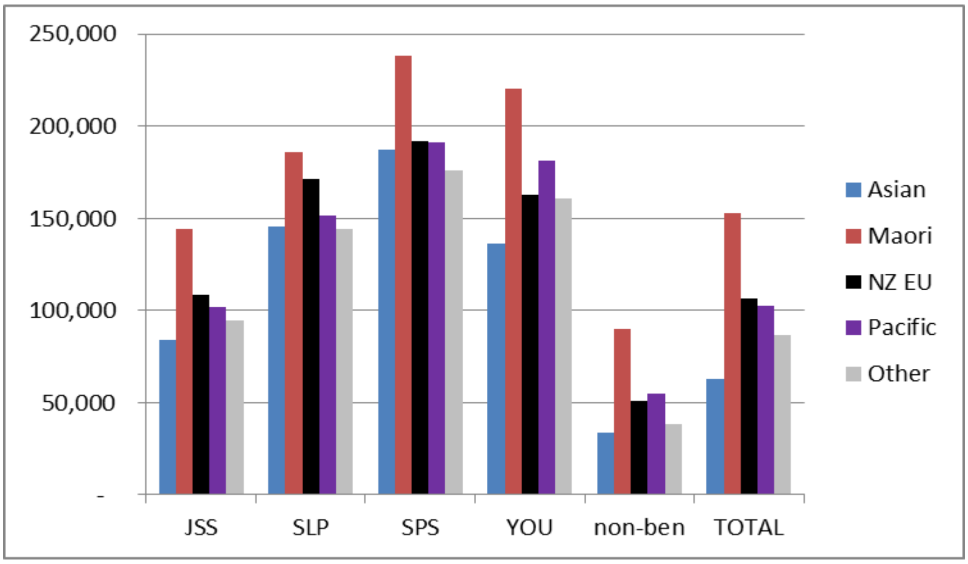
5.61 The chart below shows the split of people included in the 2013 valuation by ethnicity and compares to the share of population.



5.62 Māori and Pacific people make up a disproportionate share of the number on benefit compared to their share of the general population while New Zealand Europeans are under-represented. This is most apparent in the Sole Parent and Youth segments.

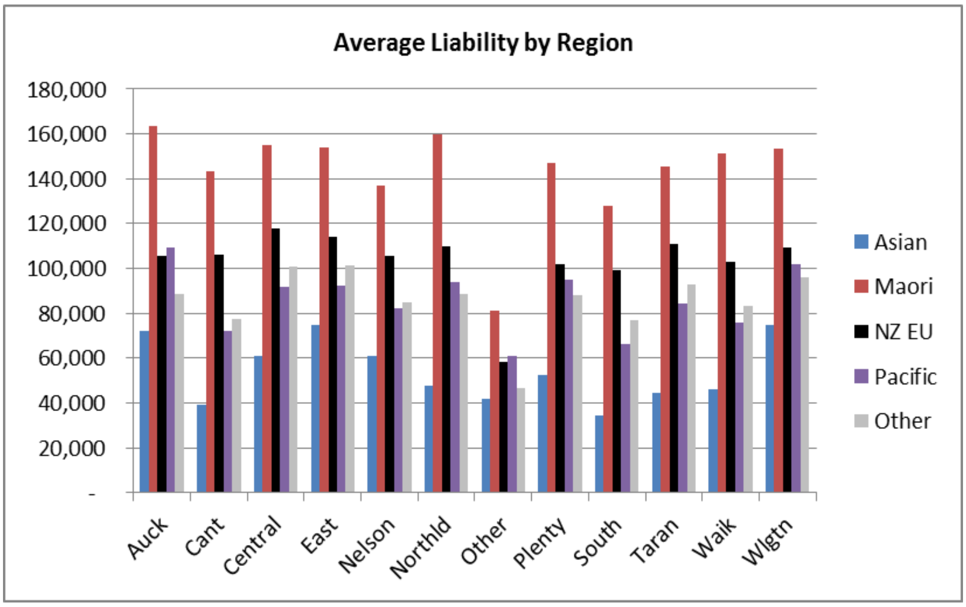
5.63 There may be some differences in how ethnicity is identified between Work and Income records and census reporting, however, this is unlikely to materially affect the distributions shown.

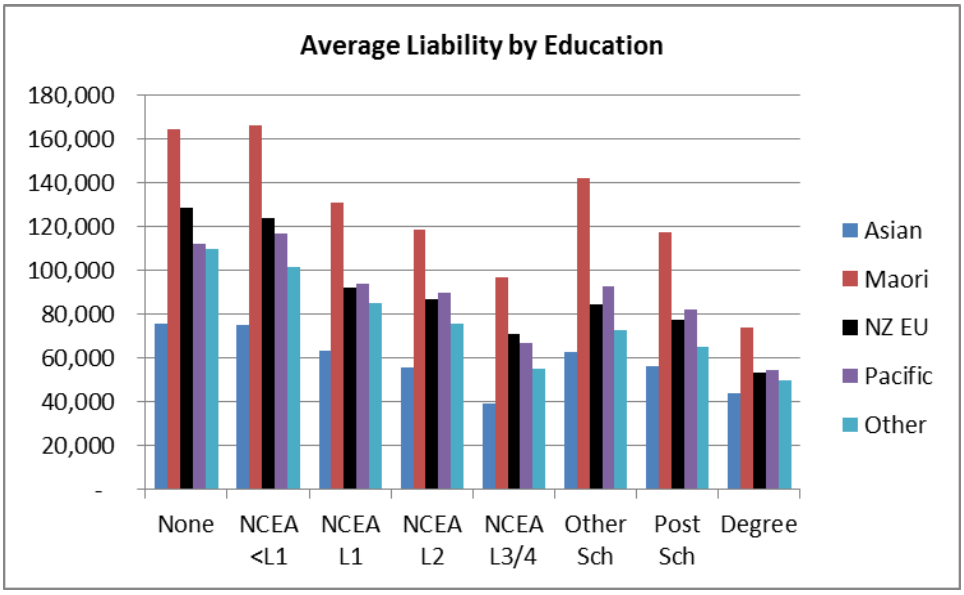
5.64 The following chart shows average liabilities (excluding expenses and loans) for each benefit type and for the different ethnic categories.



5.65 Not only are Māori over represented by number of clients, they also have significantly higher average liabilities, indicating a higher probability of long-term benefit dependency.

5.66 The following charts show average liability by ethnic group based on region and on educational level.





5.67 This indicates that Māori remain the most vulnerable to long-term benefit dependency, regardless of their geographic location or level of education, although higher levels of education do significantly reduce the risk.

5.68 The data collection of ethnicity (and education level) at time of benefit grant is self-declared and there is the possibility that this can cause some bias in the results. Nevertheless the difference in both numbers on benefit and average liabilities for Māori are significant and further consideration should be given as to whether current levels and types of support provided to Māori are sufficient to help reduce the disparity between ethnic groups.

Recommendation

5.69 We recommend further focus is given into the causes of the greater levels of vulnerability for Māori to long-term benefit receipt. 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 (for example, educational and regional initiatives).

Forecasts

Projected Liability to 30 June 2014

5.70 The following table shows the estimated movement in liability over the 12 months to 30 June 2014 if experience matches all the valuation assumptions.

in $ million	Liability at 30 June 2013	Expected Payments	Clients exiting valuation	New Clients	Unroll 1 year discount	Liability at 30 June 2014
Jobseeker - Work Ready	8,749	-849	-1,388	1,222	210	7,944
Jobseeker - HCID	9,355	-874	-682	1,080	241	9,120
Sole Parent	18,005	-1,692	106	842	468	17,729
Supported Living	17,155	-1,628	695	486	453	17,161
Youth	553	-38	-354	306	13	479
Supplementary/Orphan	5,891	-420	-674	799	152	5,747
Recent Exits	8,762	-303	-1,416	1,296	226	8,565
Loans/debts	372	-31	-60	50	9	340
Expenses	7,698	-612	-477	736	199	7,545
TOTAL	76,540	-6,448	-4,248	6,817	1,969	74,630

5.71 The liability is expected to fall by $1.9 billion over the year to be at $74.6 billion at 30 June 2014.

Sensitivity of Liability to assumptions

5.72 There are many factors that may impact the liability, not all of which are within management's ability to influence.

5.73 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 influences the rate at which people will be able to leave the Jobseeker or, to a lesser extent, Sole Parent benefit and go into work and the rate at which people enter the welfare system.
- The liability assumes benefits will be increased at fixed rates 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 causes significant fluctuations in the value of the calculated liability, although it does not change the forecast itself of projected benefit payments.

5.74 The attribution of liability changes because of impacts from economic conditions, which are outside of Work and Income's control, are estimated using best practice. There is uncertainty in this attribution which affects the degree of confidence with which we can assign liability movements to policy changes or management actions.

5.75 The purpose of the valuation is to help inform management on drivers of long-term dependency and as such the quantum of the liability is of less importance than the reasons for changes in the liability. For this reason the main focus of management or the users of the valuation reports should not be the actual liability number, but the causes of the movements in liability.

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

	Estimated Liability	
	30-Jun-13	Change
	$m	
Base Assumprions	68,500	-
Alternative Assumptions		
Flat unemployment of 6.4%	74,800	6,300
Higher exit rates		
- JS, Work Ready +2% per qtr	68,100	-400
- Sole Parent +2% per qtr	64,600	-3,900
Lower exit rates		
- JS, HCID -2% per qtr	70,000	1,500

5.77 The unemployment rate is a key driver for the numbers of people on benefits, particularly in the Jobseeker segments. The current liability is estimated assuming unemployment rates fall to 4.5% over the next 10 years. If we assumed the rate remained at 6.4% permanently, the liability would increase by $6.3 billion because fewer clients would be expected to find work and more of those who exit a benefit would return to the benefit system over time.

5.78 Recent experience has shown higher rates of going off benefit for Jobseeker – Work Ready clients and for Sole Parents. The table above shows how sensitive the liability is to changes in exit rates of 2% per quarter. Exit rates from Sole Parent benefit can have significant impact on clients expected duration on benefit and thus on the liability.

5.79 An increase in the probability of remaining on Jobseeker – HCID by 2% per quarter will also have a material impact on the liability. This adds to the importance of investigating the higher than expected rates of transition to the Jobseeker – HCID segment which was discussed in paragraphs 4.42 and 4.43.

Core Unemployed

5.80 The following table shows the number of people receiving a Jobseeker benefit continuously (ie, with no break for longer than 14 days) as a proportion of the working age work force.

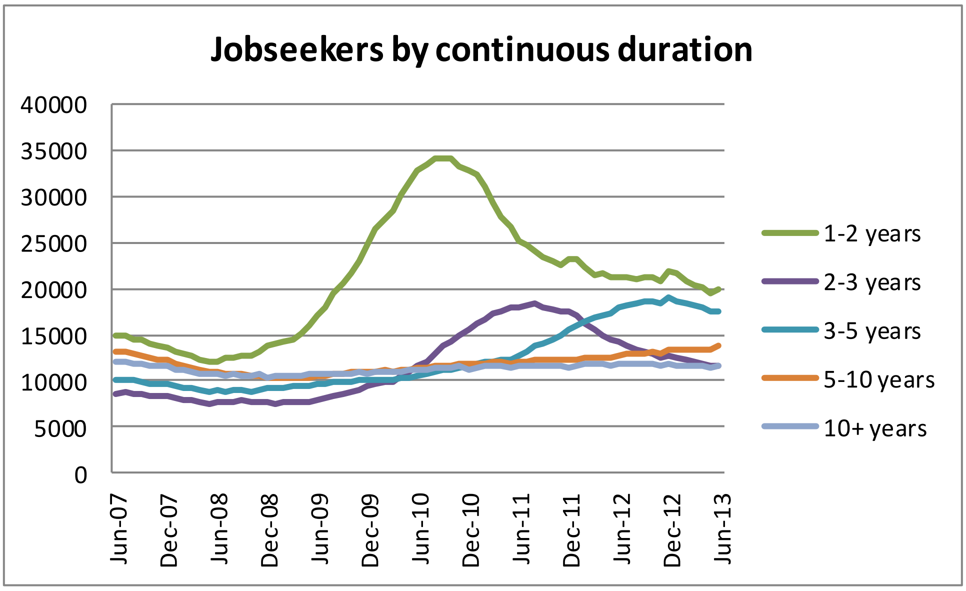
	Continuous duration on benefit							
	> 1 Year				> 5 Years			
	UB	SB	Other	All	UB	SB	Other	All
Jun-09	0.4%	1.3%	0.7%	2.4%	0.1%	0.4%	0.4%	0.9%
Dec-09	0.7%	1.4%	0.7%	2.8%	0.1%	0.5%	0.4%	0.9%
Jun-10	1.0%	1.5%	0.8%	3.3%	0.1%	0.5%	0.4%	1.0%
Dec-10	1.2%	1.6%	0.7%	3.5%	0.1%	0.5%	0.4%	1.0%
Jun-11	1.0%	1.6%	0.8%	3.4%	0.1%	0.5%	0.4%	1.0%
Dec-11	1.0%	1.7%	0.7%	3.4%	0.1%	0.5%	0.4%	1.0%
Jun-12	0.9%	1.7%	0.8%	3.3%	0.1%	0.5%	0.4%	1.0%
Dec-12	0.9%	1.7%	0.7%	3.3%	0.1%	0.6%	0.4%	1.1%
Jun-13	0.8%	1.7%	0.7%	3.1%	0.1%	0.6%	0.3%	1.1%

5.81 Even at the start of the GFC, people who had been on a Jobseeker benefit for more than one year made up more than 2% of the working age population (approximately 56,000 people, mostly with a HCID deferment). Those who had been on benefit for more than five years still made up almost 1% of the population (approximately 30,000 people) and this rate has been relatively stable over the last four years.

5.82 People who spend longer spells on benefit tend to have transitioned onto a health condition, injury or disability (HCID) deferment of work obligations or are sole parents with school age children.

5.83 The number of people with an HCID deferment on benefit for more than five years has been steadily increasing over the past four years both in absolute number and as a percentage of the working age population. The increase has been slightly higher in the last two years than the first two. A possible contributing factor to this may be the upsurge in unemployed during the GFC who have remained off work for an extended period of time.

5.84 The following chart shows the numbers on Jobseeker benefit for continuous duration of more than 12 months over the past six years.



5.85 The number of people continuously on benefit for five years or more has not varied materially over this period in spite of the economic conditions. Pre GFC, the lowest number of people was approximately 21,000 and post GFC the highest number is 25,000. There is more variance at shorter durations.

5.86 Even in the strong economy up to 2008, the lowest number of people in the greater than one year on benefit segment was in excess of 50,000.

Data

5.87 The following sections discuss data issues that impact on the valuation and on the reliability of certain aspects of analysis.

Youth benefit data

5.88 The benefit code for youth benefits does not distinguish between whether a person was receiving a Youth Payment or Young Parent Payment benefit. This required a work around file to be created by Work and Income for valuation purposes to be able to identify benefit types, to forecast benefit payments properly for these young people.

5.89 There are potentially some inconsistencies created from changes to youth data since the August changes to youth benefits because of:

- The work around file is derived from a different data source to the valuation data and data corrections may not be consistent between the files. This creates some uncertainty in allocating between YP and YPP segments
- Geographical region was not provided as they are now recorded under central processing code – this creates uncertainty in regional results for youth segments
- There is a higher rate of missing variables such as education and child information

Where data is missing, for valuation purposes variables are allocated values through interpolation, or randomly generated based on historic information to help remove bias from the calculations. While this should not have material impacts on the liability at an aggregate level, care needs to be taken with lower level analysis based on factors where data is not complete.

5.90 We recommend consideration be given to improving the data collection for youth clients to:

- Provide a separate benefit code for YP and YPP benefits (or a YPP flag), and
- improve education and child information data collection for these clients.

Education data

5.91 Education status is a key driver of the forward liability. Many interventions to reduce long-term welfare dependency are targeted at improving clients' education.

5.92 The education data provided by Work and Income has some issues which have been highlighted in the valuation report. These include:

- The data is incomplete – in the past education level data was mostly collected for unemployment benefit clients where it was relevant to their job-search obligations. Across all the data provided, 31% of clients were missing any details and a further 32% were listed as having no schooling. Education data is missing for over 90% of youth clients.
- Data is generally not updated over time. Ideally, historic changes by clients of their education status would be needed to get a more accurate guide to the impact educational status has on benefit dependency.

5.93 Where data was missing, education level was interpolated or randomly generated based on historic information to help remove bias from the calculations. This did not have material impacts on the liability at an aggregate level, although care needs to be taken with lower level analysis based on education.

5.94 We recommend that in future a link to education data from MoE be provided to help better inform the valuation and to understand better the correlations between education and benefit dependency.

6 Investment Approach: Performance

6.1 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 target appropriations better.

6.2 The methodology and models for assessing impacts on liability for individual initiatives are still under development. Work and Income currently reports on the effectiveness of existing employment assistance programmes through the annual Cost Effectiveness review which compares the benefit payment outcomes for people participating in programmes with outcomes for people, with similar characteristics, who did not participate in the programmes. This looks at impacts to date and has not yet been extended to include impacts on people's long-term dependency (the liability).

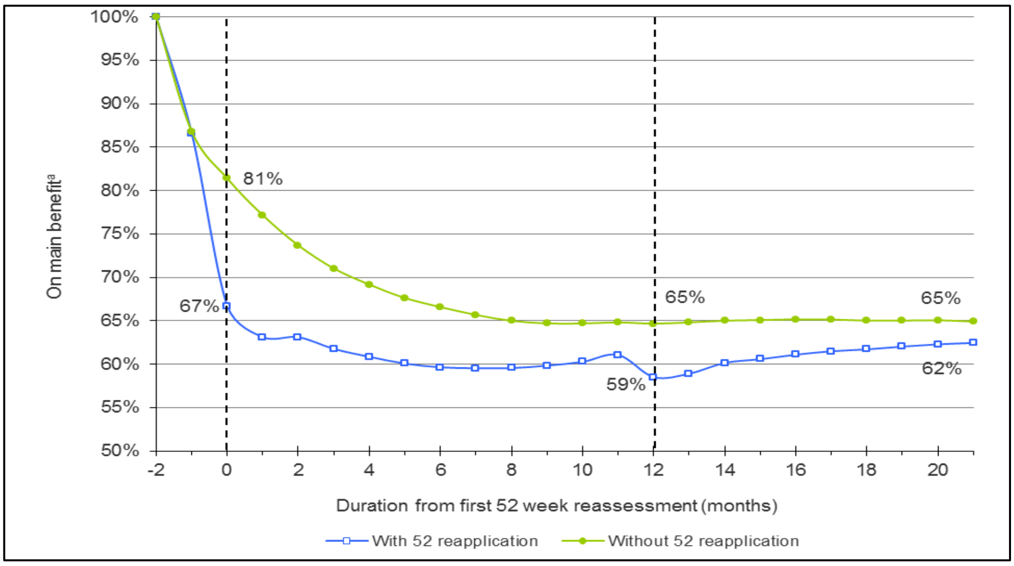
6.3 The following sections make some comments on impacts from operational changes and some of the investment initiatives using work to date by Work and Income and from the valuation results. These estimates do not use the full Return on Investment (RoI) methodology or comparisons from randomised control groups. Comparisons are with average impacts from the general population of beneficiaries and should be taken as a guide not an absolute. Methodologies will be refined in future reports. In particular we have not had sufficient data to be able to review all the employment assistance programmes individually for this report.

Future Focus Impacts

6.4 Paragraph 3.17 outlined changes implemented under the Future Focus initiative introduced in September 2010. The following sections discuss some of the impacts from these changes.

<u>Re-application for Unemployment Benefit</u>

6.5 The following graph is from the "Future Focus Evaluation Report: March 2013" and shows the probability for unemployment beneficiaries of being on main benefit (immediately before and) after the 52 week re-application assessment. The investigation covers the period from September 2010 to December 2012. The numbers include returns to benefit after periods off benefit.



6.6 The graph indicates significant short term off-benefit outcomes after the introduction of the re-application process. As stated in the Future Focus report, the largest impact is at the point where clients reach their anniversary date, through automatic cancellation of benefit for clients who do not complete the 52-week reapplication process. At the first anniversary date, 18 percent of affected clients exited benefit as a result of the reapplication process. A similar pattern of exits occurs when clients reach their second reapplication.

6.7 Noticeable in the graph are:

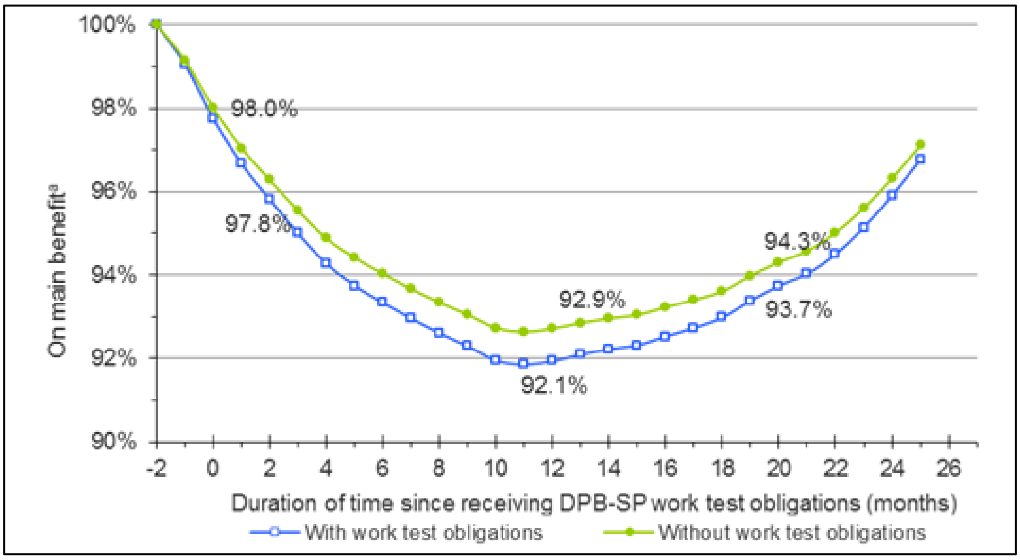
- The initial lift in numbers in the two months following re-application date, and
- the trend back towards the numbers at each anniversary that would have been on benefit without the intervention.

While there have been definite cost savings in the short-term, the clients in this group may not have changed their propensity to be dependent on the benefit long-term. A greater focus is required to ensure off benefit outcomes are sustained.

6.8 These results were achieved before the roll out of the new service model. It is likely that post placement support would help improve the sustainability of the work outcomes.

<u>Sole Parent Work Obligations</u>

6.9 The following graph, also from the "Future Focus Evaluation Report: March 2013", shows the probability, for Sole Parents with youngest child six or older, of being on main benefit (immediately before and) after the introduction of the part-time work obligations. The numbers include returns to benefit after periods off benefit.



6.10 While showing some reduction in the number of beneficiaries in the first year, the numbers seem to be drifting back to the expected state had there been no obligations. Note that these are off benefit outcomes and would not show any improvements from an increase in the number of Sole Parents in part-time work.

6.11 This experience shows the early impacts from the Future Focus change to work expectation. The welfare reforms from October 2012 introduced greater work expectations for sole parents once a child reaches age 14. Overall off benefit outcomes for sole parents during the past year have been better than shown in the above chart following the changes introduced in the welfare reforms and early successes from case management support.

6.12 Interventions that focus on clients after exiting benefit to help sustain the return to work are a necessary complement to the Future Focus and Welfare Reform initiatives and we recommend further consideration is given to in-work support initiatives.

Service delivery model – trial sites

6.13 Work Focused Case Management and Work Search Support services were piloted in 24 Work and Income sites from October 2012. Cost-effectiveness analysis by Knowledge and Insights (MSD's internal analytics division) covering the period up to 30 weeks after the service started showed that both services were effective in shortening the average length of time people in the service stayed on benefit.

6.14 Further to this work, we have made comparisons of the decrease in number of people on the three main benefits in the 24 trial sites and the non-trial sites compared to what was expected from 2012 valuation forecasts.

Number of people on benefit at 30 June 2013

Segment		Trial Sites			Non Trial Sites		
at June 2012		Actual	Expected	Change	Actual	Expected	Change
Jobseeker	WR < 1	8,021	8,414	-4.7%	19,613	20,130	-2.6%
	WR > 1	11,236	11,160	0.7%	25,839	25,348	1.9%
	SB < 1	4,805	4,890	-1.7%	13,323	13,616	-2.2%
	SB > 1	11,519	11,296	2.0%	30,796	30,225	1.9%
Sole Parent	Ch 0-2	8,993	9,046	-0.6%	19,840	20,022	-0.9%
	Ch 3-4	5,128	5,170	-0.8%	11,703	11,905	-1.7%
	Ch 5-13 < 1	951	1,012	-6.1%	2,555	2,698	-5.3%
	Ch 5-13 > 1	9,517	9,597	-0.8%	23,378	23,483	-0.4%
Supp Living	Carer	2,201	2,219	-0.8%	4,787	4,787	0.0%
	Partner	2,018	2,035	-0.8%	5,773	5,805	-0.6%
	Invalids	20,496	20,540	-0.2%	58,708	58,693	0.0%
Non-ben	Recent exits	9,720	10,808	-10.1%	25,310	27,680	-8.6%
Total		**94,605**	**96,188**	**-1.6%**	**241,625**	**244,394**	**-1.1%**

6.15 While the number of people remaining on benefit is lower than expected for both groups, the following observations can be made:

- There has generally been a higher rate of exit from the Jobseeker benefit in the trial sites than in non-trial sites. The success compared to the non-trial sites has been most evident in the less than one year duration segment but is also seen in the greater than one year duration segment.
- The results have been mixed in the Sole Parent segments, although greater success is evident in the segments with child aged five to 13, where there are part-time work expectations. There were very few of these clients included in the trial.
- The services were targeted to those with full-time work obligations who were either on benefit or at risk of remaining on benefit for more than one year. The successes are most evident in the segments which include these targeted clients.
- In the recent exits segment the trial sites would appear to have had a higher proportion of people off benefit at the end of the year than the non-trial sites. This may be due to more success in helping people find work when they first come back to benefit or more sustainable placements being achieved under the targeted services model. Further investigation is required to confirm this.
- Differences in other segments (which were not targeted in the trial) vary.

6.16 The main successes in the trial sites have been with the people who have work expectations which is where the trials were aimed. This service model has been rolled out to all sites from July 2013. Based on initial analysis, we would expect further experience improvements to flow from this.

Targeted investments

Transition to Work

6.17 The Transition to Work Grant (TTW) is a non-taxable, non-recoverable payment that can be made to clients (or their partners), to provide financial assistance to help meet the additional costs of entering into employment. This is available to people on a main benefit, students or people who face small gaps between jobs.

6.18 The following table shows the experience for people who were on benefit at 30 June 2013 and who received a TTW grant(s) during the year against those who did not receive the grants. It compares actual number on benefit at 30 June 2013 and benefit payments during the year to what was expected from the 2012 valuation forecasts and the movement in liabilities between valuations.

Comparison of people receiving TTW with those not receiving TTW

Segment		Received TTW			Other		
		Actual	Expected	Decrease	Actual	Expected	Decrease
Number of Clients		at 30 June 2013			at 30 June 2013		
Jobseeker	duration < 1	4,024	4,299	-6.4%	34,008	35,319	-3.7%
	duration > 1	3,798	3,891	-2.4%	67,565	66,194	2.1%
Sole Parent	Child 0-4	2,258	2,422	-6.8%	41,281	41,585	-0.7%
	Child 5-13	2,297	2,387	-3.8%	31,171	31,436	-0.8%
Supp Living	HCID	444	491	-9.6%	76,902	76,825	0.1%
	Partner/Carer	217	244	-11.2%	14,222	14,188	0.2%
Youth		69	66	5.1%	2,058	2,082	-1.2%
Total Number		**13,107**	**13,800**	**-5.0%**	**267,207**	**267,630**	**-0.2%**
Benefit Payments ($million)		Year to 30 June 2013			Year to 30 June 2013		
Jobseeker	duration < 1	55	60	-9.5%	471	501	-6.1%
	duration > 1	58	60	-3.8%	1,034	1,011	2.3%
Sole Parent	Child 0-4	49	54	-9.4%	906	932	-2.8%
	Child 5-13	46	52	-11.1%	667	686	-2.8%
Supp Living	HCID	8	9	-9.0%	1,317	1,326	-0.7%
	Partner/Carer	4	4	-12.9%	236	236	0.2%
Youth		1	1	-12.9%	33	35	-4.8%
Total Benefit Payments		**221**	**241**	**-8.5%**	**4,664**	**4,728**	**-1.4%**
Liability ($million)		**Jun-13**	**Jun-12**		**Jun-13**	**Jun-12**	
Jobseeker	duration < 1	618	784	-21.2%	4,983	5,858	-14.9%
	duration > 1	576	718	-19.8%	9,269	10,504	-11.8%
Sole Parent	Child 0-4	460	640	-28.2%	9,624	11,417	-15.7%
	Child 5-13	389	536	-27.3%	5,928	7,103	-16.5%
Supp Living	HCID	92	125	-26.5%	13,674	15,310	-10.7%
	Partner/Carer	33	46	-28.3%	1,823	2,088	-12.7%
Youth		14	18	-18.4%	506	605	-16.4%
Total Liability		**2,182**	**2,867**	**-23.9%**	**45,806**	**52,885**	**-13.4%**

6.19 In general, the provision of a TTW grant appears to have been helpful in assisting a greater number of people off benefit, particularly for the greater than one year duration Jobseekers, and for Sole Parents and Supported Living clients.

6.20 Approximately $6.9 million was provided in TTW grants to the people included in the tables above. The rate of savings from benefit payments made over the year is significantly higher than for the general population. If we attribute the difference to the effect of the intervention, the return over the year has been approximately double the cost. In addition, the liability for these people reduced by 23.9% while for the general (main benefit) population the liability reduced by 13.4%. Again, if we assume the 10.5% difference can be attributed to the provision of the grants, this equates to a liability reduction of approximately $300 million.

6.21 These comparisons have been made using the general population, not any statistically similar control group, and so care should be taken before drawing conclusions about the programme's effectiveness. Also, it only includes those people who were present in the 30 June 2012 valuation data. An accurate assessment of the effectiveness of this grant would require a randomised trial to identify the effect of the grant on clients' off-benefit outcomes against a group of people with statistically similar attributes. Nevertheless, the TTW grant appears to be a very effective form of assistance.

6.22 With further development of the Return on Investment framework we expect a better link can be made between the short term fiscal savings and expected long-term benefit savings that will provide improved management information for investment decision making.

<u>IRD data match</u>

6.23 Work and Income have conducted an information sharing programme with Inland Revenue. This initiative has been used to identify people in receipt of a benefit that may be receiving income from employment, whether through inadvertent overpayment or fraud. The programme commenced in March 2013. In the period to 30 June 2013 there had been 2,970 benefits cancelled through this programme.

6.24 The following table shows the experience for the 1,512 people who were on main benefit at 30 June 2012 and whose benefit was cancelled during the year. The other 1,400 people were not on benefit at 30 June 2012.

Comparison of benefits cancelled due to IRD data match

Segment	IRD match			Other		
	Actual	Expected	Change	Actual	Expected	Change
Number of Clients	**at 30 June 2013**			**at 30 June 2013**		
Jobseeker	454.0	555.3	-18.2%	101,573	101,513	0.1%
Sole Parent	172.0	198.4	-13.3%	72,452	73,021	-0.8%
Supp Living	38.0	46.8	-18.7%	91,124	91,013	0.1%
Youth	4.0	4.2	-5.7%	2,058	2,082	-1.2%
Total Number	**668.0**	**804.6**	**-17.0%**	**267,207**	**267,630**	**-0.2%**
Benefit Payments ($million)	**Year to 30 June 2013**			**Year to 30 June 2013**		
Jobseeker	5.4	8.4	-35.0%	1,504	1,512	-0.5%
Sole Parent	2.5	4.3	-41.9%	1,573	1,618	-2.8%
Supp Living	0.5	0.8	-35.1%	1,553	1,562	-0.6%
Youth	0.1	0.1	-9.4%	33	35	-4.8%
Total Benefit Payments	**8.5**	**13.5**	**-37.1%**	**4,664**	**4,728**	**-1.4%**
Liability ($million)	**Jun-13**	**Jun-12**		**Jun-13**	**Jun-12**	
Jobseeker	63.7	93.2	-31.6%	14,252	16,362	-12.9%
Sole Parent	24.0	43.4	-44.7%	15,551	18,520	-16.0%
Supp Living	3.9	8.6	-54.0%	15,497	17,398	-10.9%
Youth	0.6	0.9	-31.9%	506	605	-16.4%
Total Liability	**92.3**	**146.1**	**-36.8%**	**45,806**	**52,885**	**-13.4%**

6.25 Applying the same logic as in paragraph 6.20, the liability reduction from these 1,512 cancellations is estimated to be approximately $34 million. This does not take into account any recovery of overpaid benefit amounts.

6.26 Further work is needed to quantify savings made from the cancellations for people who were not on benefit at 30 June 2012 valuation data and for the value of expected recoveries of overpaid benefit amounts.

Other Employment Assistance

6.27 A series of incentives are provided under Employment Assistance such as training programmes and wage subsidies. Internal cost effectiveness analysis shows mixed results across several of these initiatives.

6.28 The following table shows the experience for the 13,916 people who were on benefit at 30 June 2012 for whom the change in liability can be determined over the year.

Segment	Received EA			Other		
	Actual	Expected	Change	Actual	Expected	Change
Number of Clients	**at 30 June 2013**			**at 30 June 2013**		
Jobseeker	7,484.0	7,119.6	5.1%	101,573	101,513	0.1%
Sole Parent	1,896.0	1,870.1	1.4%	72,452	73,021	-0.8%
Supp Living	522.0	529.6	-1.4%	91,124	91,013	0.1%
Youth	64.0	58.4	9.7%	2,058	2,082	-1.2%
Total Number	**9,966.0**	**9,577.6**	**4.1%**	**267,207**	**267,630**	**-0.2%**
Benefit Payments ($million)	**Year to 30 June 2013**			**Year to 30 June 2013**		
Jobseeker	106.8	103.6	3.1%	1,504	1,512	-0.5%
Sole Parent	40.0	40.9	-2.3%	1,573	1,618	-2.8%
Supp Living	9.0	9.4	-3.9%	1,553	1,562	-0.6%
Youth	0.8	0.8	-6.5%	33	35	-4.8%
Total Benefit Payments	**156.5**	**154.6**	**1.2%**	**4,664**	**4,728**	**-1.4%**
Liability ($million)	**Jun-13**	**Jun-12**		**Jun-13**	**Jun-12**	
Jobseeker	1,038.0	1,241.1	-16.4%	14,252	16,362	-12.9%
Sole Parent	359.4	439.7	-18.3%	15,551	18,520	-16.0%
Supp Living	109.2	128.8	-15.2%	15,497	17,398	-10.9%
Youth	12.3	15.6	-21.2%	506	605	-16.4%
Total Liability	**1,518.8**	**1,825.1**	**-16.8%**	**45,806**	**52,885**	**-13.4%**

6.29 While numbers of people remaining on benefit and payments made during the year are higher than the general population of beneficiaries, there is a higher reduction in the liability than the general population, estimated to be approximately $60 million. The amount of investment spend on these clients under the programmes included in the above table has been $28.5 million.

6.30 While, overall the programmes appear to have had positive impacts from a liability perspective, we have not had sufficient data to be able to review all the programmes individually. We understand from the cost effectiveness analysis that some programmes have been shown to be ineffective. In particular, Foundation Focused Training Opportunities, which was the largest programme in this group by dollar spend, has not been effective in the short to medium term. It has been phasing out over the last two years with the last parts being discontinued for the 2014/2015 fiscal year. A series of more targeted training options is being introduced.

Employment Related Training Assistance

6.31 The following table shows the experience for Training Incentive Allowance (TIA) and Course Participation Assistance (CPA) for people who were on a benefit at 30 June 2012 for whom the change in liability can be determined over the year:

Segment	Received support			Other		
	Actual	Expected	Change	Actual	Expected	Change
Number of Clients	**at 30 June 2013**			**at 30 June 2013**		
ERTA - TIA	1,469.0	1,388.9	5.8%	267,207	267,630	-0.2%
ERTA - CPA	1,882.0	1,679.6	12.1%			
Benefit Payments ($million)	**Year to 30 June 2013**			**Year to 30 June 2013**		
ERTA - TIA	33.7	28.9	16.5%	4,664	4,728	-1.4%
ERTA - CPA	29.1	25.9	12.2%			
Liability ($million)	**Jun-13**	**Jun-12**		**Jun-13**	**Jun-12**	
ERTA - TIA	353.7	392.4	-9.9%	45,806	52,885	-13.4%
ERTA - CPA	288.6	322.1	-10.4%			
Support provided ($million)	**Year to 30 June 2013**					
ERTA - TIA	3.7			N/A		
ERTA - CPA	0.6					

6.32 Both of these programmes are rated as not effective in the Cost Effectiveness report provided by Knowledge and Insights, meaning people receiving this support spend on average less time in positive outcomes than a comparison group. The valuation results support this conclusion although this does not necessarily mean the assistance is not effective for all people.

6.33 Some changes have been made to how this assistance is targeted. This is expected to improve the effectiveness of the assistance. More time is needed to see if these changes will give improved results. The liability results in general would suggest that improving skills through education and training should help reduce long-term benefit receipt.

Appendix A: Reconciliation between Actuarial Valuation Data files and Work and Income reporting

	Pre-July 2013 benefit types														
	DPB related	EB	IB	Non Ben	NZS VP TRB	SB related	UB related	UBT related	UHS	WB	YP/YPP	Total	Partners	Other	Grand Total
JobSeeker	12,136	2,524	-	232	4	58,366	47,724	4,885	-	4,567	195	130,633	13,147	12,056	155,836
Sole Parent	83,863	1	-	64	-	32	9	-	-	-	116	84,085	43	769	84,897
Supported Living	8,090	3	83,656	11	-	175	23	1	-	16	-	91,975	8,453	1,016	101,444
YP/YPP	3	8	-	-	-	6	-	-	-	-	2,439	2,456	77	324	2,857
Non-ben Sup	26	3	-	56,214	35	12	12	1	7	-	-	56,310	725	40,779	97,814
Orphans	3	-	-	313	140	-	-	-	-	-	-	456	28	4,444	4,928
Recent Exit	158	29	47	1,329	1,388	158	434	35	170	13	13	3,774	5,196	145,734	154,704
TOTAL Valn Data	**104,279**	**2,568**	**83,703**	**58,163**	**1,567**	**58,749**	**48,202**	**4,922**	**177**	**4,596**	**2,763**	**369,689**	**27,669**	**205,122**	**602,480**
Not in Valn data	168	56	1,015	1,463	12,610	379	236	-	344	158	-	16,429	-	-	16,429
TOTAL Offical Count	**104,447**	**2,624**	**84,718**	**59,626**	**14,177**	**59,128**	**48,438**	**4,922**	**521**	**4,754**	**2,763**	**386,118**			

A.1 Valuation data includes people who have received a benefit payment within the 12 months before the valuation date, including those who are no longer receiving a benefit or supplementary assistance at the valuation date.

A.2 Client numbers in the valuation count partners as separate clients whereas the official reporting does not.

A.3 The valuation data is collected one month after the valuation date so that any back-dated changes to data will cause discrepancies to the official reported numbers which are done on the date of the valuation.