2015 Benefit System Performance Report

for the year ended 30 June 2015

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

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1 Executive Summary

1.1 This report has been prepared by Herwig Raubal, FNZSA, FIAA; Eric Judd, FNZSA, FIAA; and Daniel Stoner, FNZSA (primary regulator), FIA; and is in respect of the year ended 30 June 2015.

Purpose of this Report

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

1.3 This report:

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

Recent Experience

1.4 As at 30 June 2015, the total number of working-age people receiving a main benefit was 284,960. This was a decrease of 8,132 compared to 30 June 2014. Based on a continuation of current entry and exit rates we forecast a range of 258,000 to 286,000 at June 2018 (cf. Better Public Services (BPS) 1 target of 220,000).

1.5 The accumulated actuarial release for the period from 30 June 2014 to 30 June 2015 is $2.3bn. Our central forecast of the actuarial release at 30 June 2018 is $6.1bn (cf. BPS 1 target of $13bn).

1.6 Meeting the BPS 1 targets will depend on:

- Economic conditions – will need to be at a level consistent with full employment in 2018 (at least similar to pre-GFC lows)
- BPS initiatives – need to be implemented, effective and scaled up as soon as practically possible
- Further investment and/or policy change – further action is required, particularly with supporting work-capable Jobseeker Support – Health Conditions and Disabilities (JS-HCD) and Supported Living Payment (SLP) clients into employment. Any further actions will need to be designed, approved and funded in the near future to materially contribute to meeting the BPS 1 targets.

1.7 Having two BPS 1 targets presents some challenges. In isolation they would likely result in different management strategies. Considered together, they can conflict depending on economic conditions.

Recommendation 1

To ensure focus is directed towards reducing long-term benefit dependency, ensure priority is given to the actuarial release target. Operational targets may need to be amended to reflect this.

1.8 Overall, the performance of the benefit system has been better than projected by the valuation, but there are significant risks to achieving the BPS 1 targets. Client numbers were 5,554[1] lower than projected. As was the case last year, Sole Parent Support (SPS) and Jobseeker Support (JS) clients accounted for the majority of this.

1.9 The reduction in SPS client numbers is significantly ahead of projections. This is despite exit rate assumptions being increased for the 2014 valuation. Since welfare reform, and particularly after the introduction of Work-Focused Case Management (WFCM) in 2013, decreases in SPS client numbers have consistently bettered projections despite tightened valuation assumptions each year. Exit rate assumptions were further adjusted for the 2015 valuation to reflect this trend.

1.10 JS client numbers also fell over the year. JS-Work-Ready (JS-WR) client numbers decreased by 3,961[1] and JS-HCD client numbers decreased by 1,687[1]. The 30 June 2014 valuation anticipated JS-WR client numbers would increase, principally because the unemployment rate increased over the year. The reduction in JS client numbers is therefore a pleasing result.

1.11 SLP client numbers were broadly unchanged over the year and in line with valuation projections. The increasing prevalence of SLP clients suffering from mental illness remains a risk to the liability.

1.12 Youth benefit client numbers have stabilised. Compared with an increasing trend since the introduction of the Youth Service, this is a positive outcome. Youth Payment (YP) and Young Parent Payment (YPP) clients represent 23% of all clients under the age of 20.

1.13 The total number of clients under the age of 20 is only slightly higher than before the Global Financial Crisis (GFC). This is a very positive outcome given early entry into the benefit system is a strong predictor of long-term benefit dependency.

Valuation Results: Life-time Liability

1.14 The liability[2] has decreased by $0.6bn to $68.4bn over the year to 30 June 2015. This breaks down as follows:

- A $2.4bn increase due to changes in economic assumptions. +$2.0bn of this was due to lower discount and inflation rates and +$0.4bn due to higher unemployment rates.
- An expected liability decrease over the year of $1.0bn based on experience observed up to 30 June 2014. This expected change incorporates the impact of the actual unemployment rate over the year.

[1] Based on the valuation client count methodology (see paragraphs 2.3 to 2.4) and differs from official counts

[2] Expected future benefit payments up to age 65 for all people aged 16-64 who have received a benefit at any time in the 12 months preceding the valuation date

- A $2.2bn decrease attributable to welfare reform and operational changes not already reflected in the 30 June 2014 valuation. Most of this decrease is due to higher rates of exit from SPS.
- A $0.1bn increase due to methodology changes unrelated to experience or performance.

1.15 The cumulative liability impact over the last four years attributed to policy and operational changes, including the $2.2bn above, is estimated to be $12.0bn.

1.16 By ethnicity, Māori made the greatest contribution to the $2.2bn in both absolute and relative terms.

1.17 This valuation contains new analysis of the interaction between long-term benefit dependency and a person's Child, Youth and Family (CYF) history and/or history of criminal convictions, improving understanding of the drivers of long-term benefit receipt. It also contains further analysis of the impact of family benefit history.

1.18 CYF history and a history of criminal convictions are both significant predictors of future benefit cost. Across all benefit categories, clients with CYF history have a $47k (or over 40%) higher average liability than clients with no history. The liability difference is more pronounced the more CYF interactions a person has had, and when their first event occurred in the first three years of life.

1.19 The valuation results highlight that some significant predictors of long-term benefit dependency manifest themselves many years before a person becomes eligible for benefits. In particular, protecting vulnerable children and improving their childhood experience is expected to improve their long-term outcomes including reducing their likelihood of long-term benefit dependency.

1.20 An actuarial valuation of the social housing system is being developed. The social housing valuation will be integrated with the benefit system valuation. This will provide a more detailed understanding of people's pathways in both systems and how household dynamics impact social housing and benefit dependency.

Future Focus: Risks and Opportunities

1.21 Risks and opportunities are categorised into the fundamental areas that influence the number of people needing support from the benefit system and their degree of long-term benefit dependency.

1.22 ***The Economy*** – Labour market conditions have significant bearing on the benefit system. For example, we estimate that a significant recession involving an unemployment rate peak of 12% could add over 100,000 main benefit clients and $10bn to the valuation liability. Most of this liability increase dissipates as the economy recovers, though we estimate a $1bn-$1.5bn lasting effect on the liability. This mainly relates to clients who wouldn't have otherwise entered the benefit system.

1.23 ***Health Trends*** – Since 2000 the number of JS-HCD and SLP clients suffering from mental illness has increased by approximately 31,000 (to about 60,000). This is equivalent to about $5.5bn in liability. More connectivity is needed between health treatment providers and Work and Income.

Recommendation 2

We recommend that management explore opportunities to work more closely with health providers to ensure that clients suffering from mental illness receive appropriate care and support. The viability of MSD directly purchasing mental health services for clients should also be explored.

Management should consider the introduction of specialised resources or further contracting-out of services to best manage the specific needs of client groups such as those suffering from mental illness.

1.24 **Financial Incentives from Accommodation Related Benefits** – The current design of Income Related Rent Subsidy (IRRS), Accommodation Supplement (AS) and Temporary Additional Support (TAS) creates financial disincentives for clients to move out of social housing into the private market and into employment. This impacts about 100,000 people in the BPS target group.

Recommendation 3

We recommend the design of IRRS, AS and TAS is reviewed to ensure that incentives are aligned with the objective to reduce welfare dependency.

1.25 **Population and Demographic Factors** – The potential liability impact of projected population and demographic changes by 30 June 2018 is +$2.3bn (cf. $13bn actuarial release target).

1.26 ***Sole Parents*** –The long-term trend is to have children later in life. Birth rates for women under 30 have been consistently declining. This is likely to have had a gradual impact on SPS and YPP client numbers.

1.27 ***Policy Changes*** – The Child Material Hardship Package is expected to add $1.0bn to $1.5bn to the valuation liability. In assessing the actuarial release the impact will largely be removed. This will ensure that the assessed actuarial release reflects the performance of the system rather than the effect of the structural changes.

Return on Investment: Employment Assistance Programmes and Trials

1.28 Work and Income operate a number of employment assistance programmes aimed at supporting clients into sustainable employment. It also operates a number of trial services/products with the intent that they may be rolled out if they are assessed as being effective. We have evaluated a number of key programmes and trials, leading to the following assessments:

- Flexi-wage – The programme is delivering value
- Skills for Industry – The programme is delivering value
- Training for Work – The programme shows variable performance
- Work Confidence – The programme appears not to be delivering value
- Work Experience – The programme appears not to be delivering value

- Flexible Childcare Assistance – The product appears to be delivering value
- In-work Support – The service is not showing signs of being effective
- Intensive Client Support – The service is showing signs of being effective

1.29 Management should consider these results as part of its review of funding within the Multi-Category Appropriation (MCA).

Comment

1.30 This report is focused on the benefit system. Recommendations made are restricted to actions within the control or influence of MSD management. However, the analysis in this report highlights the potential value of broadening thinking beyond a client's history of benefit receipt. A person's interactions with different social sector services at different stages of their life are correlated. There is merit in taking a more holistic view, recognising that a person's likelihood of using a particular social sector service can be influenced by their experience long before they become eligible for that service. Equally, the impact of a particular agency's work with people may extend beyond that agency and/or have intergenerational effects.

1.31 Trying to materially influence people's likelihood of long-term benefit dependency when they are already in the benefit system has its limitations. Prevention is likely to be more effective in the long term. Childhood and intergenerational risk factors demonstrate that fundamentally reducing people's risk of poor outcomes in adulthood, including benefit dependency, requires a focus on childhood experience and vulnerable families. We expect that recent years' success in supporting sole parents into employment will have lasting effects by reducing their children's likelihood of long-term benefit dependency, and other poor outcomes in adulthood.

1.32 The Investment Approach applied to a single social sector can add significant value, as has been demonstrated by the application to the benefit system. However, the real opportunity is to apply it across the whole social sector, taking a citizen-centric approach.

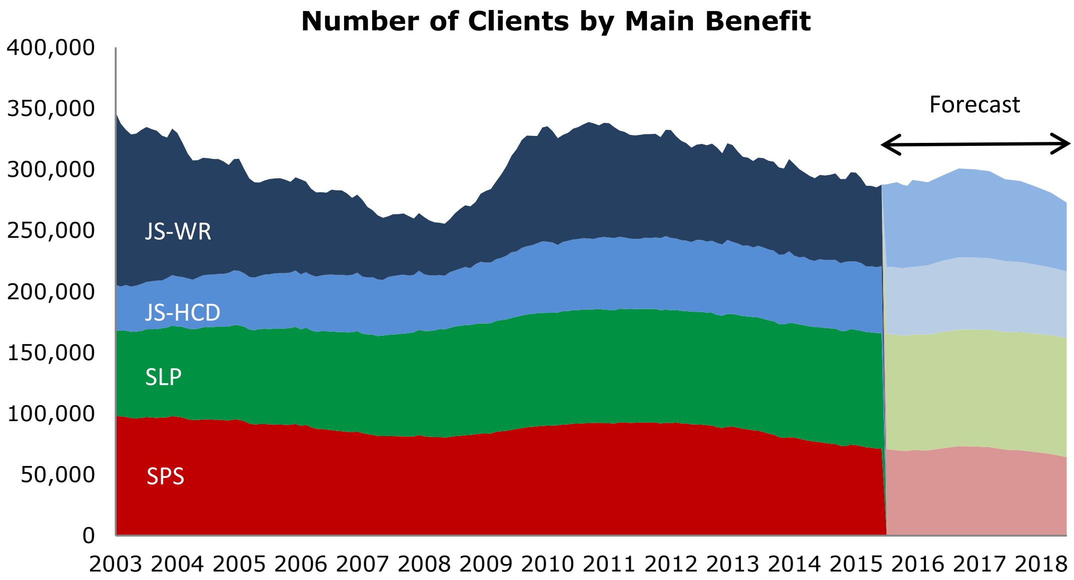
2 Recent Experience

Summary

- Overall, client numbers (valuation methodology) decreased by 10,871 over the year and were 5,554 below projections. A large part of this variance relates to SPS clients who had higher rates of exit from benefit than assumed in the 2014 valuation. JS-WR client numbers also reduced despite the unemployment rate increasing over the year.
- Forecasts suggest working-age main benefit client numbers will be between 258,000 and 286,000 at 30 June 2018, with a central forecast for the actuarial release of $6.1bn. These numbers are materially behind the BPS 1 targets.
- Meeting BPS 1 targets will require unemployment to be materially below Half-year Economic and Fiscal Update (HYEFU) 2015 forecasts, existing BPS initiatives to be quickly implemented and further investment in JS-HCD and SLP clients.
- Improving the sustainability of JS exits is an important factor in reducing long-term benefit dependency. More work could be done to better understand the risk factors associated with an increased likelihood of returning to benefit.
- The two BPS 1 targets have the potential to conflict. A focus on the actuarial release target better aligns to the objective of reducing long-term benefit dependency.

Profile of the Benefit System

2.1 The following chart shows how client numbers have changed since 2003 and how they are forecast to change to 2018. Where information in this section is broken down by benefit category, data prior to benefit structure changes in July 2013 have been adjusted to ensure a consistent basis. Appendix B provides details on the July 2013 benefit structure changes.



2.2 The impact of the GFC is evident through 2008 to 2010, particularly on JS-WR clients. The gradual increase in clients with health conditions (JS-HCD and SLP combined) is also evident. The proportion of clients with health conditions represented 52.0% of main benefits at 30 June 2015, up from 50.7% a year ago and 42.1% ten years ago. We forecast this to increase to 55.7% by June 2018.

2.3 Client numbers noted in the rest of this chapter, except BPS numbers or where otherwise specified, are based on the valuation methodology and differ to official counts because:

- client numbers in the valuation include all clients who have received a benefit in the quarter whereas official reporting is at a point in time
- client numbers in the valuation count partners as separate clients whereas official reporting does not
- the valuation includes 16-17 year olds whereas the working age count is for 18-64 year olds
- the valuation includes recent exits (anyone not receiving a benefit but who has within the past 12 months) and people receiving orphan benefits and/or supplementary payments that are not included in the main benefit numbers
- the extraction dates for the valuation data and the official count data are different. The valuation data is collected one month after the reporting date to allow for any back-dated changes to be made.

2.4 A brief reconciliation is given in the following table:

Main working age benefits at 30 June 2015 (excl Student Hardship)	284,960
Quarterly count definition and back-dating of data	14,746
Partners	44,661
16-17 year olds	2,797
Recent exits / Supplementary benefits only	114,793
Other adjustments	-688
Total receiving benefit in the quarter to 30 June 2015	461,269

2.5 All projections in this report come from the valuation model and will differ to Treasury forecasts because they are used for a different purpose and adopt different methodologies and assumptions. Projections incorporate the actual unemployment rates between June 2014 and December 2015.

2.6 The following table, using valuation counts, provides further detail on the change in client numbers over the year, and compares them with projected numbers.

Benefit Category	Actual – Quarter to 30 June 2014	Actual – Quarter to 30 June 2015	% Change	Projected – Quarter to 30 June 2015	Actual vs Projected Ratio
Jobseeker – Work Ready incl. Emergency Benefit	100,466	96,505	-3.9%	103,412	93%
Jobseeker – Health Conditions and Disabilities	73,398	71,711	-2.3%	71,615	100%
Sole Parent Support	82,840	77,299	-6.7%	79,833	97%
Supported Living Payment	105,475	105,956	+0.5%	105,622	100%
Youth Payment	2,045	2,194	+7.3%	2,139	103%
Young Parent Payment	1,233	1,109	-10.1%	1,152	96%
Supplementary Benefits Only	101,452	101,089	-0.4%	97,764	103%
Orphans Benefit	5,231	5,406	+3.3%	5,285	102%
Total	**472,140**	**461,269**	**-2.3%**	**466,823**	**99%**

2.7 Overall, the performance of the benefit system has been slightly ahead of projections, but there are significant risks to achieving the BPS 1 targets. Client numbers were 10,871 lower than the same time in 2014, and 5,554 lower than projected. SPS and JS clients account for most of this, as was the case in the previous year.

2.8 SPS client numbers fell 5,541 over the year, a decrease of 6.7%. This is significant because it is materially below projections despite exit rate assumptions being increased for the 2014 valuation. This is a recurring theme – since welfare reform and particularly after the introduction of WFCM in 2013, decreases in SPS client numbers have consistently bettered projections despite tightened valuation assumptions each year. Exit rate assumptions were further adjusted for the 2015 valuation to reflect this trend.

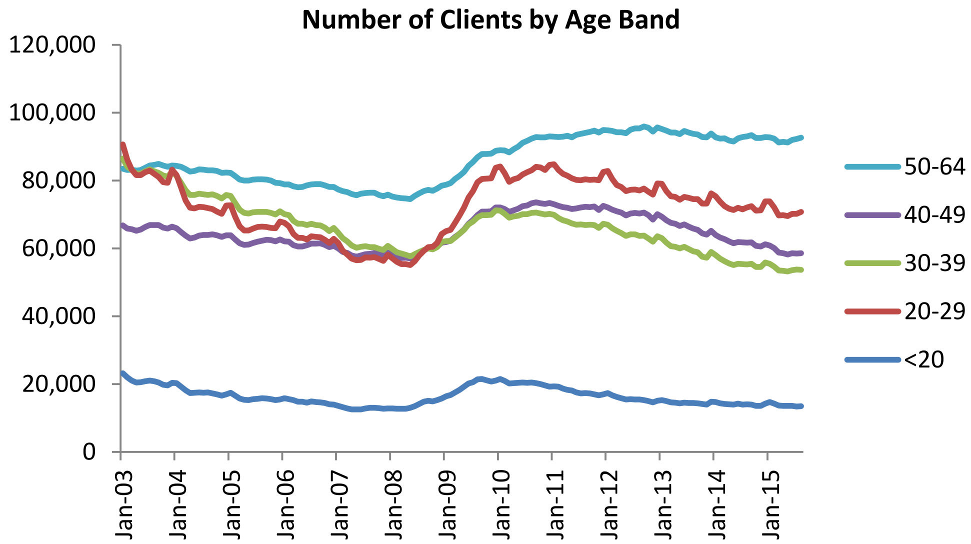
2.9 JS client numbers also fell over the year. JS-WR client numbers decreased by 3,961 and JS-HCD client numbers by 1,687. The 30 June 2014 valuation anticipated JS-WR client numbers would increase, principally because the unemployment rate increased over the year. The reduction in JS client numbers is therefore a pleasing result.

2.10 SLP client numbers were broadly unchanged over the year in line with valuation projections. The increasing prevalence of SLP clients suffering from mental illness remains a risk to achieving BPS 1 targets (see chapter four).

2.11 YP and YPP client numbers combined were generally unchanged and marginally above the level projected. The stabilisation of youth benefit client numbers is an improvement on the previous increasing trend since the introduction of the Youth Service. YP and YPP clients represent 23% of all clients under the age of 20. The total number of clients under 20 years old on 30 June 2015 was only slightly higher than at the economic peak shortly before the GFC. This is a pleasing outcome, noting that early entry into the benefit system is a strong predictor of long-term benefit dependency.

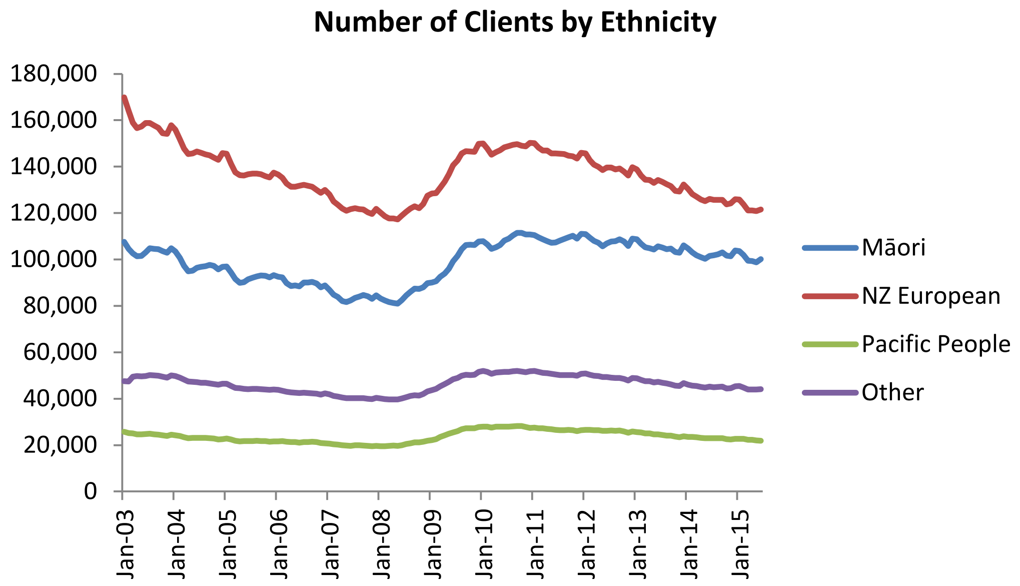
2.12 The following chart shows client numbers over time by age band. Generally, the younger the client the higher the liability as young people have more potential future years on benefit. The chart shows that:

- The number of clients aged 30-39 has fallen back past its pre-GFC low. This contrasts with the number of clients aged 20-29 which remains 27% above pre-GFC levels. Clients currently aged 20-29 are more likely to have had little or no work experience prior to the GFC and as a consequence may have found it more difficult than older clients to find employment.
- The number of clients aged 50-64 has not decreased materially from its post-GFC high. At 30 June 2015 there were 91,938 clients aged 50-64, compared to 95,257 at the post-GFC high (Sep 2012) and 73,809 at the pre-GFC low (May 2008). While older clients tend to be lower liability as they have less future potential time on benefits, over 80% have been continuously on main benefit for over a year and 55% have been continuously on main benefit for over five years.



2.13 Given that 56% of the BPS 1 target group (over 160,000 clients) are aged either 20-29 or 50-64, further work should be done to better understand why client numbers in these age bands have not decreased as much as others since the GFC. Changes in the general population account for some of the differences, but not all.

2.14 The following chart shows client numbers over time by ethnicity. The number of Māori clients at 30 June 2015 was 24% above the pre-GFC low. This compares to 4% for NZ Europeans and 12% for Pacific People. Māori client numbers remain close to post-GFC highs. Māori clients have a higher average liability than other ethnic groups, indicating a higher risk of long-term benefit dependency. However, as shown in paragraphs 3.15 to 3.17, some improvements have been made over the 2014/15 year.

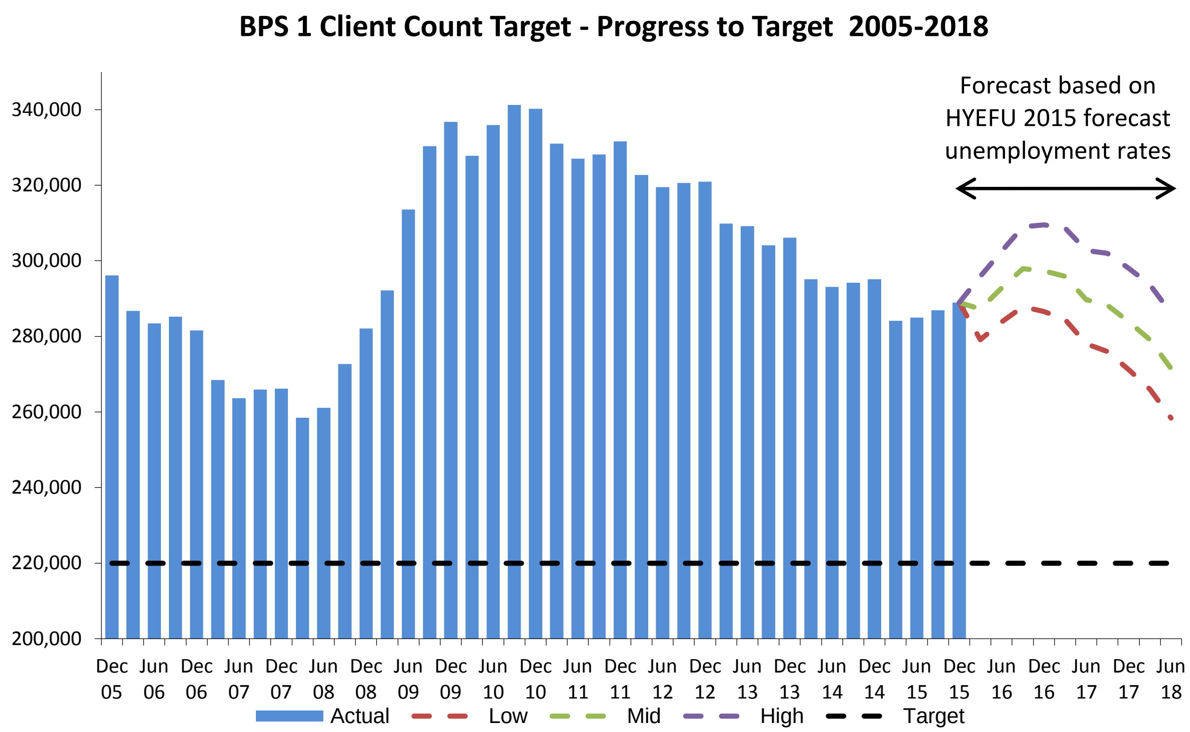


Better Public Services Targets

2.15 The Better Public Services Result Area 1: *Reducing Long-Term Welfare Dependence* target is to 'reduce the total number of people receiving benefit by 25 per cent, from 295,000 in June 2014 to 220,000 by June 2018, and reduce the long-term cost of benefit dependency by $13 billion as measured by an accumulated Actuarial Release, by June 2018'.

2.16 Receiving a benefit in the context of the BPS 1 beneficiary count target means being aged between 18 and 64 and receiving a main benefit. These are: Jobseeker Support, Sole Parent Support, Supported Living Payment, Youth Payment, Young Parent Payment, Emergency Benefit or Emergency Maintenance Allowance.

2.17 The following charts show progress towards the BPS 1 targets:

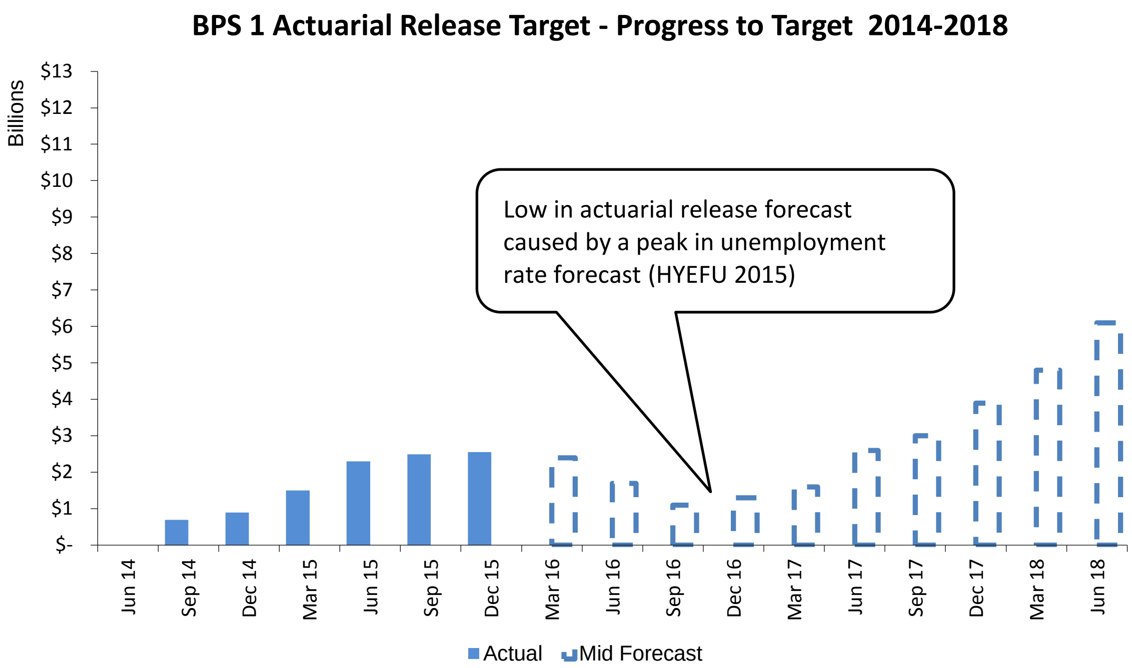


2.18 As at 30 June 2015, the total number of people receiving a benefit was 284,960. Nearly 60% of the decrease since 30 June 2014 relates to SPS clients. A further 24% and 12% relates to JS-WR and JS-HCD clients respectively. SPS clients have a higher average liability than other main benefit categories, and so contribute more to the actuarial release.

2.19 Based on a continuation of current entry and exit rates and unemployment rates consistent with HYEFU 2015, we forecast the working-age beneficiary count to be approximately 272,000 at 30 June 2018 with a range of 258,000 to 286,000.

2.20 Actuarial release is intended to broadly represent the Government's impact on the benefit system. While this is a liability-based measure, it is different to the change in valuation liability attributable to policy and operational changes (experience item) reported in chapter three. This is due to a number of reasons including:

- The actuarial release is relative to a 295,000 June 2014 beneficiary count starting point, whereas the experience item is relative to a decreasing beneficiary count forecast implied by valuation assumptions. All else being equal, if the number of people on benefits is decreasing, the actuarial release will be greater than the experience item.
- The calculation methodology for the actuarial release uses the 30 June 2014 valuation model and assumptions. It does not update each year with new valuation assumptions and so does not include changes in liability due to changes in assumptions. For example, if the valuation liability decreased because the SPS exit rate assumption had been increased, this would not impact the actuarial release. This removes subjectivity from the calculation process.
- The change in valuation liability excludes the estimated impact of changes in labour market conditions on client numbers. The actuarial release includes this impact.



2.21 The accumulated actuarial release for the period from 30 June 2014 to 30 June 2015 is $2.3bn. The forecast is for this to have grown to $6.1bn by June 2018, well behind the $13bn target. This forecast is based on the mid-client number forecast.

2.22 The beneficiary count and actuarial release forecasts are sensitive to economic conditions, population and demographic changes, and Work and Income’s performance in supporting clients into sustainable employment.

2.23 Meeting the BPS 1 targets will require:

- Economic conditions – Client numbers are heavily influenced by the state of the economy and demand for labour. The unemployment rate will need to be at a level similar to pre-GFC lows (less than 4%), which is materially below the HYEFU forecast of 5.3%.
- Approved and funded initiatives - MSD is working on a number of new initiatives aimed at achieving the BPS 1 targets. This includes initiatives that require funding through the budget process. In order to materially contribute to the targets, these initiatives need to be implemented, effective and scaled up as soon as practically possible.
- Further investment and/or policy change – Further action is almost certainly required to meet the target, particularly initiatives to support work capable JS-HCD and SLP clients into employment. Given the timing, any further actions will need to be designed, approved and funded in the near term to materially contribute to meeting the BPS 1 targets.

The use of multiple targets

2.24 The existence of two BPS 1 targets can cause conflicting incentives. A numerical target may drive a focus on supporting those closest to the labour market. However, a focus on the liability requires support to be directed towards those with greatest barriers to employment.

Recommendation 1

To ensure focus is directed towards reducing long-term benefit dependency, ensure priority is given to the actuarial release target. Operational targets may need to be amended to reflect this.

Benefit System Gateways

2.25 The rest of this section focuses on six key gateways in, through and out of the benefit system. Collectively, these gateways explain the majority of the change in the shape of the benefit system over time and the impact this has on the liability (as a proxy for long-term benefit dependency). The following table (with the six key gateways marked) gives a snapshot view of how clients have transitioned over the year to 30 June 2015 compared with projections from the 30 June 2014 valuation.

2.26 For clients in each benefit category in the quarter to 30 June 2014, reading across the row shows how many of these clients received a benefit in the quarter to 30 June 2015. For example, of the 100,466 JS-WR clients in the quarter to 30 June 2014, 2,859 received SPS in the quarter to 30 June 2015, and 37,051 were no longer receiving a benefit.

2.27 Conversely, the columns show for each benefit category in the quarter to 30 June 2015, what category they were in the quarter 30 June 2014. For example, of the

77,299 clients who received SPS in the quarter to 30 June 2015, 60,609 were receiving SPS in the quarter to 30 June 2014. 432 were SLP clients in the quarter to 30 June 2014. The 'Recent exits' row represents people who exited benefit in the year to 30 June 2014.

2.28 The colours indicate if the actual result was better or broadly the same (green) or worse (red) than projected.

30 June 2014 Benefit Category			JS-WR	JS-HCD	SPS	SLP	YP or YPP	SUP or OB	Exits
			30 June 2015 Benefit Category						
JS-WR	100,466	Actual	46,035	7,222	2,859	1,479	-	5,820	37,051
		Projected	48,008	6,976	3,086	1,482	3	5,278	35,650
		A/P	96%	5 104%	93%	100%	-	110%	104%
JS-HCD	73,398	Actual	5,268	44,270	1,846	5,403	-	2,200	2 14,411
		Projected	5,814	43,389	2,306	5,199	-	2,249	14,441
		A/P	91%	102%	80%	6 104%	-	98%	100%
SPS	82,840	Actual	4,210	1,284	60,609	1,035	-	5,978	9,724
		Projected	4,299	1,228	62,191	891	-	4,928	9,304
		A/P	99%	105%	97%	116%	-	3 121%	105%
SLP	105,475	Actual	901	1,102	432	92,543	-	547	9,950
		Projected	1,006	1,191	478	92,399	2	533	9,866
		A/P	90%	93%	90%	100%	-	103%	101%
YP or YPP	3,278	Actual	823	97	605	15	836	38	864
		Projected	4 875	109	639	21	811	48	759
		A/P	94%	89%	95%	-	103%	-	114%
SUP or OB	106,683	Actual	3,330	1,883	2,532	438	3	69,184	29,313
		Projected	3,775	2,126	2,763	517	1	65,280	32,220
		A/P	88%	89%	92%	85%	-	106%	91%
Sub-Total	**472,140**	**Actual**	**60,567**	**55,858**	**68,883**	**100,913**	**839**	**83,767**	**101,313**
		Projected	**63,776**	**55,019**	**71,463**	**100,508**	**817**	**78,316**	**102,240**
		A/P	**95%**	**102%**	**96%**	**100%**	**103%**	**107%**	**99%**
Recent Exits	105,748	Actual	8,825	3,653	2,236	695	30	3,900	86,409
		Projected	9,046	4,092	2,399	788	13	4,602	84,808
		A/P	1 98%	89%	93%	88%	-	85%	102%
Sub-Total	**577,888**	**Actual**	**69,392**	**59,511**	**71,119**	**101,608**	**869**	**87,667**	**187,722**
		Projected	**72,822**	**59,111**	**73,862**	**101,296**	**830**	**82,918**	**187,048**
		A/P	**95%**	**101%**	**96%**	**100%**	**105%**	**106%**	**100%**
New Clients	92,035	Actual	27,113	12,200	6,180	4,348	2,434	18,828	20,932
	96,024	Projected	1 30,589	12,505	5,971	4,326	2,461	20,131	20,040
	96%	A/P	89%	98%	104%	101%	99%	94%	104%
Total		**Actual**	**96,505**	**71,711**	**77,299**	**105,956**	**3,303**	**106,495**	**208,654**
		Projected	**103,412**	**71,615**	**79,833**	**105,622**	**3,291**	**103,049**	**207,089**
		A/P	**93%**	**100%**	**97%**	**100%**	**100%**	**103%**	**101%**

2.29 Aside from the six benefit gateways themselves, some overall observations from the table are:

- 66% of people were in the same benefit category in the quarter to 30 June 2015 as they were in the quarter to 30 June 2014. This was 4% less than the 2013/14 year mainly as a result of more clients exiting benefit (21% 2014/15 vs 18% 2013/14).
- Of those people who exited the benefit system in the year to 30 June 2014, 18% received a benefit in the quarter to 30 June 2015. This was down from 21% in the 2013/14 year.
- 9.5% of people receiving a main benefit in the quarter to 30 June 2014 transitioned to another main benefit category over the year. 5.4% of this represented a transition to a higher liability benefit category, particularly JS-WR to JS-HCD and JS-HCD to SLP. These are important gateways. For context, the average liability of 20-29 year old clients who have recently transitioned from JS-HCD to SLP is $301k, compared to $168k for 20-29 year old JS-HCD clients.
- More SPS client exits than projected and less people transitioning to SPS from another benefit category has resulted in a materially lower than projected number of SPS clients in the quarter to 30 June 2015 (77,299 vs 79,833). New

SPS client numbers were actually higher than projected over the year (6,180 vs. 5,971).

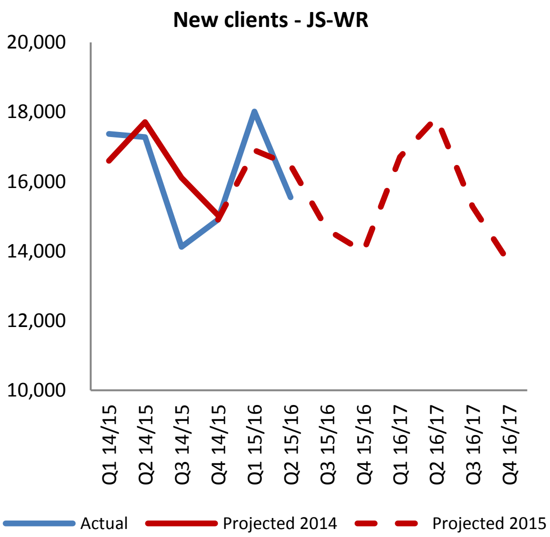
- More people are receiving supplementary benefits only than projected. This is a good outcome as it represents more people exiting and less people returning to main benefits than projected. The average liability of a client who has recently stopped receiving SPS, but is receiving supplementary benefits, is $79k, compared to the average SPS client liability of $188k.

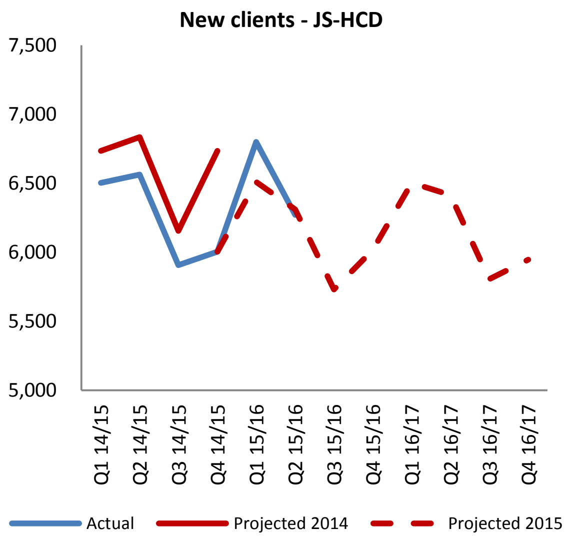
2.30 Next, the six gateways are discussed in more detail.

Gateway 1 – New Jobseeker Support Clients

2.31 JS is the most significant entry point into the benefit system representing approximately 75% of new main benefit clients.

2.32 The following charts show quarter-by-quarter comparisons against the previous year and projections from the valuation. Over the 2014/15 year there were 88,662 new JS clients. This was 3,265 less than projected by the valuation and 49 more than the previous year. The 2016/17 peak in the projections reflects a higher unemployment rate forecast by the Treasury (HYEFU 2015).





2.33 The following chart shows the yearly average number of non-transfer benefit grants to new JS-WR clients split by the time since they were last on benefit, based on official beneficiary counts rather than valuation methodology. The unemployment rate is included for reference.

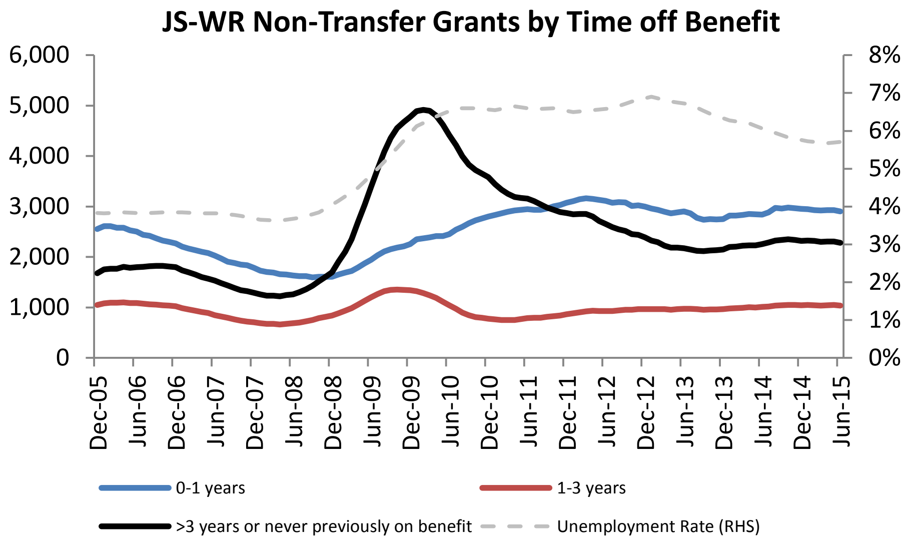


Chart shows 12 month rolling averages

2.34 The chart highlights how during the last economic recession (GFC – 2008/2009) people having no prior benefit history or who had not been on benefit for at least three years came onto benefit at significantly increased rates. As economic conditions began to stabilise, grants to this group of people fell significantly. By late 2012, where the unemployment rate was still close to 7%, the number of grants to this group had fallen to near pre-GFC levels.

2.35 On the other hand, the number of grants to JS-WR clients who had been on benefit at some time in the year prior remains high. Sustainability of employment outcomes is a key determinant of liability.

2.36 By the time the unemployment rate started to decrease, most people who had come into the benefit system for the first time had already done so. Hence, grants decreased significantly after this point. Grants to regular users of the benefit system took much longer to decrease despite improved labour market conditions.

2.37 The following chart shows the number of non-transfer benefit grants to new JS-HCD clients.

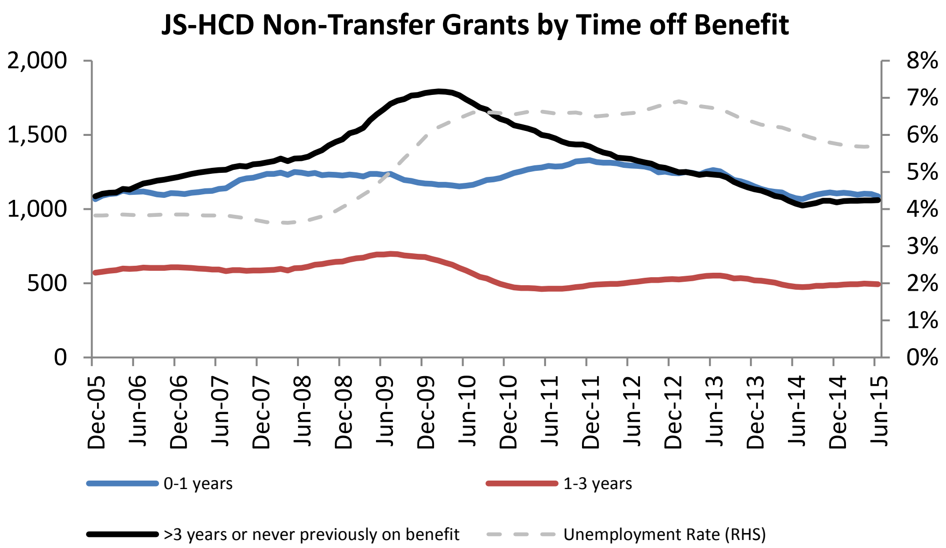
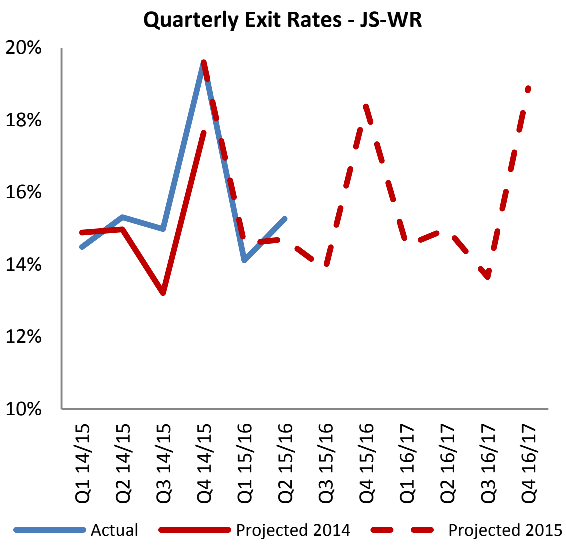


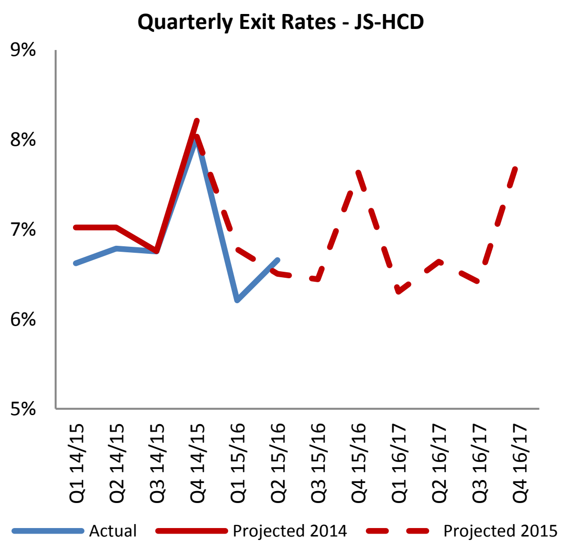
Chart shows 12 month rolling averages

2.38 JS-HCD grants were influenced much less by economic conditions. Grants were increasing before the GFC, but have since fallen to below pre-GFC levels, before stabilising in the year to June 2015.

Conclusion – The level of new JS clients over the year was broadly in line with expectations given labour market conditions. However, the number of grants to JS-WR clients who had been on a benefit within the last year has remained high. This is discussed more in Gateway 2.

Gateway 2 – Exits from Jobseeker Support

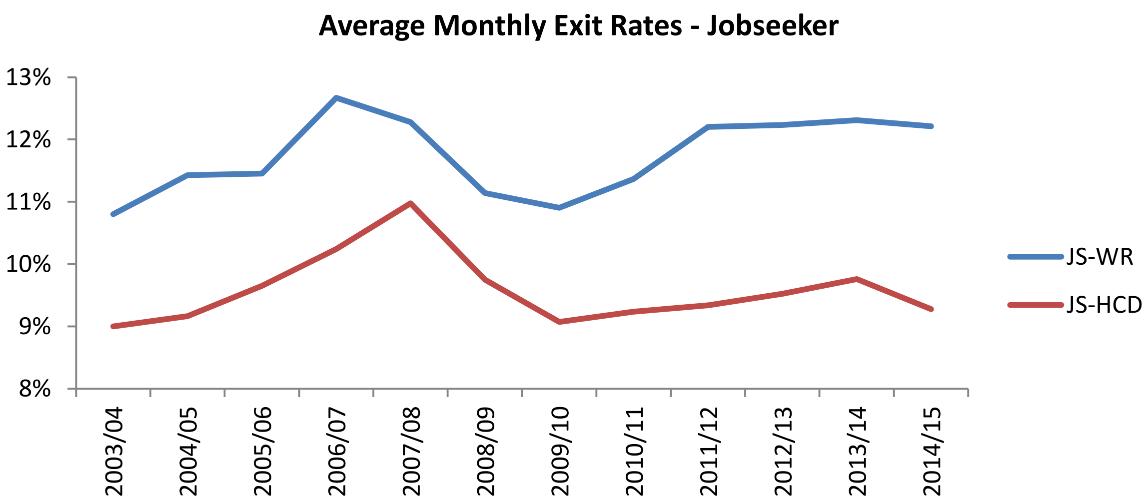




2.39 There were 86,966 exits from JS (excluding transfers to another benefit) over the 2014/15 year. Quarterly exit rates for JS-WR ranged from 14.5% to 19.6% and were higher than projected for three out of the four quarters. Quarterly exit rates for JS-HCD ranged from 6.6% to 8.0%, broadly in line with projections.

2.40 Projected JS-WR and JS-HCD exit rates for 2015/16 and 2016/17 are at similar levels to 2014/15, including seasonal peaks and troughs.

2.41 The following chart shows monthly exit rates over a longer time frame.



2.42 The JS-WR exit rate has been consistent over the last four years at about 12.2% per month. This is greater than the GFC low of 10.9% in 2009/10.

2.43 All else being equal, a sustained 1% increase in monthly JS-WR exit rates, which is within the bounds of historical variability, would reduce the BPS 1 target group by approximately 8,000 to 12,000 and increase the actuarial release by about $1.0bn to $1.5bn by June 2018.

2.44 The JS-HCD exit rate decreased from 9.8% in 2013/14 to 9.3% in 2014/15. While this is not a significant decrease, it is notable that JS-HCD exit rates are lower than pre-GFC highs. Whilst the economic conditions at the time no doubt contributed to this, it does show that under the right conditions JS-HCD clients are able to obtain employment at a greater rate than is currently the case.

Sustainability of Jobseeker Exits

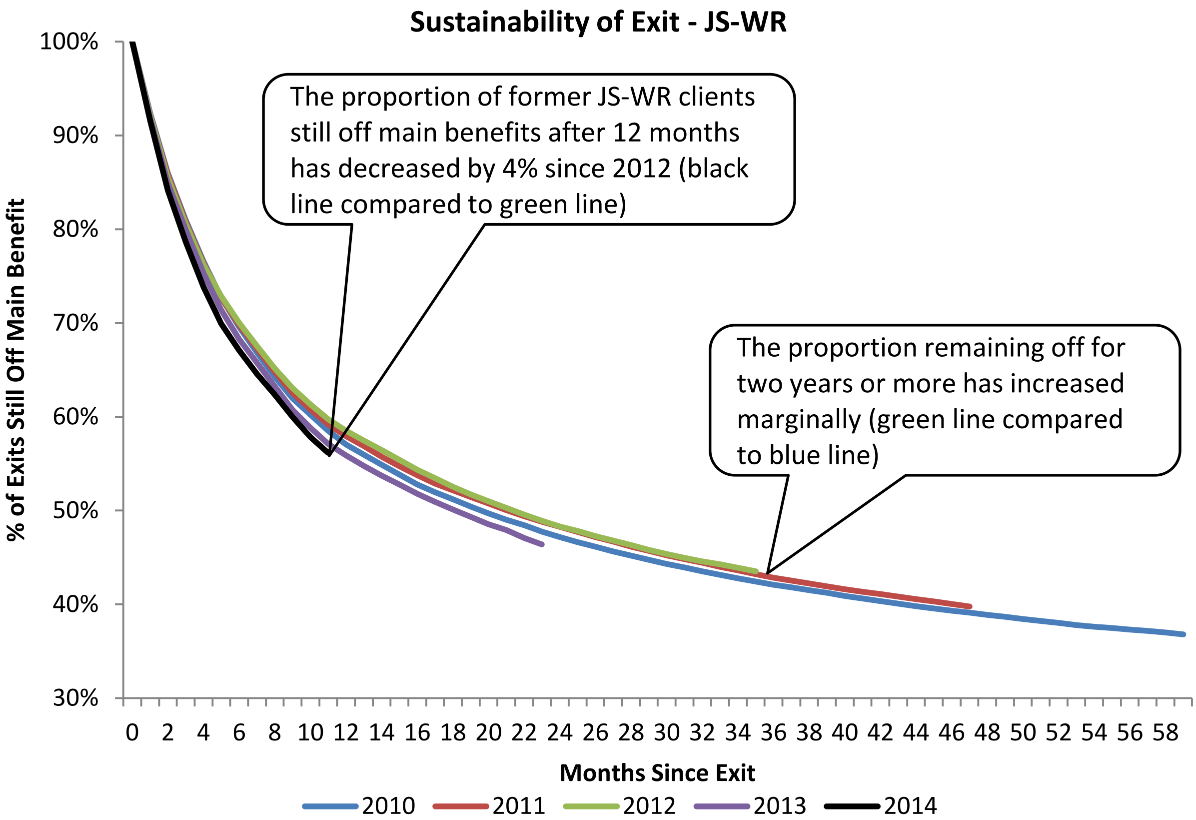
2.45 As shown in the graphs in paragraphs 2.33 and 2.37, a large number of benefit grants are to former clients returning to the benefit system. In fact, of all JS-WR benefit grants in the year to 30 June 2015, 47% were to clients who had received a main benefit in the year prior to being granted a new benefit.

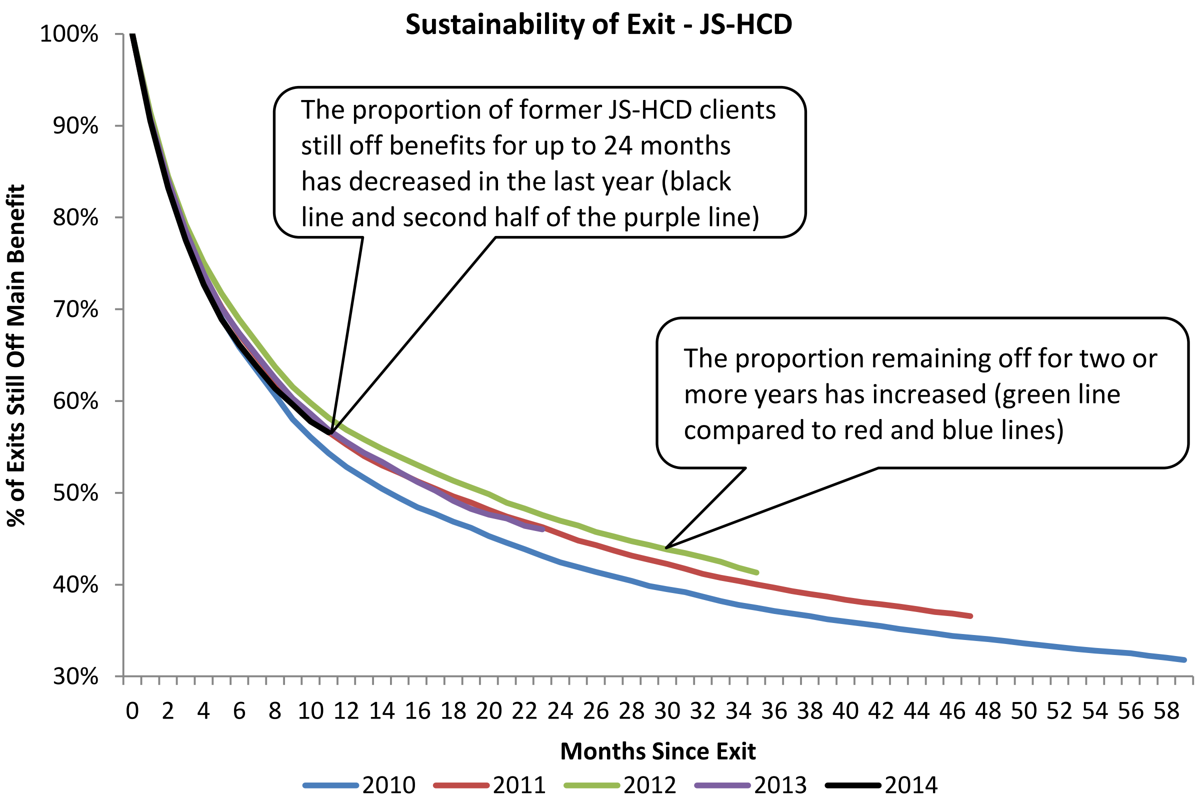
2.46 Sustainability of exits is a key determinant of long-term benefit dependency and hence the liability. The longer a person remains independent of benefits, the lower the likelihood they have of returning to the benefit system.

2.47 An existing trial is providing targeted in-work support and incentive payments to JS clients who have moved into employment. The intent is to improve the sustainability of employment (see paragraphs 5.30 to 5.33).

2.48 The table below paragraph 2.28 showed that more clients than forecast who exited a benefit in 2013/14 remained off through 2014/15. However, as discussed later in paragraph 3.10, assumption changes associated with re-entry rates of recent exits have increased the liability by $0.5bn, indicating that performance has been worse in high liability segments.

2.49 The following charts, different to the analysis in the table below paragraph 2.28, show the proportion of people who remain independent of main benefits after exiting JS-WR and JS-HCD. Each line represents a different year of data so that the year-on-year change in exit sustainability can be tracked.





2.50 The sustainability of exits is influenced by the characteristics of the people exiting benefits, the types of jobs they go to, and labour market conditions in general. This means that comparing rates over time is not straightforward. However, the charts suggest that sustainability rates have marginally decreased up to twelve months since exit and marginally improved for longer periods since exit. This was reflected in changes to valuation re-entry rate assumptions (see paragraph 3.10). Overall though, we see little evidence to suggest that the sustainability of JS exits has materially improved in recent years, despite generally improving economic conditions.

2.51 For context, we estimate that a lasting 5% improvement in the sustainability of JS-WR exits would by June 2018 reduce the BPS 1 target group by approximately 10,000 to 12,500 and increase the actuarial release by about $1.2bn to $1.6bn.

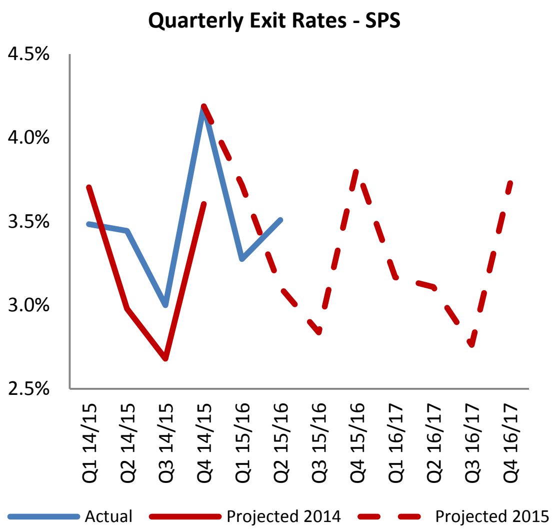
Conclusion – JS-WR exit rates have been higher than projected for three out of the four quarters. However, improving the sustainability of such exits is an important factor in reducing long-term benefit dependency. More work could be done to better understand the risk factors associated with an increased likelihood of returning to benefit. Prioritising the actuarial release target (see recommendation 1) is better aligned to supporting a focus on sustainability of employment outcomes.

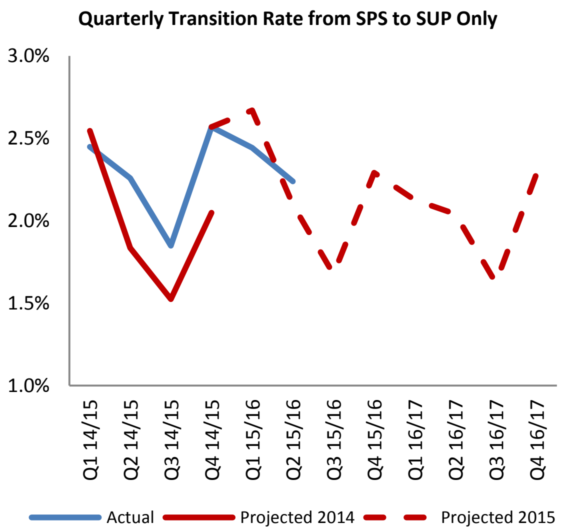
Gateway 3 – Exits from Sole Parent Support

2.52 The number of people receiving SPS decreased from 82,840 to 77,299 over the 2014/15 year, principally as a result of high rates of exit. This includes clients who no longer receive SPS, but receive some form of supplementary assistance.

2.53 The following charts show that the rate at which SPS clients are exiting main benefits is above projections from the 2014 valuation. Projections for 2015/16 and 2016/17 are for exit rates to moderate. This is because the clients that remain on benefit are likely to have more significant barriers to employment than those that have already exited. Therefore, the fact that exit rates have remained high throughout the 2014/15 is a very positive result.

2.54 Furthermore, as client numbers decrease there is also an increase in the proportion of SPS clients receiving other benefits, which can act as a disincentive to move into employment (e.g. about 40% of SPS clients receive Temporary Additional Support (TAS), Special Benefit (SPB) or Income Related Rent Subsidy (IRRS)). This is discussed further in chapter four.





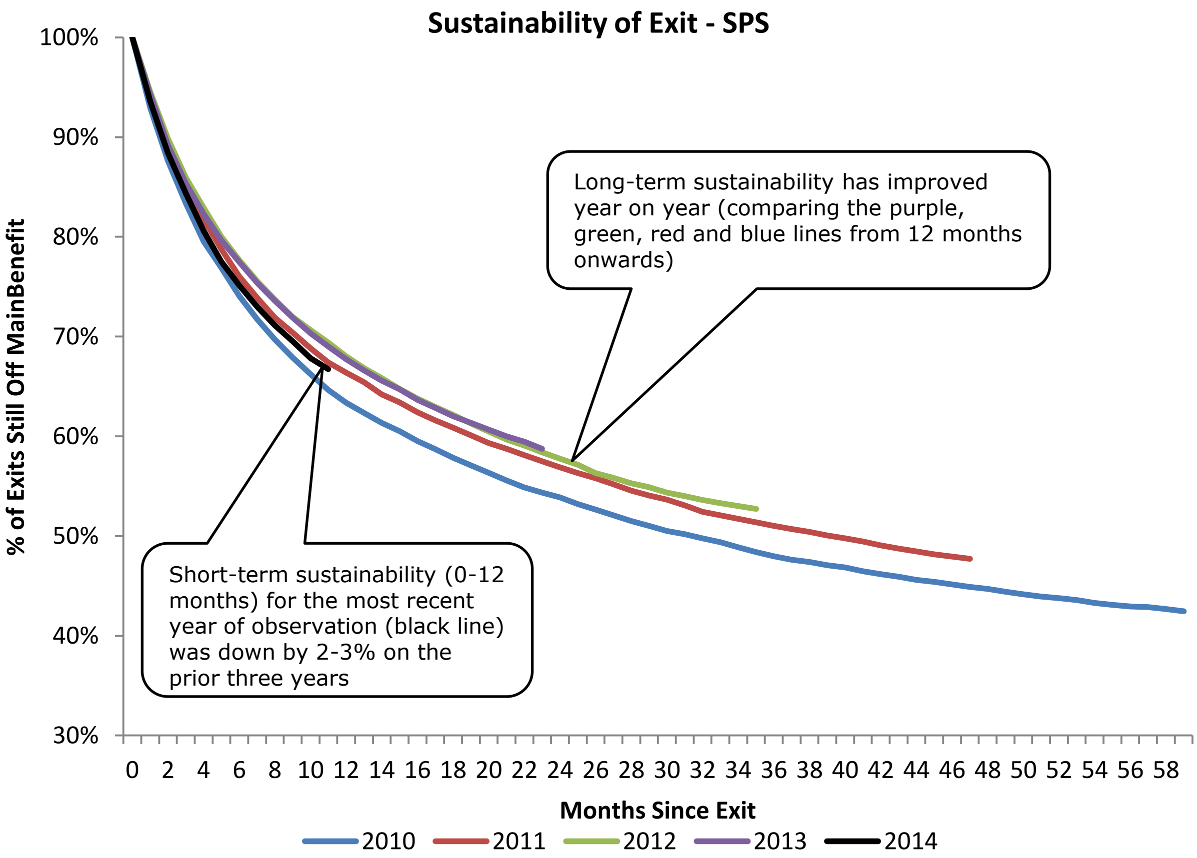
2.55 A sustained 0.5% increase in SPS exit rates, which is within the bounds of historical variability, would reduce the BPS 1 target group by approximately 6,500 to 8,000 and increase the actuarial release by about $1.3bn to $1.6bn.

2.56 From April 2016, SPS clients whose youngest child is aged three or four will be subject to the same part-time work obligations as SPS clients with youngest child aged five or older. The part-time work obligations are also increasing from 15 to 20 hours per week.

2.57 SPS clients with youngest child aged three or four have already been exiting at a higher rate than pre-welfare reform. Also, given the age of the youngest child, there are potentially additional barriers to employment (like childcare costs). It is therefore likely that exit rates for this cohort will not increase as much as rates for SPS clients whose youngest child is aged five or older did after welfare reform phase II and the introduction of WFCM. This is discussed further in our analysis on the Budget 2015 Child Material Hardship Package in chapter four.

Sustainability of Sole Parent Support Exits

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



2.59 The sustainability of exits up to twelve months off benefit is down slightly in 2014/15 compared to the prior three years.

2.60 For context, we estimate a lasting 5% improvement in exit sustainability would by June 2018 reduce the BPS 1 target group by approximately 4,000 to 5,500 and increase the actuarial release by about $0.8bn to $1.1bn.

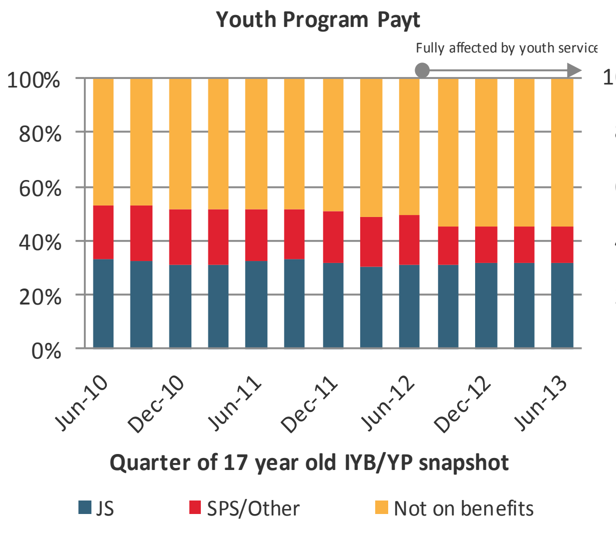
Conclusion – SPS continues to be a key area of success. The combination of policy changes through welfare reform and investment in WFCM has had a significant and sustained impact on encouraging and supporting clients into work. Forecasts suggest the number of people on SPS will continue to decrease in the short term. There may still be further opportunities to improve outcomes for this group, given that 40% of SPS clients receive TAS or IRRS (see chapter four). Similar to JS, more work could be done to understand risk factors associated with increased likelihood of re-entry to benefit.

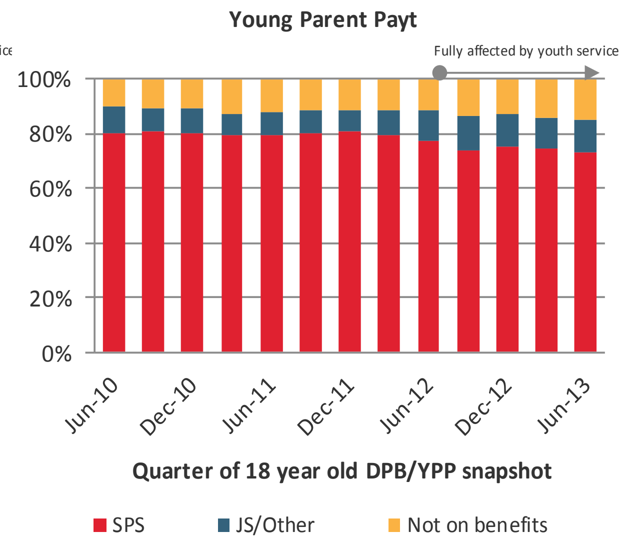
Gateway 4 – Transition of Youth to Working-Age Benefits

2.61 People receiving YP or YPP represent less than 1% of the liability. However, nearly 75% of the liability relates to clients who first came onto benefit during their teenage years, reflecting their high likelihood of long-term benefit dependency. This highlights the importance of the youth benefit categories and particularly the rate at which YP/YPP clients transition onto working-age benefits.

2.62 In August 2012, the Youth Service was introduced to improve future outcomes for youth clients and teenagers not in education, employment or training (NEET). The aim is to help young people build an independent future and reduce their risk of transitioning to working-age benefits after age 18, through achievement of a qualification of NCEA Level 2 or higher and development of life skills.

2.63 The following charts show former clients' status a year after they became eligible for working-age benefits. Each vertical bar represents the cohort of YP clients who turned 17 (first chart) or YPP clients who turned 18 (second chart) in each quarter. The colour coding of the vertical bars represents the benefit these clients were receiving two years later. In both charts the yellow bars representing 'not on benefit' have grown i.e. fewer YP/YPP clients are transitioning to working age benefits.





Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2015

2.64 Youth Service outcomes were evaluated in March 2015. Findings include:

- 9% higher NCEA 1 and 11% higher NCEA 2 achievement for YP participants than the comparison group over a two-year follow-up period.

- No difference in educational achievement of YPP and NEET participants versus the comparison group.
- YP participants spent 33 more days receiving a main benefit then their comparison group over a two-year follow-up period. This is partly because the Youth Service allows YP participants to continue in the service until the end of the calendar year they turn 18, and partly because clients spend more time on benefit in the short term as they participate in education and training assistance.
- There was no difference in the time YPP participants spend on a main benefit compared to their comparison group.

2.65 Overall, whilst there is insufficient data to make firm conclusions, the service appears to be working, with a reduction of transitions to main benefits. It will be important to continue tracking the rate at which Youth Service clients transition to working-age benefits, and their rate of re-entry into the benefit system should they exit.

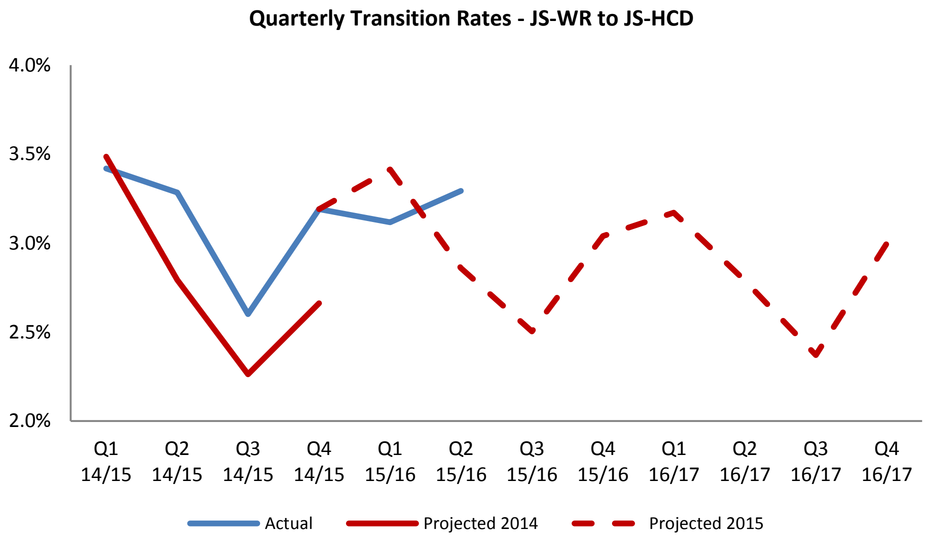
2.66 To supplement future quantitative analysis, qualitative research may be a useful tool to develop a richer understanding of the impact of the Youth Service on clients' lives.

Conclusion – Although it is not possible to make firm conclusions about the performance of the Youth Service, fewer YP/YPP clients have transitioned to main benefits than projected. Given the small numbers involved, qualitative evaluation techniques are important to understand what is working and potential improvements in this area.

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

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

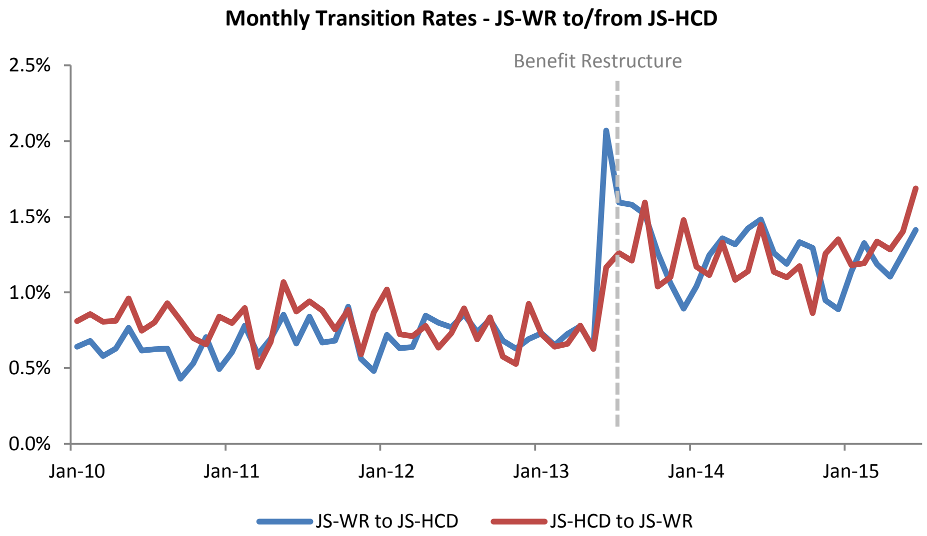
2.68 Over the 2014/15 year, 4% (246) more clients transitioned to JS-HCD than was projected (see the following chart). Projections for 2015/16 and 2016/17 suggest a slight declining trend as residual temporary impacts from the 2013 benefit restructure diminish.



2.69 The higher than projected rate in 2014/15 is partly attributable to the benefit restructure in July 2013 (described in appendix B). The impacts of the restructure had not had sufficient time to be represented as sustained changes in the 2014 valuation assumptions. It is expected that future transition rates will be closer to the 2015 projections.

2.70 There were both temporary and permanent impacts resulting from the benefit restructure. For example, the re-classification of widows and former Domestic Purposes Benefit (DPB) clients (youngest child aged 14 or older) into JS has had a mainly temporary impact on JS-WR to JS-HCD transition rates. It is likely that many of these clients would have qualified for the Sickness Benefit (SB) before July 2013 but had no clear incentive to transfer at the time, but perhaps do now given JS-WR work obligations.

2.71 The merging of two separate benefit categories, Unemployment Benefit (UB) and SB into JS, appears to have permanently increased the rate of transition between JS-WR and JS-HCD in both directions. While we cannot be certain of the reason, it seems likely that it is partly due to a simplified administrative process.



2.72 The transition rates increased materially at the time of the benefit restructure. Transition from JS-WR to JS-HCD appears to show some degree of reversion after an initial peak, before broadly settling at a level significantly above the pre-benefit restructure rates.

2.73 Transition from JS-HCD to JS-WR does not show any reversion to previous rates after the initial increase. JS-HCD is materially similar to SB. Hence, clients have no greater or lesser incentive to transition from JS-HCD to JS-WR than before the benefit restructure (leaving just the permanent effect described in 2.71).

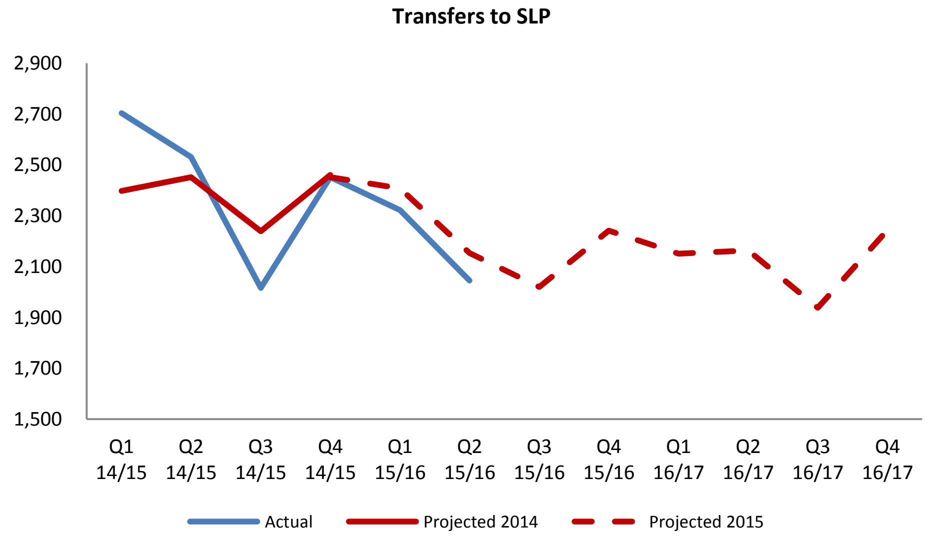
2.74 In broad terms, the higher transition rates from JS-WR to JS-HCD and from JS-HCD to JS-WR net each other out, and so have no material impact on the valuation liability. All else being equal, the higher transition rates should be expected to continue.

Conclusion – Transition rates from JS-WR to JS-HCD appear reasonable, despite being higher than projections from the 2014 valuation. Assumptions have been adjusted to reflect the expected future experience.

Gateway 6 – Transition to Supported Living Payment

2.75 As for gateway 5, gateway 6 is important because it represents a movement to a higher average liability segment. Most SLP clients receive a benefit until they reach retirement age.

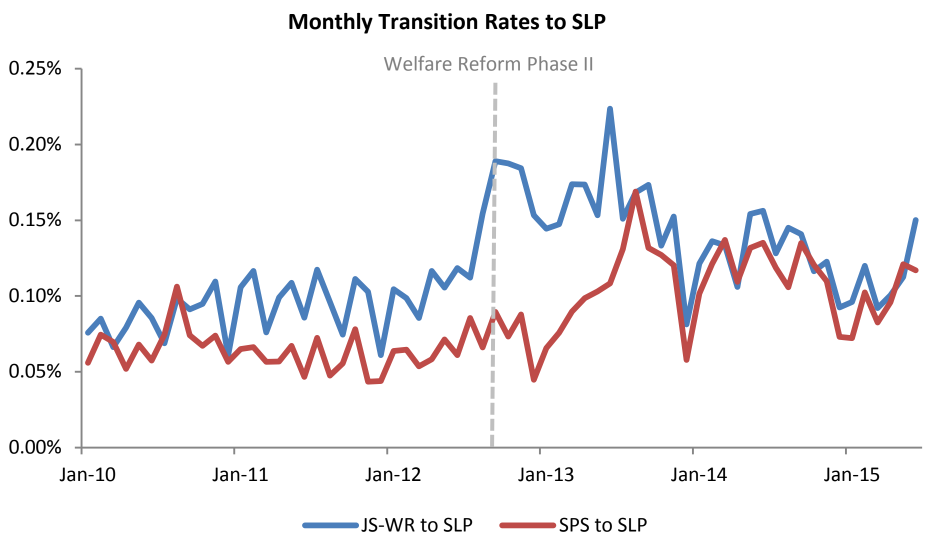
2.76 The number of clients being granted SLP is relatively low compared with other benefit categories. However, a small change can have a material impact on the liability if it is sustained over a long period.



2.77 The chart above shows that the number of people who transitioned from other benefit categories to SLP over the 2014/15 year is broadly in line with projections from the 2014 valuation and below the level for the year before. In that sense, transition rates to SLP over the 2014/15 year have been relatively unremarkable. Projections for 2015/16 and 2016/17 suggest a slight declining trend.

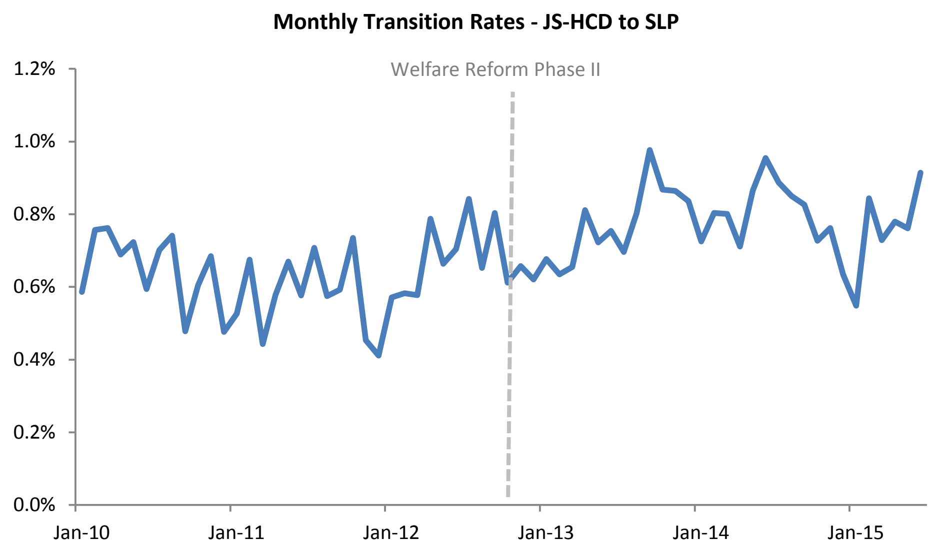
2.78 Following phases II and III of welfare reform it was anticipated that an increased level of transfers would be experienced in the short-term because greater work expectations impacted some JS and SPS clients. In particular, SPS clients previously had little incentive to transfer to the SLP equivalent benefit. In total, 48% of clients who transitioned to SLP from other benefit categories over 2013/14 were receiving Disability Allowance (DA) prior to the benefit structure changes in July 2013.

2.79 The following chart shows that transition rates from JS-WR to SLP increased from early 2013, coinciding with the timing of welfare reform phase II. Following a peak in June 2013, the rates have moderated to some degree, but still remain above pre-welfare reform levels. Pre-welfare reform, sole parents whose youngest child was aged 14 or older did not have work obligations and so had little incentive to transfer to the Invalids Benefit. All else being equal, we expect transition rates to remain above pre-welfare reform levels.



2.80 The increase in transition rates from SPS to SLP started later than for JS-WR. This mirrors our observations of SPS exit rates which increased slightly around welfare reform phase II, but then increased significantly when the new service delivery model was introduced in July 2013.

2.81 Actively managing these clients has resulted in some benefit reclassification toward SLP. To the extent that these clients remain actively case managed, we expect the transition rate from SPS to SLP to remain above pre-welfare reform levels. Both a higher SPS exit rate and a higher transition rate from SPS to SLP are not unexpected outcomes of active case management and work obligations.



2.82 The increasing transition rate from JS-HCD to SLP highlighted in the chart above is more moderate than for JS-WR and SPS. However, it is harder to explain. SB had broadly the same eligibility definition as JS-HCD and is not materially different in terms of benefit design and work obligations. Hence, there is no obvious reason why transition rates from JS-HCD to SLP have increased since welfare reform.

2.83 WFCM places for JS-HCD clients were increased by 12,000 in the second half of 2015. Whilst this is designed to support clients into work, some transition to SLP may also occur.

Conclusion – Transition rates to SLP increased following welfare reform and changes to the service delivery model in 2013. Increased transition rates from JS-WR and SPS to SLP appear to be an outcome of these significant operational and policy changes. As such, they seem reasonable when compared to pre-2013 rates, though ideally need to be reduced to support progress towards BPS 1 targets. The increased transition rate from JS-HCD to SLP is harder to explain and warrants further investigation.

Post 30 June 2015 Experience

2.84 As at 31 December 2015, the total number of working-age people receiving a main benefit was 288,961, compared to the 220,000 BPS 1 target at June 2018. This is an increase of 4,001 from 30 June 2015. The number of people receiving a main benefit tends to be highest in December and January. 288,961 is 6,175 lower than at 31 December 2014.

2.85 The accumulated actuarial release for the period from 30 June 2014 to 31 December 2015 is +$2.6bn. This is an increase of $0.3bn since 30 June 2015.

2.86 Benefit trends between 30 June 2015 and 31 December 2015 are in line with projections from the 2015 valuation. In particular, JS-WR, JS-HCD, SPS and SLP client numbers are all within 1% of valuation projections at 31 December 2015.

3 Valuation Results: Life-time Liability

Summary

- The liability has decreased by $0.6bn to $68.4bn over the year to 30 June 2015. This includes a $2.2b decrease attributable to welfare reform, policy and operational changes not reflected in the 2014 valuation.
- Most of the $2.2bn reflects higher rates of exit from SPS.
- The largest contribution to the $2.2bn by ethnicity in absolute and relative terms was from Māori.
- This valuation contains new analysis of the interaction between long-term benefit dependency and a person's CYF history and/or history of criminal convictions, enhancing understanding of the drivers of long-term benefit receipt. CYF history and a history of criminal convictions are both significant predictors of liability.
- Across all benefit segments, 38% of 16-25 year old clients have some form of CYF history. They have a $47k (or over 40%) higher average liability than clients having no CYF history. Combined this means that clients having CYF history represent 47% of the total liability for clients aged 16-25.
- Across all benefit segments, 25% of clients have at least one criminal conviction. They have a $37k (or 37%) higher average liability than clients without criminal convictions. Combined this means that clients having criminal convictions represent 32% of the total liability.

Summary of Approach and Valuation Assumptions

3.1 The performance of the benefit system as a whole is assessed via an annual valuation of the benefit system. The 30 June 2015 liability assessment was undertaken by Taylor Fry Consulting Actuaries (Taylor Fry). Their report, *Valuation of the Benefit System for Working-age Adults as at 30 June 2015*, (the 2015 Valuation Report) was prepared by Alan Greenfield FIAA, Dr Hugh Miller FIAA, Kari Wolanski MA Social Development and Dr Gráinne McGuire FIAA.

3.2 The liability is calculated by forecasting expected future benefit payments up to age 65 for all people aged 16-64 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 future benefit indexation, the projected cost of employment support and services, the costs to administer the system, as well as loans and debts.

3.3 The liability calculation is derived from a number of models. The models make assumptions about the probabilities of clients moving between benefit categories (including into and out of the benefit system) in the future and the amounts of associated benefit payments.

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

3.5 Economic assumptions including national and regional unemployment rates, inflation and discount rates are all based on Treasury forecasts.

3.6 Rates of transition between benefit categories and in and out of the benefit system are set with reference to observed experience. The general approach is to partially allow for experience changes until there is sufficient evidence that the change is likely to be sustained.

3.7 Transition rate assumptions depend on a number of risk factors, including:

- Time-related variables – unemployment rate (at a national and regional level)
- Client-related variables – age, gender, ethnicity, education level and region
- Client history – Child, Youth and Family history, criminal convictions and whether their parents received benefits during the client's childhood
- Benefit history – including the current and previous periods receiving a benefit
- Family-related variables – age of youngest child and number of children
- Health and disability-related variables – incapacity type for JS-HCD and SLP

3.8 More detail on the valuation approach and assumptions can be found in part C, appendix B and appendix C of the 2015 Valuation Report.

Core Valuation Results

3.9 Overall the liability decreased marginally by $0.6bn from $69.0bn to $68.4bn over the year to 30 June 2015. This relatively small decrease masks some important factors. In particular, there was a $2.2bn decrease in liability reflecting better than projected performance over the year (experience item). This is attributed to policy and operational changes over recent years that have influenced benefit dynamics e.g. welfare reform and the 2013 changes to the service delivery model. Given that valuation assumptions were tightened for the 30 June 2014 valuation, this is a strong result.

3.10 Included within the $2.2bn experience item is the impact of updating a number of transition rate assumptions to reflect experience:

- increasing exit and transfer rates from SPS – liability impact -$1.2bn.
- increasing exit and transfer rates from JS-WR – liability impact -$0.5bn.
- changing re-entry rates onto benefit for previous clients (increased for recent exits, decreased for people out of the benefit system for one to five years) – liability impact +$0.5bn.

Overall, changes to transition rate assumptions had a -$1.2bn impact on the liability.

3.11 The following factors also contributed to the overall $0.6bn decrease in liability:

- A $2.4bn increase due to changes in economic assumptions. +$2.0bn of this was due to lower discount and inflation rates and +$0.4bn was due to higher unemployment rates.

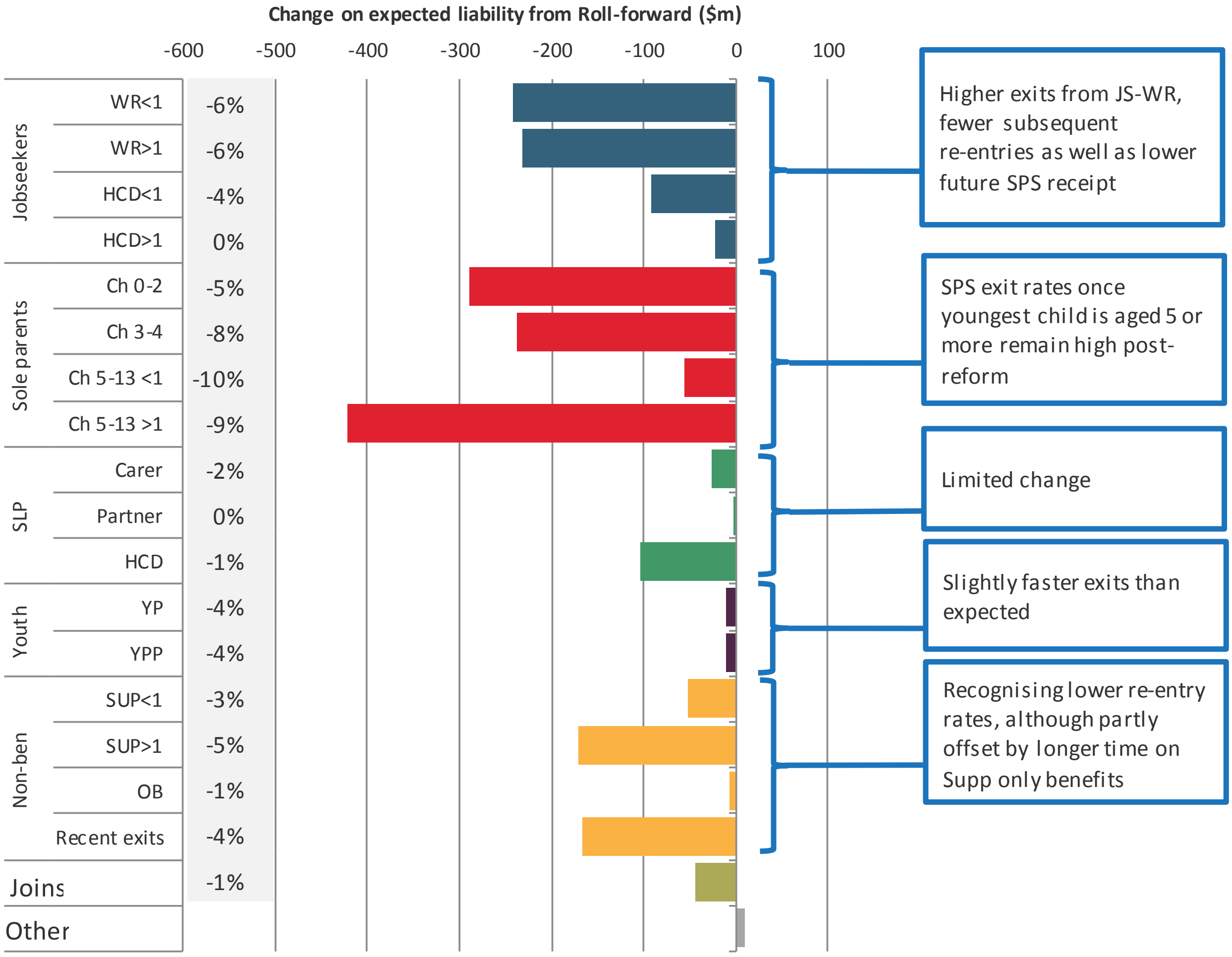
- An expected liability decrease over the year of $1.0bn based on experience observed up to 30 June 2014. This expected change has been adjusted to allow for the actual unemployment rate over the year to June 2015.
- A $0.1bn increase due to methodology changes unrelated to experience or performance

3.12 The cumulative liability impact over the last four years attributed to policy and operational changes (including the $2.2bn) is estimated to be -$12.0bn.

3.13 The actuarial release for the year was $2.3bn. The following table reconciles the valuation experience item with the actuarial release (also explained in paragraph 2.20):

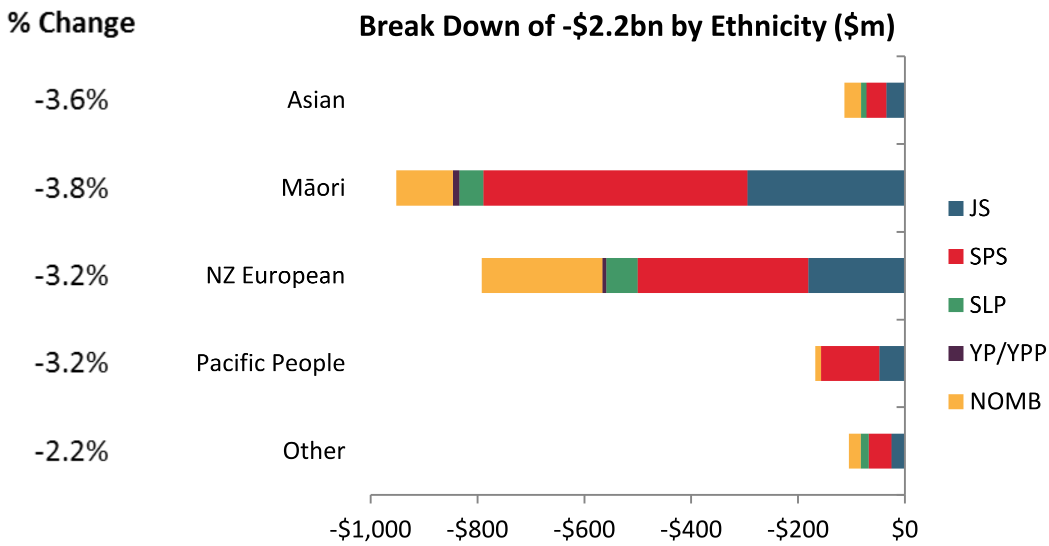
Valuation Experience Item - 30 June 2014 to 30 June 2015	**$2.2bn**
2015 Valuation assumption changes – economic	-$0.1bn
2015 Valuation assumption changes – transition Rates	-$1.2bn
Difference between 295,000 clients and valuation forecast at 30 June 2015	+$1.5bn
Impact of changes in labour market conditions	$0.0bn
Other	-$0.1bn
Actuarial Release - 30 June 2014 to 30 June 2015	**$2.3bn**

3.14 The following chart breaks the $2.2bn down by benefit segment. SPS clients contributed the most as a result of sustained high exit rates. However, all benefit segments contributed to some degree.



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2015

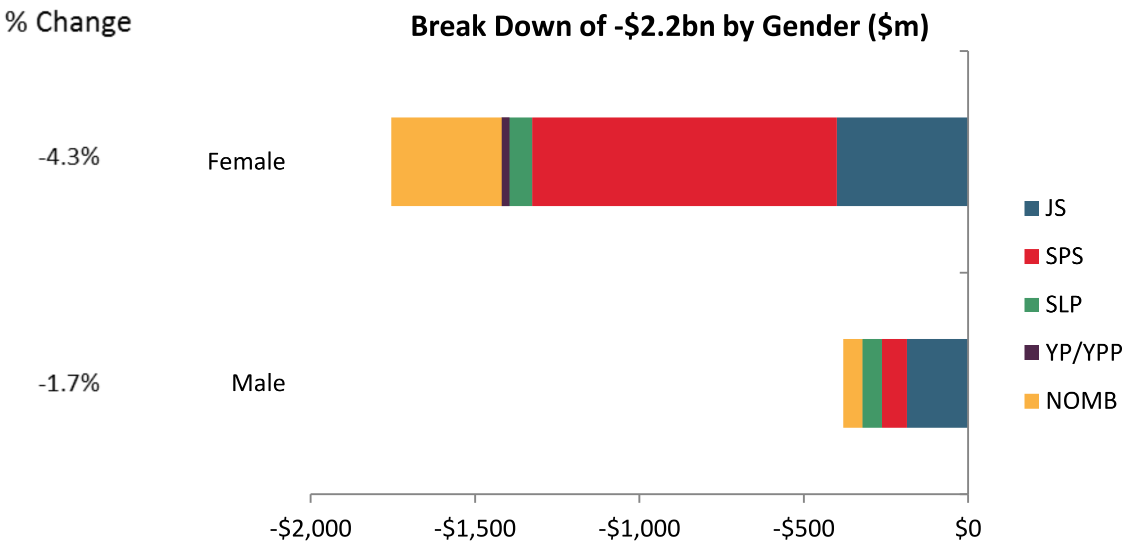
3.15 The following chart breaks the $2.2bn down by ethnicity and benefit type.



3.16 The largest contribution to the -$2.2bn was from Māori. Māori make up a significant proportion of the benefit population (40%) and a higher proportion of Māori liability relates to SPS and JS-WR clients, where the largest gains have been made. However, even after taking compositional differences into consideration, Māori make up more of the -$2.2bn than other ethnicities in relative terms.

3.17 This breakdown of the -$2.2bn by ethnicity paints a different picture to the chart in paragraph 2.14 which showed that Māori client numbers remain significantly above pre-GFC levels. This demonstrates that gains in reducing long-term benefit dependency can be made without total client numbers decreasing materially in the short term by focusing on the drivers of long term dependency.

3.18 The chart below shows that over 80% of the -$2.2bn relates to female clients. This is similar to last year, and not surprising given that welfare reform and the 2013 service delivery model changes were focused on SPS clients. The JS component of the female bar partly reflects reduced likelihood and length of potential future spells on SPS.



Child, Youth and Family and Department of Corrections

3.19 This was the first valuation where CYF and Department of Corrections (Corrections) data have been used to inform the valuation model. By merging these datasets with Work and Income data, the interaction between benefit system liability and a person's CYF history and/or history of criminal convictions has been quantified. This does not involve valuing CYF and/or Corrections related costs.

3.20 The results, while not surprising, are significant in both statistical and practical terms. Clients with CYF history and/or a history of criminal convictions are significantly over-represented in the benefit system, and once in the system have much higher average liabilities than other clients.

3.21 CYF has legal powers to intervene to protect and help children who are being abused or neglected or who have behavioural problems. CYF works with the Police and the Courts when dealing with young offenders under the youth justice system, and provides residential and care services for children in need of care and protection. Services are broadly split into 'Care and Protection' (CYF-CP) and 'Youth Justice' (CYF-YJ).

3.22 CYF data goes back far enough for us to consider current clients up to age 25. The scale of the results is likely to be indicative for most age bands over 25. The key points are:

- 38% of clients aged 16-25 have some CYF history. 30% have had previous interaction with Care and Protection services and 10% with Youth Justice, and 2% have had contact with both. For context, of all children born between 1 July 1993 and 30 June 1994, about 20% have had previous interaction with Care and Protection services.
- Across all benefit segments, clients with CYF history have a $47k (or over 40%) higher average liability than clients without history. The liability difference is more pronounced the more CYF events (reports of concern, investigations, assessments and/or placement in care) a person has had, and when their first event occurred in the first three years of life (albeit these factors are positively correlated).
- The combination of over-representation and higher average liabilities means that clients with CYF history represent 47% of the total liability for clients aged 16-25.

3.23 Amongst other things, these results highlight that some significant predictors of long-term benefit dependency manifest themselves many years before a person becomes eligible for benefits. The analysis strongly suggests that poor outcomes in early childhood (characterised by interaction with CYF) significantly increases the risk of poor outcomes in adulthood (characterised by interaction with the benefit system).

3.24 Corrections data goes back far enough for us to consider criminal convictions of all benefit system clients up to age 65. Note that most criminal convictions result in community based sentencing rather than prison sentencing. As for CYF, the results are significant:

- Approximately a quarter of the benefit population have criminal convictions. About two-thirds of these relate to sentencing in the last ten years. Clients with criminal convictions are heavily skewed to younger males receiving JS.
- Across all benefit segments, clients having criminal convictions have a $37k (or 37%) higher average liability than clients without criminal convictions.
- Over-representation and higher average liabilities combined, mean that clients having criminal convictions represent a third of the total benefit system liability.

3.25 Regardless of age, gender, ethnicity or education level, average liability is higher for clients having criminal convictions. This is unsurprising, given that having a criminal conviction may inhibit employment prospects.

3.26 The connection between the benefit and corrections systems is two-way. Existing and former benefit system clients are over-represented in the corrections system. Approximately half of those entering prison receive a main benefit immediately prior.

3.27 MSD and Corrections are working together to run a trial focused on prisoners. The trial will target people who churn in and out of the benefit and corrections systems with a view to improving their employment prospects and reducing recidivism and the likelihood of long-term benefit dependency.

Intergenerational dependency

3.28 The valuation also considers family benefit history. Data only allows us to consider this for current clients aged up to 25. As for CYF, the scale of the results is likely to be indicative for age bands over age 25:

- Children of benefit system clients are significantly more likely to become clients themselves. Looking at a group of children of beneficiaries born in 1993/94 and 1994/95 (83,000 children), 47% had entered the benefit system themselves by age 23.
- About three quarters of clients had a parent who received benefits during their childhood. For YP/YPP clients the proportion is closer to 90%. Over a third of clients had a parent who was on benefit for more than 80% of their teenage years.
- Children of benefit system clients who come on to benefits themselves have a significantly higher average liability. For those clients who had a parent on benefit for more than 80% of their teenage years, their average liability is $63k (or 80%) higher than those whose parents did not receive any main benefits.
- Clients who had a parent who received benefits during their childhood represent 83% of the total liability for under-25's.

3.29 It is important to note that many of the variables we consider as predictors of long-term benefit dependency are correlated. In particular, poor outcomes such as low educational attainment and high prevalence of certain health conditions tend to be positively correlated. For example, a client who had a parent who received benefits during their childhood is 60% more likely to have CYF history.

3.30 These relationships partly explain why Māori have higher average liabilities than other ethnicities. Māori clients are 30% more likely to have a CYF (Care and Protection) history, 40% more likely to have a youth justice or corrections history and 40% more likely to have had a parent who received benefits during their childhood.

3.31 As a consequence, materially improving social outcomes of the most vulnerable members of society, as well as their current or future children, requires a cohesive, citizen-centric social sector approach.

Social Housing Valuation

3.32 An actuarial valuation of the social housing system is under development.

3.33 The goals of the social housing valuation are:

- to promote pathways to independence and management of lifetime housing costs
- to inform MSD purchasing intentions (forecast demand)
- to support effective housing register management

3.34 The social housing valuation will be integrated with the benefit system valuation. This will provide a more detailed understanding of people's pathways through both systems, and importantly an understanding of how household dynamics impact on social housing and benefit dependency.

3.35 By understanding risk factors and expected pathways in, through and out of both systems we will be able to help clients in a more holistic manner.

Conclusions

3.36 The performance of the benefit system overall remains strong as measured by the $2.2bn reduction in liability attributable to policy and operational changes. The reduction in liability has been most profound for SPS.

3.37 A person's likelihood of long-term benefit dependency is significantly impacted by their family environment during childhood. Protecting vulnerable children and improving their childhood experience is expected to improve their long-term outcomes including reducing their likelihood of long-term benefit dependency. While the valuation focuses on the benefit system, it is almost certain that a child's family environment also significantly impacts their long-term health outcomes, educational attainment and likelihood of committing and being a victim of crime.

3.38 There are limits to our ability to materially influence people's likelihood of long-term benefit dependency once they are already in the benefit system. Prevention is likely to be a more effective long-term investment strategy. Childhood and intergenerational risk factors demonstrate that reducing people's risk of poor outcomes in adulthood requires long-term thinking with a focus on childhood experience and vulnerable families. We expect that recent years' success in supporting sole parents into employment will reduce the likelihood of their children becoming dependent on benefits.

3.39 The results presented in this chapter demonstrate the impact of some intuitive childhood risk factors. Work to refine our understanding of these risk factors is warranted and would help management and government to consider:

(i) How to support existing clients having these risk factors

(ii) How to reduce the likelihood of children having these risk factors experiencing poor outcomes in the future

(iii) How to reduce the prevalence of these risk factors among children

3.40 While (i) cannot be ignored, our view is that focusing on (ii) and (iii) with a citizen centric cross-agency Investment Approach will have the greatest impact on societal well-being in the long-term.

4 Future Focus – Risk and Opportunities

Summary

- Labour market conditions have a significant effect on the benefit system. For example, a significant recession involving an unemployment rate peak of 12% could add over 100,000 main benefit clients and $10bn to the valuation liability. Most of this liability increase would dissipate as the economy recovers, though we estimate a $1bn-$1.5bn lasting effect on clients, many of whom wouldn't otherwise enter the benefit system.
- Since 2000 the number of JS-HCD and SLP clients suffering from mental illness has increased by approximately 31,000 (to about 60,000). This is equivalent to about $5.5bn in liability. More connectivity is needed between health treatment providers and Work and Income.
- The current design of Income Related Rent Subsidy (IRRS), Accommodation Supplement (AS) and Temporary Additional Support (TAS) has some financial disincentives for clients to move into employment. This impacts about 100,000 people in the BPS target group. We recommend a review of the design of these benefits to ensure that incentives are aligned to objectives.
- The potential liability impact of projected population and demographic changes by the BPS target date of 30 June 2018 is +$2.3bn (cf. $13bn actuarial release target).
- The Child Material Hardship Package will add $1.0bn to $1.5bn to the valuation liability, though the impact on the actuarial release will be relatively minor.

Introduction

4.1 This chapter reviews potential risks and opportunities in coming years that could significantly impact the benefit system. Some may evolve over an extended period of time and shape the benefit system in the long term.

4.2 We have categorised risks and opportunities into the areas that influence the number of people needing support from the benefit system, as well as their degree of long-term benefit dependency. These are:

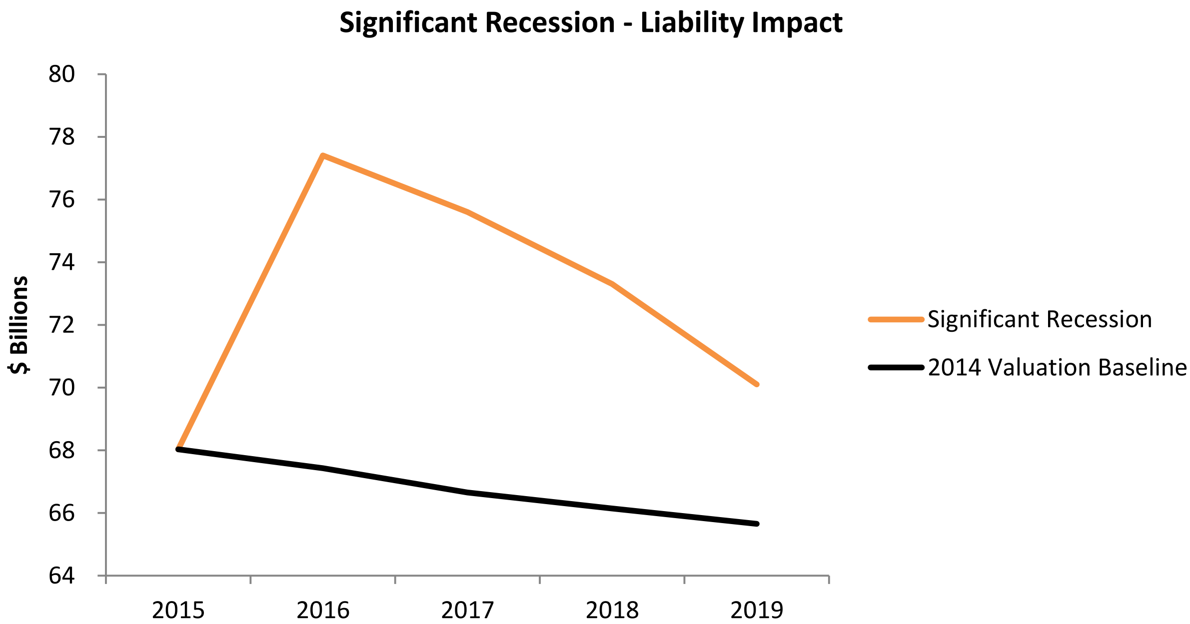
- the economy
- health trends
- core factors including work incentives in the benefit system
- population and demographic factors (including birth rates)
- known upcoming policy changes

4.3 To the extent that these factors can be predicted, they act as lead indicators of risks to the benefit system.

The Economy

4.4 The state of the economy and its impact on labour market conditions has a significant bearing on the benefit system. For example, the number of people receiving a main benefit increased by nearly 83,000 between May 2008 and September 2010 as the GFC led the New Zealand economy into recession. The potential for another significant recession represents the single greatest risk to the benefit system, given the impact it would have and the relatively short time-frame it could materialise over.

4.5 To demonstrate the impact that labour market conditions have on the benefit system, the following chart outlines the potential liability impact of a significant recession. It is indicative only, with the exact liability impact dependent on how a recessionary scenario plays out and the impact this has on the economic variables that influence the valuation liability. Unemployment assumptions aside, we have maintained the same economic assumptions as the 2014 valuation to allow for an objective comparison.



4.6 This significant recession scenario assumes that the unemployment rate increases sharply to a high of 12% at June 2016 (the unemployment rate exceeded 11% in the early 1990's) before reducing to 11% at June 2017, 9% at June 2018 and 7% at June 2019. This would result in a large number of new clients entering the system, while existing clients would find it much harder to find employment and exit the system. By comparison the 2014 valuation baseline assumes an unemployment rate of 5.4% at June 2016 falling gradually to 4.6% by June 2019.

4.7 The impact on client numbers would be substantial, with well over 100,000 more clients in the benefit system. However, the impact on liability ($10bn at June 2016) would not be as significant, as most of the increase would be JS-WR clients where average liability is relatively low. Also, a significant proportion of clients would be either completely new to the benefit system or would have relatively little previous benefit history, and so most would be expected to find employment relatively quickly once the economy recovers.

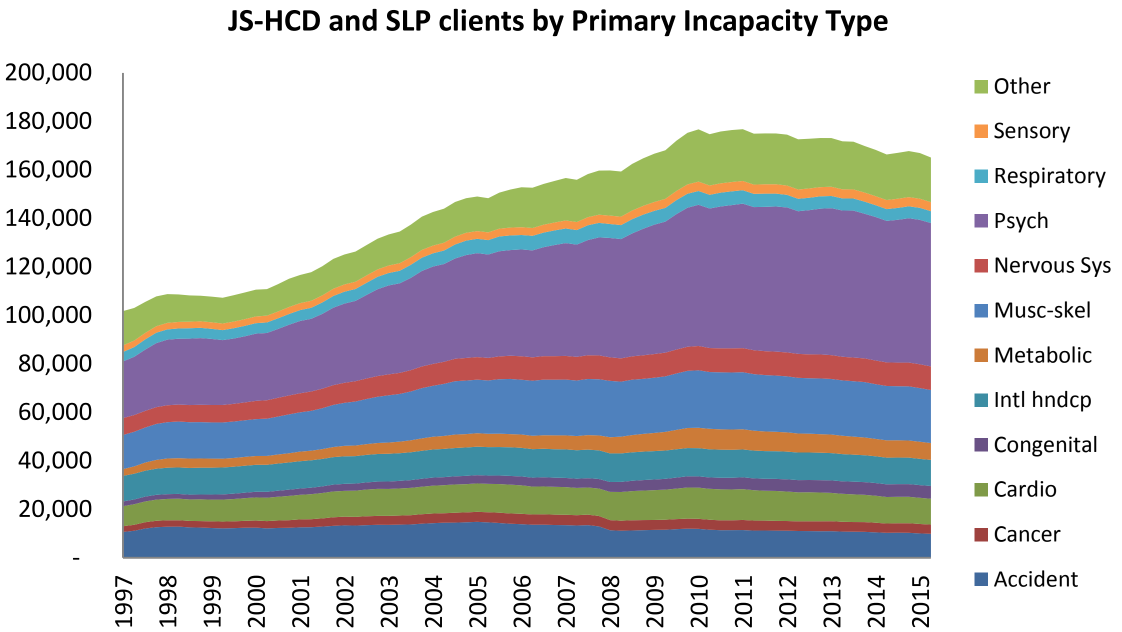
4.8 By 2019, there is still a difference to the baseline scenario of $4.5bn. This is predominantly due to the difference in the assumed unemployment rate at this point. It is also because there is likely to be a residual impact of about $1bn-$1.5bn resulting from a lasting effect on the liability. This mainly relates to clients who wouldn't otherwise have entered the benefit system. This effect was observed after the GFC. Of clients entering the benefit system for the first time in 2008/2009, 4,200 were continuously on benefit to June 2013 at least, with a total liability of $0.8bn.

Health Trends

4.9 A significant proportion of clients are unable to work due to health reasons. As at 30 June 2015, 148,776 clients were receiving JS-HCD or SLP. This is 52% of all main benefit clients. Further, 110,560 clients were receiving DA and 34,307 were receiving Child Disability Allowance.

Mental Illness

4.10 The following chart shows how JS-HCD/SLP client numbers have grown over the last two decades. Since 2000, the number of JS-HCD and SLP clients with a reported mental illness has increased by approximately 31,000 to about 60,000. This is equivalent to about $5.5bn in liability. Growth in clients suffering from mental illness accounts for 97% of the overall increase in JS-HCD/SLP client numbers over the last 10 years. This predominantly occurred between 2005 and 2010, with numbers leveling since.



4.11 With no agreed understanding of why mental illness is increasing it is hard to predict whether it will rise further. However, there is a clear risk that it will, with a resulting impact on long-term benefit dependency.

4.12 The increase in clients suffering from mental illness has a material impact on the valuation liability, particularly given their high average liability ($176k vs. $145k for other JS-HCD and SLP clients). Mental illness presents particular challenges because:

- It covers a broad spectrum of health conditions including psychotic disorders such as bi-polar and schizophrenia and non-psychotic disorders such as anxiety and depression. Severity of conditions and treatment needs vary widely.
- A person's mental illness symptoms and capacity to work can vary over time. This impacts a person's ability to find and sustain employment.
- For some people, being out of work can trigger or exacerbate mental illness symptoms.
- The complexity of mental illness creates potential imprecision in diagnosis for the purposes of a medical certificate supporting a benefit application.
- Primary health support responsibilities reside with mental health services operating through district health boards. Control of clients' health management therefore sits mainly outside Work and Income's control. Equally, control of employment assistance sits outside of mental health services' control.

Recommendation 2

We recommend that management explore opportunities to work more closely with health providers to ensure that clients suffering from mental illness are receiving appropriate care and support. The viability of MSD directly purchasing mental health services for clients should also be explored.

Management should consider the introduction of specialised resources or further contracting-out of services to best manage the specific needs of client groups such as those suffering from mental illness.

Financial Incentives from Accommodation Related Benefits

4.13 We have investigated areas of the benefit system that may provide material dis-incentives to return to work. These include:

- Temporary Additional Support (TAS) and its predecessor Special Benefit (SPB)
- Income Related Rent Subsidy (IRRS) paid on behalf of social housing tenants and its relationship to Accommodation Supplement (AS) and TAS

4.14 TAS and AS represent the welfare system's private housing support package and IRRS is the social housing package. Of the BPS 1 client group, there are about 54,000 clients receiving TAS and about 45,000 benefiting from IRRS, with very little overlap between the two. The rate at which these clients exit the benefit system is significantly less than that of similar clients who don't receive TAS or IRRS. Disincentives to move into employment may be contributing to this. Based on recent experience, this component of the BPS 1 group is unlikely to materially reduce in number by 30 June 2018 or beyond.

Temporary Additional Support

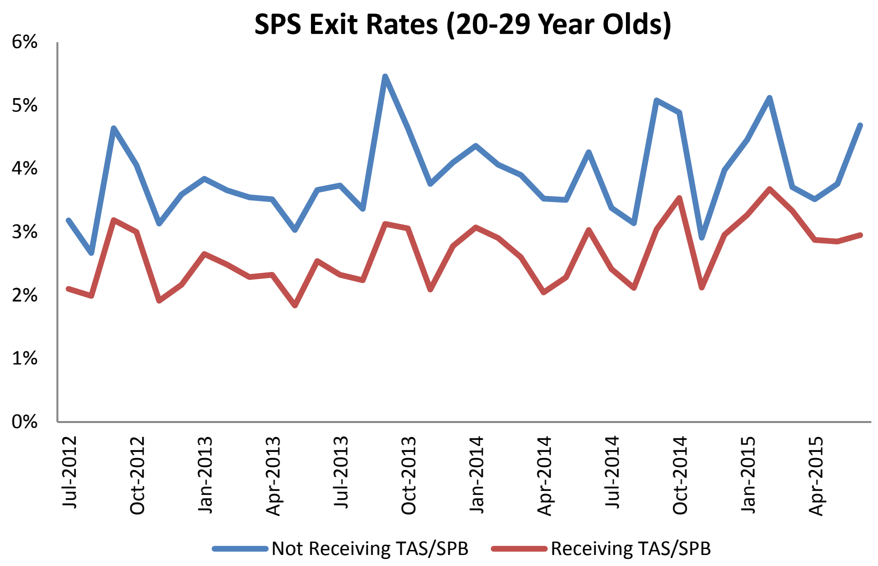
4.15 Introduced in April 2006, TAS was designed as a non-taxable benefit to be paid for a maximum of 13 weeks and intended to be a last resort to help clients with regular essential living costs that cannot be met from their income and other resources. In practice, it is mainly used to meet accommodation costs, particularly rent. Clients can re-apply for TAS if they still need help beyond the maximum 13-week period.

4.16 SPB is a non-taxable benefit intended to provide assistance to clients whose circumstances are causing them hardship. It was grand-parented with the introduction of TAS in April 2006. Despite the intended purpose of TAS and SPB, many clients receive TAS or SPB for prolonged periods of time. Clients receiving TAS at 30 June 2015 had been receiving it continuously for an average of 17 months.

4.17 In terms of incentives to find employment, the key aspect of both TAS and SPB is that they abate dollar for dollar.

4.18 As at 30 June 2015, there were 54,286 clients receiving TAS or SPB at an average weekly rate of $59. Over the last six years client numbers have been very steady at this level. Over the same time period average weekly payments have increased by about 15%.

4.19 Clients receiving TAS/SPB exit the benefit system at a lower rate than other clients. As a representative example, the chart below shows monthly exit rates for 20-29 year old SPS clients. The average exit rate over this period for clients receiving TAS or SPB is 2.6%, compared to 3.9% for those who aren't.



4.20 While there is likely to be a range of characteristics of clients receiving TAS that influence these differences, the disincentive effect of dollar-for-dollar abatement is likely to be a material factor.

4.21 All else being equal, we estimate a sustained 1.3% improvement in monthly SPS exit rates for those receiving TAS or SPB would, by June 2018, reduce the BPS 1 target group by approximately 4,000 and increase the actuarial release by about $0.8bn.

Income Related Rent Subsidy

4.22 IRRS is part of the Government's financial support for social housing. Social housing providers are paid the difference between the market rate rent for their properties and the rent that the social housing tenants pay directly. The higher the income earned by a household the lower the subsidy and hence the higher the amount of rent the tenants pay directly.

4.23 Recent analysis by MSD demonstrated that financial incentives for social housing tenants to gain employment and move towards independence from both the benefit and social housing systems are low. The analysis considered typical rent and wage rates and did not find any level of income or hours worked that resulted in clients in major urban areas being better off by moving out of social housing and into the private rental market. This is principally because IRRS is a more generous subsidy than what is available to people in the private rental market through AS and TAS.

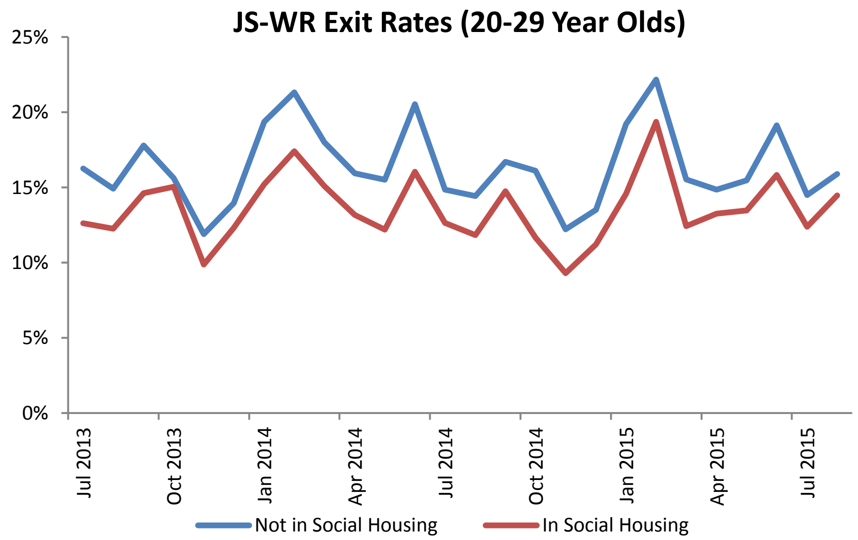
4.24 When considered with people's reluctance to leave social housing because of the inconvenience as well as fear that they won't be able to get another social house in the future should they need it, there are significant implications for:

- the ability to encourage benefit system clients who are social housing tenants into employment
- the ability to encourage people to become independent of social housing to free up places for others having more severe need

4.25 This is likely to be a significant constraining factor on the turnover of social houses. A more balanced IRRS/AS/TAS design would likely increase the turnover of social houses and consequently the speed at which people having severe need can be housed.

4.26 The following chart shows monthly exit rates for JS-WR clients aged between 20 and 29 years old as a representative example. Exit rates for clients in social housing have been 2.8% lower on average than those not in social housing. Across all age bands the difference is 3.0%.

4.27 All else being equal, we estimate a sustained 3.0% improvement in monthly JS-WR exit rates for those in social housing would, by June 2018, reduce the BPS 1 target group by approximately 3,000 and increase the actuarial release by about $0.4bn.



Recommendation 3

We recommend the design of IRRS, AS and TAS is reviewed to ensure that incentives are aligned to the objective to reduce welfare dependency.

4.28 Any potential review of IRRS/AS/TAS benefit design should take a liability-based view and would need to carefully consider the overall cost of accommodation-related benefits, including the potential for more people to need support in meeting their accommodation costs and the fact that rental growth tends to outpace CPI inflation.

Population and Demographic Factors

4.29 Statistics New Zealand produce detailed, long-term population projections. We have used these projections to build up a picture of how the benefit system liability may evolve over time due to changes in population size and profile.

4.30 Some highlights from the projections include:

- The New Zealand population was estimated to be 4.60 million at 30 June 2015 and is expected to grow to around 5 million by 2025. A larger population is likely to lead to a larger number of people needing benefit system support, and therefore a higher benefit system liability. A larger population is also likely to result in a higher tax take.
- The population is expected to age. This is partly driven by people having fewer children, and partly driven by people living longer. An older population has lower benefit system liability as they have less potential future years they could be receiving benefits before receiving superannuation.
- Māori, Asian and Pacific populations are expected to grow as a proportion of the overall population. Māori and Pacific people are over-represented in the benefit population, whereas Asians are under-represented. Māori have higher than average liabilities, while Pacific people and Asians have lower than average liabilities.

4.31 The following table shows the potential impact on the benefit system liability of projected changes in the size and profile of the New Zealand population. This uses the 2015 valuation as a base and implicitly assumes that the proportions of different population cohorts receiving benefits, and their average liabilities, remain constant at 30 June 2015 levels. This gives an objective basis for assessing potential impacts.

Year at 30 June	2018	2023	2028	2033	2038
Potential Impact on Benefit System Liability	+$2.3bn	+$4.8bn	+$8.2bn	+$12.0bn	+$15.9bn

4.32 On this basis, the potential liability impact of projected population and demographic changes by 30 June 2018 is +$2.3bn. This is significant in the context of a $13.0bn actuarial release target.

4.33 The following table shows a breakdown of the +$15.9bn potential liability impact by 30 June 2038 by contributing factor. Population growth dominates, potentially adding over $16bn to the liability.

Contributing Factor	Population Growth	Ethnic Mix	Age Mix	Gender Mix	Residual Item	Total
Potential Impact on Benefit System Liability at 30 June 2038	+$16.7bn	+$4.0bn	-$3.3bn	-$0.8bn	-$0.6bn	+$15.9bn

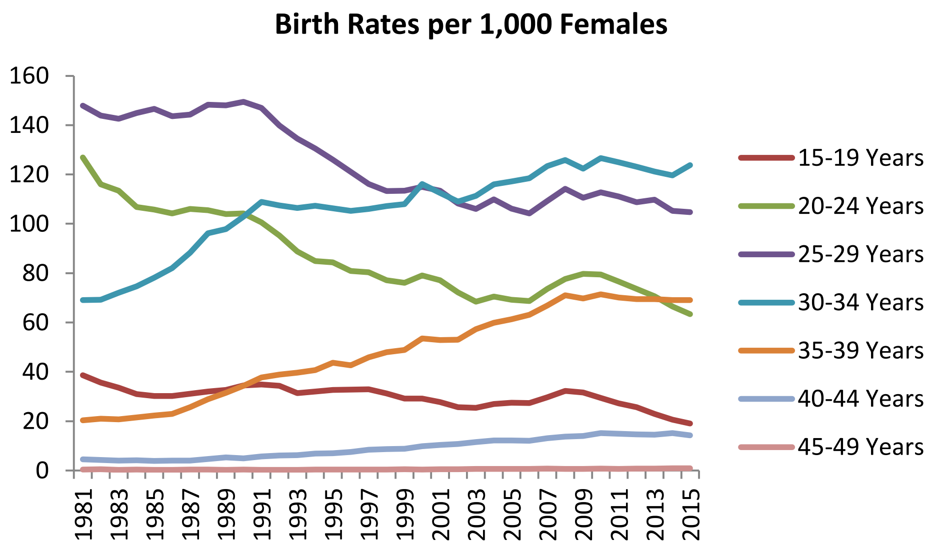
4.34 The $4.0bn increase from ethnic mix is driven by Māori, who have the highest average liability. This emphasises the need to find ways of supporting more Māori into employment.

4.35 In summary, independent of other factors influencing the benefit system, the liability is likely to grow by an average of $0.6bn to $0.8bn per year due to projected population and demographic changes. This should be factored into future target setting.

Sole Parents – Birth Rates

4.36 A person is eligible for SPS if they have children under the age of 14, are not in a relationship, and do not have adequate financial support. Two clear influences on the number of people who find themselves in this situation are the rate at which people are having children, and the extent to which people with children are supported by partners. In both respects there have been significant changes over the last few decades as societal attitudes towards marriage, relationships and raising children have changed.

4.37 Overall, birth rates have reduced marginally in the last five years, but are broadly at the same level as in the 1980's. However, the key trend is that females are having children later in life. This is shown in the following chart, with birth rates for females under the age of 30 declining consistently, while rates for females over age 30 have been increasing.



4.38 In the context of the benefit system, this is significant for two reasons:

- Over 90% of SPS clients first come into the benefit system under the age of 30. Older mothers are more likely to be in stable relationships and more likely to have financial stability.
- Average liability is significantly higher for SPS clients who first come into the benefit system at an early age. For example, 30-34 year old SPS clients who first come into the benefit system under the age of 30 have a 50% (or $67k) higher average liability than those who first come into the benefit system aged 30-34. The age somebody first comes into the benefit system is correlated with other significant liability predictors such as intergenerational benefit dependency.

4.39 While it is difficult to quantify, lower birth rates among young females are likely to have had a gradual impact on SPS client numbers. They are also likely to be contributing to a lower level of long-term benefit dependency amongst SPS clients.

Policy Changes

4.40 As part of Budget 2015, the Child Material Hardship Package (CMHP) aimed at reducing hardship among vulnerable children was announced. The package contains a number of changes to the benefit system and other aspects of government support (including Working for Families tax credits). The main changes (effective from April 2016) are:

- $25 per week increase in benefit rates (after tax) for families with children
- clients with part-time work obligations will be expected to find work for 20 hours a week, rather than the current 15 hour obligation
- sole parents, and partners of clients, will have to be available for part-time work once their youngest child turns three, rather than five currently
- SPS clients will have to re-apply for their benefit every year
- an increase to the childcare subsidy for low-income working families

4.41 We have estimated the impact of these changes on the future valuation liability. The changes will impact the benefit system in five key ways:

a) *Direct impacts of changing benefit rate levels*

b) *Indirect impacts of changing benefit rate levels* e.g. the level of Accommodation Supplement will change for some clients because the entry threshold and abatement threshold are both linked to the benefit rate.

c) *Direct behavioural impacts* e.g. the extension of part-time work obligations to sole parents with youngest child aged three or four

d) *Indirect behavioural impacts* e.g. the $25 a week benefit rate increase impacting clients' incentive to find employment

e) *Indirect impacts from changes to settings outside the benefit system* e.g. the changes to Working for Families tax credits may increase clients' incentive to find employment and exit the benefit system.

4.42 a) and b) will impact the valuation liability immediately in April 2016. The impact of c), d) and e) will flow through over time as any changes in exit/entry rate experience are observed and reflected in valuation assumptions.

4.43 The package also has effects outside the benefit system. For example, the increase in benefit rates for families with children will cause an increase in rent they pay if they are social housing tenants. We have not quantified these effects.

4.44 The following table contains liability estimates for the impact of the CMHP based on the 2014 valuation model. The estimates of behavioural impacts largely cancel each other out, albeit they are subjective. This leaves the impact of changes to benefit rate levels.

Impact Category	2016	2017	2018	2019
Rate levels – direct and indirect	+\$1.20bn to +\$1.40bn	+\$1.20bn to +\$1.40bn	+\$1.20bn to +\$1.40bn	+\$1.15bn to \$1.35bn
Behavioural - direct	-	-\$0.20bn to -\$0.05bn	-\$0.35bn to -\$0.10bn	-\$0.50bn to -\$0.15bn
Behavioural - indirect	-	+\$0.05bn to +\$0.25bn	+\$0.10bn to +\$0.40bn	+\$0.15bn to +\$0.60bn
Total	**+\$1.20bn to +\$1.40bn**	**+\$1.20bn to +\$1.50bn**	**+\$1.10bn to +\$1.50bn**	**+\$1.05bn to +\$1.55bn**

4.45 The CMHP is expected to add about \$1.0bn to \$1.5bn to the valuation liability. Given that the \$13bn actuarial release target was set prior to CMHP being announced, we intend to adjust our actuarial release calculations to remove the impact from changes in rate levels.

5 Return on Investment: Employment Assistance Programmes and Trials

5.1 Work and Income run a number of employment assistance programmes aimed at supporting clients into sustainable employment. It is also trialing products and services that may be rolled out wider if assessed as being effective. This chapter evaluates the key employment assistance programmes and trials.

5.2 The table below provides a summary of results. Each programme is then described in more detail.

Name	Type of Programme	Total 2013/14 Programme Expenditure	Total 2014/15 Programme Expenditure	Assessment
Employment Assistance Programmes				
Skills For Industry	Job-Focused Training	$14.0m	$12.4m	Delivering value
Flexi-Wage	Wage Subsidy	$30.0m	$29.2m	Delivering value
Training For Work	Job-Focused Training	$34.4m	$32.9m	Variable performance
Work Confidence	Core Skills Training	Not available	$2.1m	Unlikely to be delivering value
Work Experience	Work Experience Placements	$0.4m	$0.2m	Unlikely to be delivering value
Investment Approach Trials				
Flexible Childcare Assistance	Payment to Sole Parents	-	$0.31m	Delivering value
In-Work Support	Inbound/outbound calling plus incentive payments (opt-in)	-	$0.01m (incentive payments only)	Not showing signs of being effective
Intensive Client Support	Intensive case management support for clients with complex needs	-	Not available	Showing signs of being effective
Young SLP	Case management (opt-in)	-	$0.02m	Too small to assess

5.3 Appendix C covers methodological points on how Return on Investment (RoI) has been calculated. The key point to note is that we use RoI calculations both including and excluding estimates of liability. This gives an understanding of the likely full lifetime value of a programme as well as the return on investment to date. The inclusion of liability can introduce some volatility to RoI. It is important to focus on overall trends rather than month-to-month variation.

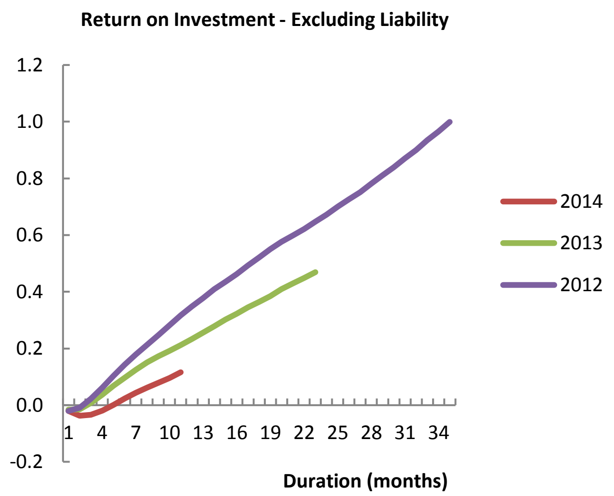
5.4 The assessed programmes represent about 40% of the 2014/15 Programme Expenditure MCA. The performance of the programmes assessed is mixed, highlighting the opportunity to improve the effectiveness of programme expenditure.

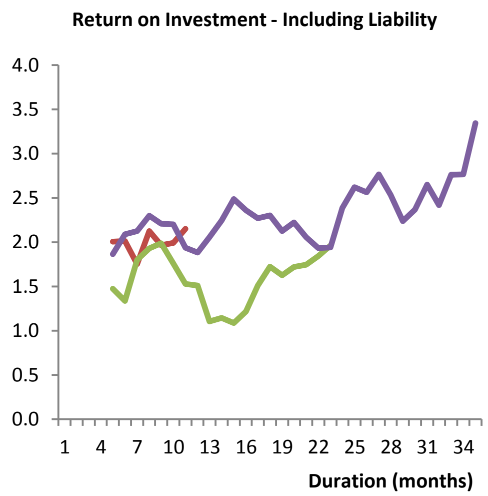
5.5 Management should consider the results in this chapter as part of its review of funding within the MCA.

Employment Assistance Programmes

Skills for Industry

5.6 The Skills for Industry programme provides short-term job-focused training to prepare clients who need up-skilling for specific requirements identified by industry. The programmes are tailored to job-specific requirements for particular vacancies. Training can be offered as pre-employment or in-work training, and programmes can be delivered by industry providers or employers.



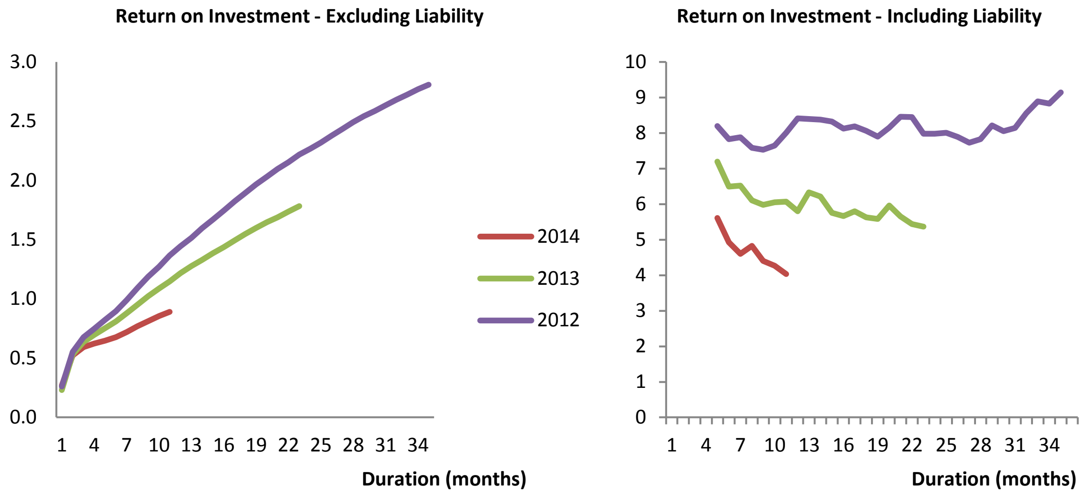


5.7 The charts above show RoI for each calendar year of people starting in the programme in that year. Duration measures the time since a person started the programme. The chart on the left excludes liability and shows that RoI increases with duration, but is less than one until at least three years' duration. The chart on the right includes liability and is consistently above one.

5.8 Collectively this tells us that at three years' duration the programme has probably not yet broken even, but that it will in the future. It is ultimately expected to have an RoI above one and is therefore assessed to be delivering value.

Flexi-Wage

5.9 Flexi-wage (Basic/Plus) is a wage subsidy that invests in job seekers who are disadvantaged in the job market by making a temporary contribution to their wages. The amount paid and the duration of the subsidy is based on a client's needs and reflects the level of assistance the client needs to reach the entry-level requirements of the job.



5.10 Flexi-wage RoI excluding liability (left-hand chart) increases with duration and reaches one at about twelve months, suggesting that it takes about a year to breakeven. When liability is included (right-hand chart) RoI is significantly above one. We can be reasonably confident that Flexi-wage is delivering value.

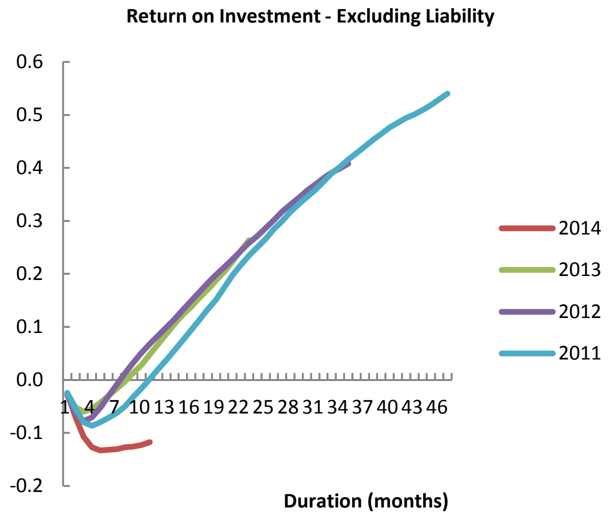
5.11 Value may be tempered by substitution and displacement effects. For example, paying an employer to employ a client may result in another person who would otherwise have got that job being on benefit. These effects are difficult to reliably estimate and are not included in the RoI calculation.

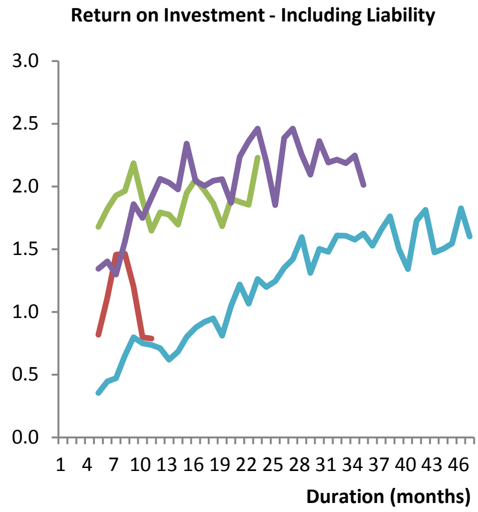
5.12 The substitution effects of wage subsidy programmes are likely to be minimised by targeting clients having significant barriers to employment, particularly those who employers may screen out as applicants. For example, approximately two-thirds of ex-prisoners receive a main benefit within one month of leaving prison. A criminal record is a permanent characteristic that can impact employment prospects. A subsidy may help address some of the perceived risk of hiring a person with a criminal record.

5.13 The targeting of Flexi-wage should be reviewed in order to maximise the value of the programme.

Training for Work

5.14 Training for Work (TFW) assists clients to acquire industry-focused skills that are needed to enter employment. TFW courses run for a maximum duration of 13 weeks and on completion include job placement and post-placement support for clients. Training is provided in a variety of learning environments including Polytechnics, Marae, Private Training Establishments and workplaces. Providers of TFW courses are usually registered and accredited by the New Zealand Qualifications Authority to enable participants to gain recognised national qualifications.





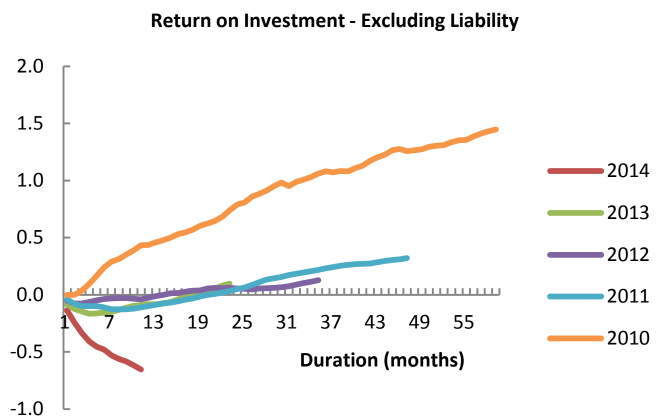
5.15 RoI outcomes for Training for Work are variable. Excluding liability, RoI increases with duration, but after four years remains less than one. Negative RoI at early durations may be due to lock-in effects, as participants are less likely to exit benefit while in the programme.

5.16 Including liability, RoI is mainly above one, albeit with significant variation between years.

5.17 The Training for Work programme should be reviewed with a view to understanding the variation in performance. Consideration should be given as to how Training for Work differs to other job-focused training programmes and whether there are particular providers that perform better than others.

Work Confidence

5.18 Work Confidence programmes are short-term courses designed specifically to provide the skills, motivation and confidence needed to help participants move into employment.

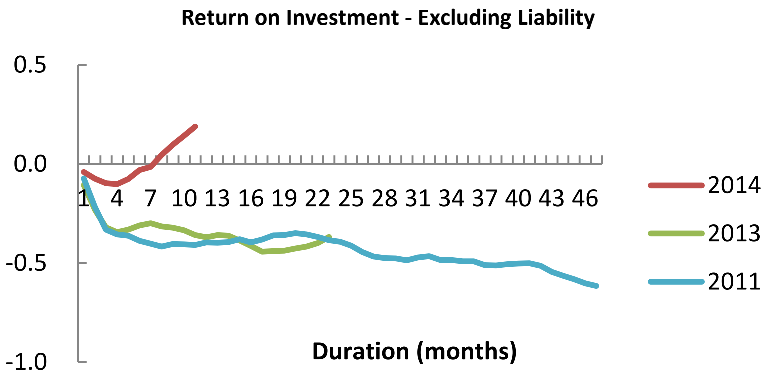


5.19 For Work Confidence, RoI including liability shows significant volatility, and so we only show RoI excluding liability. With the exception of people starting the programme in 2010, RoI is consistently below one, implying that the programme is unlikely to be delivering value.

5.20 Management should consider the value of Work Confidence compared to other programmes, and whether there was anything fundamentally different about the programme in 2010 that may explain the better performance in that year.

Work Experience

5.21 Work Experience provides unpaid opportunities in a workplace or work-type environment and helps clients gain up-to-date work experience and to develop informal contacts.



5.22 The RoI is consistently below zero. Results for 2012 have been omitted from the chart above due to unreliable data. Management should consider ceasing the programme or establish if changes can be made to improve its performance.

Investment Approach Trials

5.23 It is too early to perform robust RoI analysis on the Investment Approach trials. We have built the infrastructure to be able to regularly calculate RoI and will report this to management on a quarterly basis.

5.24 In the absence of RoI analysis, it is difficult to draw firm conclusions about the value of a product or service. However, we are able to make some statements about the performance of the trials.

Flexible Childcare Assistance

5.25 Flexible Childcare Assistance (FCA) is a non-taxable payment designed to help sole parents receiving SPS and JS take up work during non-standard hours i.e. outside the times that the OSCAR (Out of School Care and Recreation) and ECE (Early Childcare Education) programmes operate. The weekly payment is $50 for one child and $25 for each additional dependent child (up to a maximum of $150), and is for up to 13 weeks.

5.26 The trial started in August 2014 with a promotional mail-out to approximately 26,000 sole parent clients in January 2015. By 30 June 2015, about 470 clients had been granted FCA payments.

5.27 Based on evidence to date, those receiving FCA appear to remain off benefit longer than other exiting SPS clients. 5%-10% more remain off benefit at 13, 26 and 39 weeks since exiting benefit.

5.28 The control group used in the analysis only includes people who have exited benefit. This will give a conservative view of the product's value assuming FCA is targeted at people on benefit and is the catalyst for them taking up employment.

5.29 Therefore, while it is too early to perform RoI analysis, our view is that FCA is an effective payment product and should be continued. Focus should be on ensuring that the product is well understood by frontline staff and is offered to clients who would otherwise not be able to take up employment.

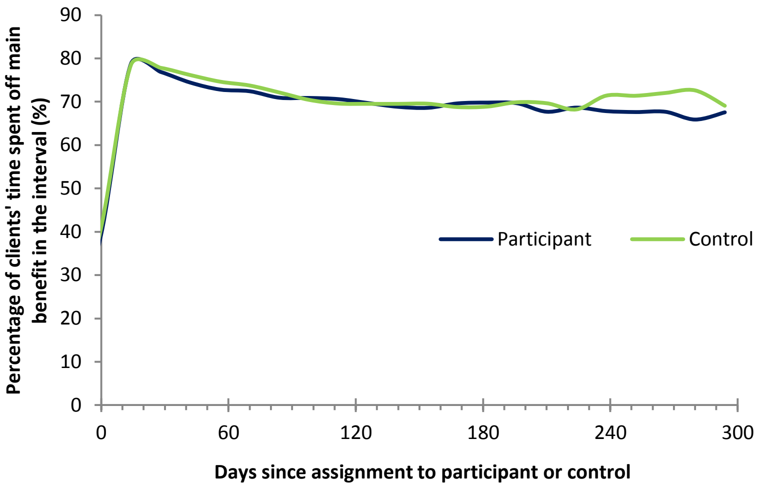
In-Work Support

5.30 In-Work Support provides support and referrals to services for clients who exit the benefit system into employment, with a particular focus on clients who frequently churn in and out of the benefit system. The service is delivered through an inbound/outbound calling service over a 12-month period. Potential participants are selected for the trial and have to explicitly opt-in.

5.31 The trial started in February 2015. From April 2015, incentive payments were added to the trial with $500 payments at one month and three month milestones in work and $1,000 payments at six month and 12 month milestones. By 30 June 2015, 1,112 clients had participated in the trial, and 21 of these had received incentive payments.

5.32 The introduction of incentive payments materially changed the design of the trial. Therefore, measurement of outcomes should focus on people starting in the trial from April 2015.

5.33 The following chart shows that up to 300 days after starting in the trial, on average people are spending about the same amount of time off main benefits compared to the control group. While it is too early to draw firm conclusions, we might have expected to see some difference by now, given that the incentive payments occur over a 12 month period.



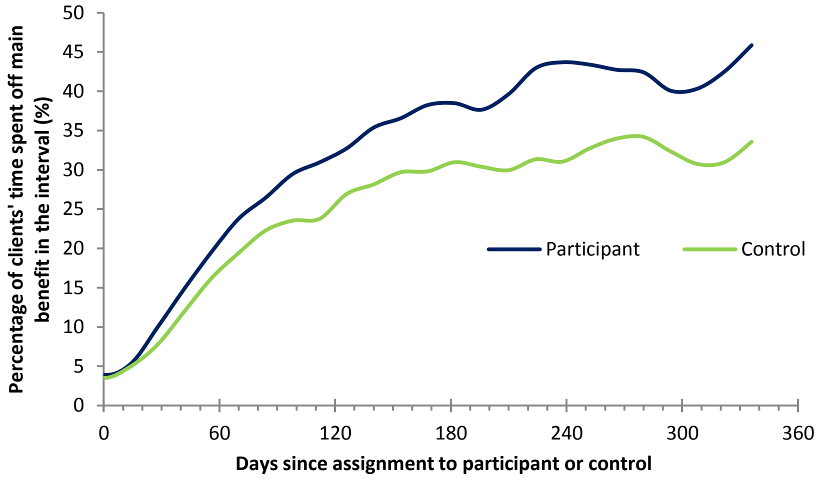
Source: Insights MSD

Intensive Client Support

5.34 The Intensive Client Support trial involves working more intensively with clients who have complex issues. The aim is to support these clients into sustainable employment or move them closer to this by improving education levels and/or work-readiness. The trial is aimed at people aged between 18 and 39 who first entered the benefit system before age 20.

5.35 The trial started in March 2015 in five Work and Income service centres. By 30 June 2015, 317 clients had participated in the trial with 67 having exited main benefit.

5.36 Measurement of off main benefit outcomes is showing early promise, with trial participants spending materially more time off main benefit than the control group.



Source: Insights MSD

Young SLP

5.37 The Young SLP trial aims to improve the employment prospects of motivated young SLP clients who volunteer to work intensively with a case manager.

5.38 The trial started in November 2014. By 30 June 2015, about 130 clients had participated in the trial.

5.39 By the end of February 2016, eight of the participants were in full-time work with employment tenures of up to 14 months. Three more had exited benefit for other non-health related reasons, six more had returned to benefit having spent some time in employment and 20 more had started working part-time.

5.40 While the trial has undoubtedly been a useful test of how young SLP clients respond to the case management services, it is not possible to quantitatively evaluate the trial with confidence because the number of participants is too small. A qualitative process evaluation performed by Insights MSD in October 2015 suggested that clients were generally positive about the service, with several clients feeling more supported and more optimistic about the future although some frustrations were noted.

6 Progress against Previous Report Recommendations

6.1 This section details progress MSD has made against the recommendations from previous Benefit System Performance Reports. Progress has been reported to the former Work and Income Board on a quarterly basis. Many of these recommendations related to broad areas of focus and were not necessarily expected to be completed within a short space of time. Therefore, some are carried forward for the next year.

Operational Design and Strategy

Recommendation 1

6.2 Management consider differentiated operational responses for clients in households with two or more people receiving a main benefit to reflect the different barriers to employment these clients may face (2014 BSPR).

Management comment

6.3 Management has considered this recommendation and agree this is a factor in risk assessment for long-term benefit receipt. Household data-based insights are being used to strengthen the delivery of case management and contracted services within Work and Income's operating model.

6.4 A liability-based risk assessment tool has been developed which factors in multiple risk factors in assessing the risk of long-term benefit receipt. Work is underway to incorporate household-related characteristics into the tool and a project has commenced to incorporate the output from the tool into streaming rules and other intervention decisions. We expect this to be achieved by the end of 2016.

This recommendation has been actioned by management and is on the current work-plan. This recommendation is now closed.

Recommendation 2

6.5 Management consider differentiated operational responses for clients who live in social housing to better reflect client needs given the overlap between benefit system and Housing New Zealand (HNZ) clients (2014 BSPR).

Management comment

6.6 A social housing valuation is currently underway. The results of the 2015 social housing valuation and subsequent segmentation exercise will influence service delivery for these clients. In particular, the valuation will include a household lens of benefit system clients in social housing.

6.7 Results from the social housing valuation will be available in Q4 2015/16, with segmentation work scheduled for Q1 2016/17.

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

Recommendation 3

6.8 Management consider differentiated operational responses for clients who were supported by parents (or a parent) on benefit during childhood, to reflect their higher likelihood of long-term benefit receipt (2014 BSPR).

Management comment

6.9 Management has considered this recommendation and agree this is a factor in risk assessment for long-term benefit receipt.

6.10 The project to incorporate the output from the liability-based risk model into streaming rules and other intervention decisions will also support this recommendation (see paragraph 6.4).

6.11 MSD is also working on a number of cross-agency initiatives that address some of the drivers of intergenerational benefit dependency. We expect these will be in place by July 2016.

This recommendation has been actioned by management and is on the current work-plan. This recommendation is now closed.

Recommendation 4

6.12 Management consider extending the education and training goals of the Youth Service to those who recently would have qualified for a youth benefit but have transferred onto a main benefit without the encouragement into education or training that the Youth Service now provides (2013 BSPR).

Management comment

6.13 In July 2015 the Government introduced a Bill to extend the Youth Service approach to all 19 year old teen parents, and to young Jobseeker Support clients aged 18 and 19 who are assessed as being at risk of long term welfare dependency.

6.14 The extension of these services is now on management's work-plan and is due for implementation in 2016.

This recommendation has been actioned by management and is on the current work-plan. This recommendation is now closed.

Recommendation 5

6.15 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 (2013 BSPR).

Management comment

6.16 Further analysis has been conducted on Māori as recommended.

6.17 MSD has initiated a Māori Strategy and is investigating a range of strategies to support Māori into independence. Options are to be considered by management and forwarded to the Leadership Team for decisions by June 2016.

6.18 In advance of this decision point, an MSD working group has been established to develop partnerships with Iwi work programmes.

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

Data Access and Analytics

Recommendation 6

6.19 Child, Youth and Family (CYF) data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency (2014 BSPR).

Management comment

6.20 CYF data was used for the 30 June 2015 valuation.

6.21 Results relating to CYF data can be found in the 'Valuation of the Benefit System for Working-age Adults as at 30 June 2015' report on the MSD website.

This recommendation has been actioned and is closed.

Recommendation 7

6.22 Department of Corrections data is used to inform the 30 June 2015 valuation, increasing understanding of the drivers of long-term benefit dependency (2014 BSPR).

Management comment

6.23 Corrections data was used for the 30 June 2015 valuation.

6.24 Results relating to Corrections data can be found in the 'Valuation of the Benefit System for Working-age Adults as at 30 June 2015' report on the MSD website.

This recommendation has been actioned and is closed.

Recommendation 8

6.25 Analysis is performed using Accident Compensation Corporation (ACC) data to understand the experience of former ACC clients that transition to the benefit system (2014 BSPR).

Management comment

6.26 Analysis has been completed and will be reported to management in Q4 2015/16. By the end of Q1 2016/17, management will consider whether any operational responses are necessary.

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

Recommendation 9

6.27 A link to education data from the Ministry of Education is needed to inform the valuation and better understand the correlations between education and benefit dependency (2013 BSPR).

Management comment

6.28 Management agree that improved education data is useful for the valuation. We also understand that Statistics NZ's Integrated Data Infrastructure (IDI) contains education-related data including:

- School attendance including expulsion and suspension records
- NCEA qualifications

- Tertiary institution enrolments and completions information
- Industry training information (where training is part/whole government funded)

6.29 The data only goes far back enough to cover a small portion of our client population. Nevertheless, this is likely to be useful for valuation purposes. As the data builds up over time it will cover an increasing portion of the population.

6.30 MSD is investigating whether an IDI equivalent education dataset can be obtained for use in the 2017 valuation. We will have a firm understanding of whether this can be achieved by the end of Q1 2016/17. If so, this will be added to the work-plan to ensure the data is available for the 2017 valuation.

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

Recommendation 10

6.31 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 (2013 BSPR).

Management comment

6.32 A split of youth clients into YP and YPP had been achieved and used in the 2014 and 2015 valuations.

6.33 The MSD actuarial team has performed an initial review of data held by Youth Service providers to ascertain whether it is useful for valuation purposes. Further analysis is required and will be performed by the end of Q4 2015/16 at which point a decision will be made whether to incorporate the data in the 2016 valuation.

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

Segmentation

Recommendation 11

6.34 Further investigation into segmentation and whether segmenting the client base using the current continuous duration approach gives the best separation for understanding the drivers of liability. Possible alternatives include age at entry into the benefit system or proportion of time spent on benefit since first benefit receipt (2013 BSPR).

Management comment

6.35 Management agree that a review of segmentation is worthwhile.

6.36 New data sources were added to the 30 June 2015 valuation (see recommendations 6 and 7). These datasets will help inform segmentation approaches.

6.37 Furthermore, social housing segmentation work has been contracted to occur in Q1 2016/17. This will help inform benefit system segmentation, given the integration between the social housing and benefit system valuations.

6.38 Consequently, decisions on benefit system segmentation are deferred to Q2 2016/17, with a view to any potential changes being reflected in the 2017 valuation.

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

Cross-Government Investment Approach

Recommendation 12

6.39 Management and the Board discuss with other social sector Chief Executives and Ministers the potential application of a broader cross-government investment approach (2014 BSPR).

Management comment

6.40 The Social Sector Board with the support of the Ministers of Finance and State Services have established the Social Investment Unit (SIU) to progress how the investment approach may be applied across the wider social sector. The Ministry is supporting the SIU in this work.

6.41 The Expert Advisory Panel on vulnerable children has submitted its report to cabinet. Cabinet's response to this report may also influence any potential cross-government investment approach.

This recommendation has been actioned and is closed.

Appendix A: Background

Review of the Benefit System

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

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

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

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

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

A.4 A key tool in the Investment Approach to managing the benefit 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 benefit system
- an understanding of what is driving the change in cost of the benefit system
- a means of measuring performance in managing the benefit system over time
- a means of analysing the financial impact of policy and operational changes.

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

Purpose of this Report

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

A.7 The report has been prepared by Herwig Raubal, FNZSA, FIAA; Eric Judd, FNZSA, FIAA; and Daniel Stoner, FNZSA (primary regulator), FIA; and is in respect of the year ending 30 June 2015.

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

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

A.9 Some of the analysis in this report relies on the liability calculations performed by Taylor Fry Consulting Actuaries and detailed in their report titled *Valuation of the Benefit System for Working-age Adults as at 30 June 2015* (the 2015 Valuation Report) which was publicly released in January 2016. Prior liability calculations were also performed by Taylor Fry for the years ended 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014.

Professional Standards

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

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

Scope

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

A.13 The forward liability for current clients is defined to be:

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

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

A.15 These recent exits have been included in the scope of the liability because there is a high rate of return to the benefit 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' to help provide a management focus on sustainable exits from the benefit system.

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

A.17 The scope of this report does not extend to discussions on the appropriateness or feasibility of pre-funding this valuation liability.

Appendix B: Nature of the Business

Purpose

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

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

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

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

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

Governance

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

B.5 Ministers established Treasury as an external monitoring function, tasked with giving an independent view of the progress of implementation of the investment approach and Work and Income's performance.

Benefit Structure

B.6 Until July 2013 financial assistance was provided to eligible working age clients through:

Benefit Type	Purpose
Domestic Purposes Benefit (DPB)	• Financial support for: - Single parents living without a partner, irrespective of whether the other parent is contributing to maintenance payments and irrespective of fault - People caring for the sick and infirm - Women living alone who were aged 50 or more and lose financial support of their partner or spouse, or a dependent child in their care for at least 15 years has left care
Sickness Benefit (SB)	• Financial support for people temporarily incapacitated from working full-time through sickness or accident, who would otherwise be available for full-time work.
Invalid's Benefit (IB)	• Financial support for people permanently and severely restricted in capacity for work due to sickness, injury or disability or who are totally blind.
Unemployment Benefit (UB)	• Financial support for people not in full-time work but available for and looking for full-time work.
Widows Benefit (WB)	• Financial support for women with children who have been married or in de-facto relationship for 15 years or more (or five years if over 50) and whose partner has died.
Emergency Benefit (EB)	• Financial support for people who are not eligible for another main benefit and are in hardship and unable to earn a sufficient livelihood due to their health condition, domestic circumstances, residence or another reason.
Orphans Benefit (OB)	• 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 Allowances to help with ongoing costs because of a disability - Unsupported Child's Benefit to help carers support a child or young person whose parents

Benefit Type	Purpose
	are unable to care for them because of a family breakdown
Hardship Payments	• Financial support for essential one-off needs

B.7 Eligibility criteria for main benefits (DPB, IB, SB, UB, WB) generally required recipients to have continuously lived in New Zealand for two years since becoming a citizen or permanent resident.

B.8 From 15 July 2013, the benefit structure was consolidated from the multiple benefit types listed in paragraph B.6 to three main benefit types plus two youth benefits (which started from August 2012). These changes, along with the increase in the number of people with active work expectations, were made to embed a work focus in the benefit system. The new benefit structure is summarised below:

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

B.9 Benefit payment amounts are income tested. Abatement rates vary by benefit type.

B.10 The new Jobseeker benefit reflects the work focus under the welfare reforms by including those sole parents having full-time work obligations (children 14 or over). It also includes people having short-term deferrals of their work obligations.

B.11 Creating the two new youth benefits highlights the importance of working with vulnerable young people who, without support, are likely to develop long-term benefit dependency. The focus for these benefits is training and education as a precursor to work.

Recent Reforms

Future Focus

B.12 The Social Security (New Work Tests, Incentives and Obligations) Amendment Bill passed into law on 23 August 2010. This bill supported changes announced under the Future Focus initiative.

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

Welfare Reforms

B.13 On 30 May 2011, Cabinet agreed to a programme of work to develop the Government's response to the WWG. Cabinet agreed the reforms should focus on ensuring sustainable paid work is the goal for as many beneficiaries as possible and increase investment in people with high long-term social and economic needs.

The package has been phased in over three stages.

- Phase One: The YP and YPP benefits and delivery of the new Youth Service began from 20 August 2012. The Youth Service targets 16-18 year olds at risk of long-term benefit dependency and aims to help them work towards independence through education, training or work-based learning with the support of community based providers.

- Phase Two: Greater work expectations were introduced from 15 October 2012 for DPB - Sole Parent, Woman Alone and Widows Benefit recipients.
- Phase Three: From 15 July 2013 three new benefit categories were introduced - JS, SPS and SLP. In addition, new policies and processes were introduced such as social obligations for parents, pre-employment drug testing, work ability assessments for job seekers with deferred work obligations, and checks for warrants to arrest.

B.14 In July 2012, Cabinet agreed to provide Work and Income with greater flexibility to use contracted service providers to support beneficiaries to meet their obligations and achieve sustainable employment outcomes. The aim is to draw on the expertise in the Non-Government Organisation and private sectors to achieve employment outcomes for more people.

B.15 Following these changes, the main purposes of administering benefits 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.

Future Reform

B.16 As part of Budget 2015 a child hardship package was announced incorporating a number of changes to benefits and policy settings:

- A $25 a week (after tax) increase in benefit rates for families with children
- Strengthened work obligations for beneficiary parents, including:
  - Introduction of part-time work obligations to SPS clients with youngest child aged three and four
  - An increase in part-time work obligations from 15 to 20 hours a week
- An increase in childcare subsidy rate from $4 to $5 for low-income families

B.17 These changes were effective from April 2016. They are not reflected in the liability at this point, but will be in the 2016 valuation.

Operational Service Model

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

B.19 The service delivery framework incorporates five distinct internal case management services:

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

work obligation who display indicators that, with support, they will be able to return to work.

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

B.20 Clients are allocated into services depending on a range of eligibility factors. Streaming rules are reviewed to ensure appropriate allocation of clients to services.

B.21 A separate case management service is provided for clients receiving a youth benefit, i.e. those aged under 18 (and parents up to age 19). This service is co-managed by contracted providers and Work and Income. The service is more focused on educational and training goals than on immediate work outcomes.

B.22 Work and Income partners with employers, training providers, and social support providers, to help deliver tailored services, such as ongoing mentoring and wrap-around support, to clients to help them into training or work.

B.23 Benefit payment administration is a major function of Work and Income, along with fraud prevention and detection. The business unit also handles Emergency Management (preparation and response for welfare responsibilities) on behalf of the Government.

Investment Approach

B.24 To achieve the goal of reducing long-term benefit dependency, Government implemented an Investment Approach to the benefit system. The aim of the Investment Approach is to better target appropriations to the needs of the clients. Its success relies on:

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

ability to stop, trial and expand programmes and services, and the ability to move funding to those programmes and services that improve client outcomes.

B.25 There are a number of elements in place that are essential to the successful delivery of the investment approach and to target funding better to reduce long-term dependency. They are explained in the following sections.

Annual Valuation of the Benefit System

B.26 A key component of the Investment Approach to managing the benefit system is the annual actuarial valuation of the forward liability for people of working age.

Multi-Category Appropriation (MCA)

B.27 MSD is provided with appropriations to fund the administration of the benefit system and to meet its duties to help people find work. Crucial to being able to direct investment funds towards interventions that will most benefit clients is the introduction of the MCA, providing increased funding flexibility. The first MCA of its kind was agreed by Cabinet in September 2013 and approved by the Minister of Finance in October 2013 (for implementation from 1 January 2014). Operational flexibility is provided by the delegation of decision-making rights from Ministers to the CE of MSD.

B.28 The use of an MCA places responsibility on Work and Income to use these public funds prudently and efficiently. The Investment Approach aims to direct the funding where it will do the most good, and to establish a clearer link between the application of funds and how they impact on peoples' risk of long-term benefit receipt.

Controls and Governance of Investments

B.29 ***Trials and the Return on Investment Framework***: To help understand the impacts that can be attributed to investment initiatives better, a number of trials are in place. Outcomes for the targeted groups of people in a trial are tracked and compared to a control group having similar attributes. This forms part of the broader RoI framework Work and Income has developed (in conjunction with the Treasury).

B.30 Key elements of the framework are:

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

B.31 Crucially, the framework incorporates estimated liability impacts of investment initiatives. This allows for a full understanding of long-term impact. Ultimately this enables us to form a view as to whether a particular investment initiative is delivering value for money.

B.32 Chapter six of this report contains ROI analysis of a number of existing employment assistance programs and trials.

B.33 ***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. Its 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
- provide an update of the valuation liability and report on the actuarial release component of BPS 1
- provide a transparent account of the performance of the benefit system and Work and Income’s management thereof.

B.34 ***Benefit System Performance Report***: This annual report (and the quarterly monitoring reports) are tools available to provide greater transparency of the performance of the benefit system. It provides the CE with a review of the performance and the effectiveness of investments made to reduce benefit dependency. It also identifies areas for attention to help manage long-term benefit dependency.

Appendix C: Return on Investment Methodology

C.1 In high level terms, the RoI of a programme is calculated as:

$$RoI = \frac{\text{Incremental Benefits}}{\text{Incremental Costs}}$$

C.2 RoI gives a relative assessment of the value of investment in a programme. If the RoI is greater than 1, benefits are assessed to be greater than costs i.e. the programme has delivered more value than it has cost.

C.3 RoI has the advantage that it allows direct comparison between different programmes. This is particularly important where different programmes are competing for the same pool of funding.

C.4 Not all costs and benefits of a programme can be quantified in monetary terms, and other potentially material costs/benefits should be considered before conclusions are drawn. For example, supporting people into sustainable employment is likely to have an impact on their standard of living and general wellbeing.

C.5 Traditional RoI methodologies incorporate actual costs and benefits up to a date of measurement. This can be useful in some circumstances, but where the benefits of the programme are likely to take many years to eventuate, it can be slow to signal the value of a programme.

C.6 Our methodology includes a traditional measure and a measure incorporating estimates of future benefits and costs (liability). This gives an understanding of the likely full lifetime value of a programme as well as the return on investment to date. The inclusion of liability can introduce some volatility to RoI. It is important to focus on overall trends rather than month-to-month variation.

C.7 To establish incremental costs and benefits the outcomes of those participating in a programme are compared to a control group. The control group is intended to be a proxy for what would have otherwise happened if the participant group had not been part of the programme.

C.8 There are different ways to establish a control group. A randomised control group is used where possible, though is not always practical. For the employment assistance programmes propensity matching is used. Propensity matching involves constructing a control group with similar characteristics to the participants. The degree to which characteristics can be assessed is limited by the data available and so there will be unobservable differences that may influence results.

C.9 All of our calculations have been done on a marginal cost basis i.e. costs that can be directly attributed to the participant or control group. Therefore, it does not include a share of indirect costs and overheads. The cost of these programmes is relatively small in the context of total Ministry costs and is unlikely to materially influence indirect costs and overheads.

C.10 Our RoI calculations do not incorporate non-participant effects as these are difficult to reliably estimate:

- Substitution effect – Where helping participants into employment is at the expense of non-participants' employment prospects
- Displacement effect – Where a programme helps improve a firm's competitiveness leading to the loss of employment among competing firms

C.11 Both effects can reduce the value of a programme. Their impact will differ between programmes and they are difficult to reliably calculate. Where we think these effects are material we have commented in our conclusions about the programme.

C.12 It should be noted that by comparing a programme participant group and a control group we are estimating the difference between what happens to the programme participant group and what was likely to have happened to them had they been not part of the programme. The control group may receive other services that the programme participant group does not (and vice versa), and so the evaluation is not purely of the programme itself. This should also be considered when drawing conclusions.

C.13 For employment assistance programmes, we have included participants starting in the programme between 1 July 2010 and 31 December 2014. These participants' outcomes are tracked through to 30 June 2015.

C.14 For the investment approach trials we have included participants from the start of the trial (unless otherwise specified in chapter five). Outcomes are tracked through to 31 October 2015.

C.15 In drawing conclusions from the RoI calculations we are reliant on a number of factors, including:

- Data - We are reliant on the quality of the benefit and cost data used. While we have applied broad reasonableness checks, this does not rule out the possibility of quality issues.
- Cost model – MSD's cost model for allocating case management and administration costs has been used. We have relied on this model without formally reviewing its construct.
- Model risk – Future benefits and costs have been estimated using MSD's liability estimator tool. As with any model of future outcomes, there is a risk that the model is not an adequate representation of the complex, real-life system it models, and/or a risk of future external changes that materially influence actual experience e.g. legislative, policy or economic changes.
- Comparison group selection – Participants in programmes are compared to people in randomised control or propensity matched groups. We have relied on these comparison groups without formally reviewing their derivation. With any comparison between groups there is the risk that unobserved differences in profile cause differences in observed experience that are mistakenly attributed to programme performance.

Appendix D: Glossary

ACC – Accident Compensation Corporation

AS – Accommodation Supplement

BPS – Better Public Services

CE – Chief Executive

CMHP – Child Material Hardship Package

CYF – Child, Youth and Family

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

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

Corrections – Department of Corrections

DA – Disability Allowance

DCE – Deputy Chief Executive

DPB – Domestic Purposes Benefit

EB – Emergency Benefit

FCA – Flexible Childcare Assistance

FIAA – Fellow of the Institute of Actuaries of Australia

FIA – Fellow of the Institute of Actuaries (UK)

FNZSA – Fellow of the New Zealand Society of Actuaries

GCM – General Case Management

GFC – Global Financial Crisis

HCD – Health Conditions and Disabilities

HNZ – Housing New Zealand

HYEFU – Half-year Economic and Fiscal Update

IDI – Integrated Data Infrastructure

IRRS – Income Related Rent Subsidy

JS – Jobseeker Support

JS-WR – Jobseeker Support-Work Ready

JS-HCD – Jobseeker Support-Health Conditions and Disabilities

MCA – Multi-Category Appropriation

MSD – Ministry of Social Development

NCEA – National Certificate of Educational Achievement

NEET – Not in Education, Employment or Training

NOMB – Not on Main Benefit

OB – Orphans Benefit

ROI – Return on Investment

SB – Sickness Benefit

SIU – Social Investment Unit

SLP – Supported Living Payment

SPB – Special Benefit

SPS – Sole Parent Support

SUP – Supplementary Benefits Only

TAS – Temporary Additional Support

TFW – Training for Work

UB – Unemployment Benefit

WFCM – Work-Focused Case Management

WSS – Work Search Support

YP – Youth Payment

YPP – Young Parent Payment