



Prepared for the Welfare Expert Advisory Group

Obligations and Sanctions Rapid Evidence Review

Paper 2 : Work-related Sanctions

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Executive summary

This paper provides a rapid evidence review that **summarises evidence on the effects of work-related sanctions**. It describes New Zealand's current settings and how they compare with other countries, and summarises reviews of empirical evidence on the effects of sanctions and complementary contextual studies. A separate paper in this series (Paper 1) gives an overview of the use of obligations and sanctions in welfare benefit policy.

Current settings are that people receiving Jobseeker Support and Sole Parent Support must, in most cases, meet work or work preparation obligations, for either full- or part-time work. The obligations that apply to sole parents and partners depend on the age of their youngest child.

There are two sanction regimes: a three-tier graduated sanction regime – where a third failure within a 12-month period results in benefit being cancelled with a non-entitlement period of 13 weeks; and a job refusal sanction – where turning down a suitable job offer without a good and sufficient reason leads to benefit being cancelled with a non-entitlement period of 13 weeks. Both make provision for a shorter period of sanction if the client recomplies or undertakes an approved activity. The maximum penalty is 50 percent of the main benefit payment for those with dependent children.

Comparison with other countries is made difficult by the fact that sanctions legislation and policy in a country may differ considerably from how sanctions operate in practice. In a recent comparison of legislation and policy, New Zealand unemployment benefit settings are ranked 14th most strict in a 40 country comparison. While sanctions for refusing suitable job offers are less severe than in many countries, the threshold for a sanction to be imposed for this reason is low in New Zealand.

The age of youngest child threshold for work obligations is generally three in New Zealand, in line with the United Kingdom (UK), France, Germany, Norway and Switzerland, and lower than Australia (age six). Age thresholds are lower than three in parts of the United States (US) and Canada. In New Zealand, if an additional child is included in benefit, a client may have work obligations when that child turns one, depending on the age of the next youngest child.

Empirical evidence on the distinct effects of work-related sanctions is limited, and there is no New Zealand empirical evidence. The available overseas studies provide evidence of intended effects on benefit receipt and in some cases employment, and some evidence of unintended negative effects.

Reviews of the small number of (mainly European) studies that examine unemployment benefit sanctions estimate that the causal impact of the imposition of a sanction or

sanction warning is a large increase in the rate of exit from unemployment benefits, the rate of job entry, or both.

Studies also estimate that sanction imposition reduces earnings, hours of work and job stability post-exit, and increases the rate of exit to unknown destinations or out of the labour force. The one study that looks at the net effect on income after taking into account both the increase in exits to work and lower earnings and job retention finds imposition of a benefit sanctions results in lower income over a two-year follow-up.

Two studies that have examined within-regime variation in sanction severity have mixed results. Both examined countries with relatively moderate sanctions. One shows no significant differences in outcomes by severity; another finds that more severe sanctions have larger effects on the exit rate from unemployment benefits. The first of these studies finds that even with a maximum penalty of a 20 percent withdrawal of benefit for one or two months, imposition of a sanction doubled the rate of exit to work.

The few studies that examine the distinct effects of sanctions in US welfare reforms (which mainly affected sole mothers) find they reduce welfare receipt, and the more stringent the sanction, the greater the reduction. Evidence on whether welfare reform sanctions raise employment is more mixed, as is evidence on their impact on earnings.

Empirical evidence on unintended effects is very thin. Two studies from the UK find property crime and foodbank use increases more in areas where more people are sanctioned. US welfare reform studies provide evidence of sanctions increasing hardship and child welfare system involvement.

Contextual studies find inconsistency in administration of sanctions and describe ways in which sanctioning rates can reflect organisational context and the attitudes and values of front-line staff rather than individual client behaviour. There is some New Zealand evidence to suggest that reforms that made the work test process less administratively complex increased the rate at which sanctions were imposed.

A range of studies find clients from more disadvantaged backgrounds and minority ethnic communities are the most affected by sanctions. When interviewed, sanctioned clients commonly report experiencing hardship, feelings of anger, frustration, humiliation, depression and anxiety, and in some cases worsening health.

Some studies in the UK find clients report that the threat of a sanction can lead to contact being re-established, encourage participation in activities which they would have otherwise refused, or encourage them to 'step up' job search efforts. There is some evidence of such effects from interviews with clients following Welfare Reform.

But for a substantial minority interviewed in a large UK study conducted when sanctioning rates were at a historical high, sanctions led to negative behavioural changes and outcomes, including 'counterproductive compliance' (eg applying for jobs they had no realistic chance of getting), disengagement from the benefit system, increased poverty and in some cases destitution, movement into survival crime, and worse health.

Conclusion. The available empirical literature and complementary contextual studies suggest that policy design and administration needs to carefully balance the benefits and potential negative effects of work-related sanctions. Empirical evidence provides no guidance on sanction severity that could be considered 'ideal' in achieving this balance. However studies of regimes less severe than New Zealand's show they can be effective in encouraging movement from benefits to work.

Evidence from the US and UK suggests that a very harsh sanctions regime can have important adverse effects that drive people away from, rather than closer to, employment, and might worsen rather than improve the long-term chances of children in the families affected.

Purpose

This rapid review provides an overview of:

- New Zealand's **current settings** for work-related sanctions and associated obligations
- how New Zealand compares with other countries in **international comparisons**
- empirical evidence on the **effects of unemployment benefit sanctions**
- empirical evidence on the **effects of sanctions in welfare benefits received by sole parents**
- findings from complementary **contextual studies**, including qualitative research and frontline work perspectives.

Our review draws on policy documents, OECD reports and reviews of international evidence.

A key evidence review is: ***Sanctions Within Conditional Benefit Systems: A Review of Evidence*** prepared by Julia Griggs and Martin Evans, University of Oxford (Griggs & Evans, 2010).

A separate paper in this series (Paper 1) provides an overview of the use of obligations and sanctions in welfare benefit policy. That paper covers their rationale, frameworks for understanding how they might influence behaviour and outcomes, ways of categorising studies and effects, and approaches that might help minimise the need for sanctions to be used as a means of achieving public policy goals.

Current settings

Currently, people receiving Jobseeker Support (JS) and Sole Parent Support (SPS) must in most cases meet **work or work preparation obligations**. Full or partial exemptions may apply.

Work obligations may be for full-time work, part-time work (15 or 20 hours¹ per week) or may be deferred.

For people receiving JS, work obligations are generally full-time. Part-time and deferred work obligations may apply due to a health condition or disability (HCD). A current medical certificate must be provided to support application for JS-HCD and there is generally a requirement for a new medical certificate at least every 13 weeks.

Sole Parent Support (SPS) recipients have part-time work obligations if they have a youngest child aged between three and 13 years. Sole parents with a youngest child aged 14 years or over receive JS rather than SPS, and have full-time work obligations.

¹ For clients who qualify for JS on the grounds of a health condition, injury, or disability, part-time work is employment of at least 15 hours per week. For all other clients with part-time work obligations, part-time work is employment of at least 20 hours per week.

Spouses and partners of people receiving JS and Supported Living Payment (SLP) with a youngest child aged between three and 13 years have part-time work obligations. Those with no children or a youngest child aged 14 or over have full-time work obligations (unless deferred).

If an additional child is included in benefit, the sole parent or partner will have work preparation obligations until the child turns 12 months of age. When that child turns 12 months of age, the sole parent or partner's obligations will be based on the age of the next youngest child.

The '**work test obligations**' that apply when a client has work obligations are set out in section 146 of the Social Security Act 2018 (see box). Failure to meet these obligations without a good and sufficient reason may lead to an obligations failure. A sanction may then be imposed.

146 Work-test obligations as required by MSD

(1) A person to whom this section applies must, as required by MSD from time to time,—

- (a) undertake planning for employment:
- (b) attend and participate in an interview with an MSD employee or a person on behalf of MSD:
- (c) report to MSD or a person on behalf of MSD on the person's compliance with the work-test obligations set out in this section or sections 144 and 147, and must do so as often as, and in the manner that, MSD reasonably requires:
- (d) participate in or undertake any of the following activities specified by MSD that MSD considers suitable for improving the person's work-readiness or prospects for employment:
 - (i) a work assessment:
 - (ii) a programme or seminar to increase particular skills or enhance motivation:
 - (iii) a work-experience or work-exploration activity:
 - (iv) employment-related training:
 - (v) any other activity (including rehabilitation) other than medical treatment, recognised voluntary work, or activity in the community:
- (e) undertake and pass a drug test in accordance with [sections 147 to 151](#).

(2) Subsection (1)(d) applies whether or not a person is subject to a sanction for failing to comply with a work-test obligation.

(3) If MSD requires a person to undertake an activity under subsection (1)(d), MSD must take reasonable steps to arrange for the person to undertake that activity.

Source: [Social Security Act 2018, Section 146](#)

Work preparation obligations apply to SPS clients with a youngest dependent child aged under three years, SLP clients assessed as having the capacity to prepare for work, and spouses or partners of recipients of JS and SLP with a youngest dependent child aged under three years.

Work preparation obligations can include planning for employment, reporting to Work and Income on progress in meeting obligations, attending interviews with Work and Income, or undertaking an activity to improve work readiness. These requirements are set out in section 125 of the Social Security Act 2018. The exact mix of activities may differ based on individual circumstances. If a client does not meet their work preparation obligations without a good and sufficient reason then an obligations failure will be initiated and a sanction may be imposed.

In order for a sanction to be applied, the client must have failed without a good and sufficient reason and must have been given at least five working days to dispute or re-comply before any sanction is imposed. Clients can dispute the imposition of a sanction or seek a formal review of the decision. If the outcome is in the client's favour, the sanction is removed (backdated to the date of imposition), and the failure is not counted.

Good and sufficient reasons may include (but are not limited to), that the client:

- was temporarily medically unfit and they have a medical certificate that shows there was a death or illness in the immediate family
- could not realistically transport themselves on the day, due to unforeseen circumstances
- had childcare arrangements that fell through on the day, due to unforeseen circumstances
- was dependent on the provision of assistance by Work and Income to complete the activity, and that assistance was not supplied
- had an unexpected event occur on that day, such as providing care for a sick relative
- Case managers are instructed to decide in favour of the client if any doubt remains. If they are aware that the client has a good and sufficient reason, they do not initiate an obligations failure.

See: <https://www.workandincome.govt.nz/map/income-support/main-benefits/jobseeker-support/good-and-sufficient-reason-not-meeting-work-or-wor-01.html>

There are **two sanction regimes** for clients with work and work preparation obligations:

- a **three-tier graduated sanction regime** – if a client fails an obligation without a good and sufficient reason their income support will be impacted. A third failure within a 12-month period results in their benefit being cancelled with a non-entitlement period of 13 weeks
- a **job refusal sanction** for turning down suitable employment – if a client turns down suitable work without a good and sufficient reason, they will have their benefit cancelled with a non-entitlement period of 13 weeks.

Both sanction regimes make provision for a shorter period of sanction if the client recomplies or undertakes an approved activity.

There are three grades of sanctions, and the consequences for financial support are different depending on whether the client is single or in a couple, and whether they have children. The maximum penalty is 50 percent of the main benefit payment for those with dependent children. For couples, only the person who fails their obligations faces a

sanction. Their partner will continue to receive their half of the assistance as long as they are meeting their obligations.

The table below sets out the sanctions, and their impact on the main benefit and supplementary assistance. The current regime of work-related sanctions has been in place since 2010.

Sanction	Impact on main benefit (if client fails without good and sufficient reason)	Impact on supplementary assistance²
Grade 1 Sanction (first failure in a 12-month period)	Benefit reduced by 50% (for clients with or without dependent children) Benefit will restart once the client completes the activity they failed to do	Supplementary assistance is not affected
Grade 2 Sanction (second failure in a 12-month period)	Benefit suspended by 100% for clients with no dependent children (or 50% for clients with dependent children) Benefit will restart once the client completes the activity they failed to do	100% suspension for clients with no dependent children 50% suspension for couples with dependent children Not affected for singles with dependent children
Grade 3 Sanction (third failure in a 12-month period) <u>AND</u> Job Refusal Sanction (refuses an offer of suitable employment)	Benefit cancelled by 100% for clients with no dependent children (or 50% for clients with dependent children) for 13 weeks ³ To reapply the client must take part in an approved activity for at least six weeks	100% cancellation for clients with no dependent children 50% cancellation for couples with dependent children Not affected for singles with dependent children

Related conditions of entitlement are that a client and their partner (if any) who are applying for JS or SPS and would on the grant of benefit have work obligations may be subject to the following:

- **A 13-week non-entitlement period.** This applies if they have become voluntarily unemployed (ie they resigned from, or otherwise left employment) without a good and sufficient reason, or are applying for a benefit because they were dismissed by their employer for misconduct. The 50 percent protection for clients and partners with dependent children applies.

Circumstances where a non-entitlement period is not applied include where a client has:

² Disability Allowance is not impacted.

³ During the 13 week non-entitlement period, a client can be granted a provisional benefit from the date they start an approved six-week activity. The provisional benefit payment continues until the six-week activity ends, or the non-entitlement period ends (whichever is earlier).

- lost their job during a 90-day employment trial (except where the employer alleges misconduct)
 - recently returned to New Zealand
 - taken voluntary redundancy because another employee would lose their job if they remained
 - left work that is not suitable
 - worked for a temporary period.
- **Pre-benefit activities.** These are employment-related activities that a benefit applicant may be required to attend and participate in order for their application to be progressed. They include attending and participating in an employment-related seminar, attending interviews and accepting any offer of suitable employment. Failure to comply causes the application to lapse.

International comparisons

Unemployment benefit sanctions

Unemployment benefit systems have long required claimants to be available for work, register with an employment service, and accept suitable offers. However, since the mid-1990s, most OECD countries have coupled these requirements with monitoring and sanctions (McVicar, 2014).

International comparison is made difficult by the fact that sanctions legislation and policy can differ considerably from how sanctions operate in practice. An OECD comparison of 40 OECD and/or European Union member countries considered a range of unemployment benefit settings in 2014, based on legislation and policy. Comparative data were used to compile composite indicators of the strictness of eligibility criteria (Langenbucher, 2015). An acknowledged limitation of such indicators is that rankings are sensitive to the measures and weightings chosen. As noted, they also reflect strictness as laid out in legislation, policy or regulations, which may differ from enforcement on the ground, and may miss some features of eligibility criteria that are important in influencing labour market outcomes.

Out of 40 countries, New Zealand ranked:

- **6th** most strict for availability requirements and suitable work criteria
- **20th** (in the middle of the group) for strictness of job-search requirements and monitoring
- **27th** for strictness of sanctions
- **14th** most strict overall (Langenbucher, 2015).

There is wide variation in sanctions policy across countries (Langenbucher, 2015, Tables A8 - A11). For a first refusal of suitable work without good reason, the sanction ranges from no penalty in France and a five day suspension of benefit in Sweden, to loss of the right to benefit in Luxembourg, and varying durations of disqualification in the United States (US) (Table A10).

New Zealand's ranking as 27th out of 40 for strictness of sanctions partly reflects the large number of countries that do not pay unemployment benefits at all in the case of voluntary unemployment (12/40), a number that terminate benefits completely for refusal of a suitable job offer (9/40), and many countries where long non-entitlement periods apply for these events.

In the case of sanctions for refusal of suitable job offers, it is important to note that the corresponding 'suitable' criteria are in most countries less strict than in New Zealand – ie while sanctions for refusing suitable job offers are less severe than average in New Zealand, the threshold for a sanction to be imposed for this reason is comparatively low.

New Zealand has the maximum possible score for strictness of requirements relating to occupational and wage mobility. Where many other countries allow unemployment benefit recipients to seek work in their previous occupation and at or close to their previous pay level, at least initially, New Zealand requires acceptance of any offer of suitable employment, and does not allow people to restrict their job search to vacancies within their own trade or chosen occupation, or to certain levels of remuneration (Langenbucher, 2015, Table A2). Note while enforcement of these rules may vary in practice, reporting data show that in New Zealand sanctions are being applied for 'failure to participate in work' (MSD, 2018).

Overall rankings for strictness of eligibility criteria for unemployment benefits based on legislation and policy, 2014:

Most strict:	1	MLT	Malta
	2	HRV	Croatia
	3	EST	Estonia
	4	PRT	Portugal
	5	LUX	Luxembourg
	6	SVN	Slovenia
	7	GBR	United Kingdom
	8	CHE	Switzerland
	9	NLD	Netherlands
	10	LVA	Latvia
	11	DNK	Denmark
	12	ROU	Romania
	13	SWE	Sweden
	14	NZL	New Zealand
	15	SVK	Slovak Republic
	16	AUS	Australia
	17	FRA	France
	18	DEU	Germany
	19	POL	Poland
	20	ISL	Iceland
	21	NOR	Norway
	22	LTU	Lithuania
	23	KOR	Korea
	24	ITA	Italy
	25	IRL	Ireland
	26	GRC	Greece
	27	BEL	Belgium
	28	BGR	Bulgaria
	29	AUT	Austria
	30	JPN	Japan
	31	FIN	Finland
	32	ESP	Spain
	33	CZE	Czech Republic
	34	US	United States
	35	CAN	Canada
	36	CHL	Chile
Least strict:	37	TUR	Turkey
	38	ISR	Israel
	39	HUN	Hungary
	40	CYP	Cyprus

Source: derived from Langenbucher (2015)

Another important consideration in interpreting New Zealand's relative position is that New Zealand (together with Australia) stands out in international comparisons because it has only means tested unemployment assistance with flat rate benefits payable for an unlimited-duration (Immervoll, 2010).

In other countries, relatively generous time-limited unemployment insurance benefits tend to sit alongside much less generous means tested unemployment benefits.

In a few countries that rank among the least strict overall (the US, Japan, Italy, Turkey) unemployment benefits take the form of unemployment insurance only, and payments are time limited (Langenbucher, 2015). In some respects, time limits may be seen as a substitute for sanctions. When the prospect of payments reducing significantly or ending entirely provides motivation for job search, this may explain these countries' relatively moderate rankings for availability requirements and job search requirements and monitoring.

Sole parents

In recent years, work-related obligations and associated sanctions have been extended to sole parents based on the age of youngest child in New Zealand, Australia and the United Kingdom.

The age of youngest child threshold was recently reduced to age three in New Zealand (in 2016) and in the United Kingdom (in 2017), bringing these countries into line with France, Germany, Norway and Switzerland. Age thresholds are lower than three in many states in the US and Canadian provinces. In New Zealand, if an additional child is included in benefit, a client may have work obligations when that child turns one, depending on the age of the next youngest child.

In a number of countries there is an expectation that most sole parents are able to find work (eg Sweden, Denmark, Finland), or the age at which obligations apply is determined by case managers (eg Belgium, Japan) (Watts & Fitzpatrick, 2018 p63; Immervoll, 2010 p40). Work-related obligations and sanctions currently begin to apply when the youngest child turns six in Australia.⁴

There is no up-to-date OECD cross-country comparison of assistance and work-related obligations for sole parents. In a 2007 comparison, New Zealand was one of 10 countries out of 28 that provided a main cash social assistance benefit specifically for sole parents (Immervoll, 2010 p10).

⁴ See <https://www.humanservices.gov.au/individuals/enablers/mutual-obligation-requirements-parenting-payment/39206>. Planning requirements can apply from 1 July 2018 where there are younger children.
<https://www.humanservices.gov.au/individuals/news/new-requirements-if-you-get-parenting-payment>

Effects of unemployment benefit sanctions

Evidence on the effects of work-related sanctions for unemployment benefit recipients is limited. Few studies attempt to separate the effects of sanctions from other aspects of a policy package or reform.

In addition, few studies credibly estimate the effects of sanctions after taking into account selection effects (ie differences in characteristics between those who experience sanctions and those who do not, which are themselves correlated with outcomes).

Most of the available empirical literature has concentrated on estimating the effect of the imposition of a sanction or a sanction warning letter on current recipients of unemployment benefits ('ex post' effects).

In the absence of any randomised controlled trials of sanctions, the studies use econometric techniques to estimate causal effects. Most look at the exact timing of a sanction or warning in administrative data and examine the strength of the association between these events and the timing of movement off benefit and into work. This approach has limitations, but is the best available method and is widely used and accepted (Mc Vicar, 2014).

A small number of studies examine threat or deterrence ('ex ante') effects, by exploiting variation in sanction rates across areas or offices and estimating whether the background sanctioning rate is associated with outcomes, even when people are not directly sanctioned.

The effect of eligibility restrictions such as pre-benefit activities and non-entitlement periods for voluntarily leaving a job on inflows is mostly ignored (McVicar, 2014), as is the more general effect of sanctions policy on unemployment benefit take-up (Griggs & Evans, 2010).

There is a high degree of overlap in the studies covered by three recent reviews. In their review, Griggs & Evans (2010) identified only 11 high quality studies that estimated the distinct impact of unemployment benefit sanctions. A review by McVicar (2014) identified 10 studies with a strategy for dealing with selection effects. A later review carried out by the UK National Audit Office identified 13 studies (National Audit Office, 2016a; 2016b).

The National Audit Office review provides a summary of possible effects based on job search theory (replicated below). While sanctions would in theory be expected to reduce unemployment duration, their effect on earnings and job stability is uncertain, and they may lead to exit from the labour market rather than job entry.

Possible effects of sanctions¹

Type of effect	Duration of unemployment	Post-unemployment earnings	Job stability
Direct (ex post)	Decrease	Uncertain	Uncertain
Indirect/deterrence (ex ante)	Decrease	Uncertain	Uncertain

Note

¹ Theoretical predictions draw from Arni et al. (2013). Arni et al. also hypothesise that for some groups benefit sanctions may discourage searching for jobs. Source: Replication of Figure 1 in National Audit Office (2016b).

Findings from the three reviews are consistent:

- in the short-term, based on the association between the timing of events, **imposition of a sanction or a sanction warning results in large increases in the rate of exit from unemployment benefits, the rate of job entry, or both**, but the magnitude of the effects varies across studies
- the few studies that consider outcomes post-exit find **imposition of sanction reduces earnings, hours of work and job stability, and increases exits to unknown destinations or from the labour force** relative to what would have happened had the sanction not been imposed
- the few studies that examine deterrence effects on people who do not receive sanctions by examining variation in sanction rates across areas or offices generally find **a stronger threat of a sanction increases benefit exits for work, and reduces earnings and job stability post-exit.**

The National Audit Office review provides a summary of study results:

International studies suggest sanctions increase employment, but the effect can be short-lived, lead to lower wages, and increase inactivity¹

Impact of sanctions on people who receive sanctions	International		Great Britain	
	Studies	Effect	Studies	Effect
Probability of leaving benefits for work	12	Increase	1	No effect
Earnings	4	Decrease	0	-
Hours worked	1	Decrease	0	-
Length of first job after leaving benefits	1	Decrease	0	-
Probability of leaving benefits for unknown destinations	2	Increase	0	-
Impact of the possibility of sanctions on people who do not receive sanctions				
Probability of leaving benefits for work	2	Increase	1	No effect
Earnings	1	Decrease	0	-
Hours worked	0	-	0	-
Length of first job after leaving benefits	1	Decrease	0	-
Probability of leaving benefits for unknown destinations	1	No effect	1	Decrease

Note

1 Thirteen publications covering Denmark, Germany, Great Britain, the Netherlands, Sweden, Switzerland and the United States. See separate technical appendix at www.nao.org.uk for full references (National Audit Office, 2016b).

Source: Replication of Figure 21 in National Audit Office (2016a).

This evidence base has a number of limitations (Griggs & Evans, 2010; McVicar, 2014).

- All of the studies are quasi-experimental or econometric in nature and use post-claim administrative data. There are no randomised studies. While the studies generally use econometric techniques to control for selection into being sanctioned, and to estimate the separate effect of being sanctioned, given their reliance on administrative data, they are unable to fully control for unobservable characteristics that might affect both the likelihood of being sanctioned and labour market outcomes (eg social skills and aspects of previous labour market experience).
- There might be upward bias in estimation of effects on employment. Clients may be sanctioned for not attending an appointment but the reason for non-attendance may be that they have already found a job but not yet notified the agency – a study might estimate the subsequently declared entry into employment to have been the result of the sanction, when only the benefit cancellation was due to the sanction.
- Few studies look at exit destinations other than job entries. Possible effects on movement into 'inactivity' are under-researched.
- Few studies look at longer-term outcomes. There are inconsistent findings across studies regarding the persistence of effects.
- Only one study examines the net effect of benefit sanctions on income, after taking into account both the increase in exits to work and lower earnings and job retention. This study estimates that imposition of a sanction has a negative impact on income over a two-year follow-up (Arni et al., 2013).
- Few studies look at effects by severity of sanctions. Two studies have examined within-regime variation in sanction severity within the context of relatively moderate sanction regimes have mixed results. One shows no significant differences in outcomes by severity; the other finds that more severe sanctions have larger effects on the exit rate from unemployment benefits (McVicar, 2014). The first of these studies shows that even with a maximum penalty of a 20 percent withdrawal of benefit for one or two months, imposition of a sanction doubled the rate of transition from a social assistance welfare benefit to work (van den Berg et al., 2004).
- Few studies look at effects by subgroup or by timing. These topics are under-researched.
- Most studies are from Europe, some involving comparatively moderate sanction regimes, and most identify effects from a fairly low sanction rate (typically 2 percent of claimants). Each study sits within a national system that shapes possible impacts on, eg flows onto other benefits or to inactivity. Estimated effects may not be able to be generalised to contexts in which the sanction rate and severity is much lower or much higher, or the national system of support is very different.
- As noted, none of the available studies consider take-up effects of work-related sanctions – which could occur when eligible individuals are making a decision whether to claim benefit or leave employment. These may be large in size (Griggs & Evans, 2010 footnote 19).

A separate small literature examines the distinct impact of more intensive **job search monitoring**. Six studies include three randomised controlled trials and three quasi-experimental studies. Four of the studies report positive and statistically significant effects on unemployment exits and/or job entry rates. The remaining two studies report positive effects but these are not statistically significant. Few studies look at impacts on other outcomes, and their results are mixed (McVicar, 2014).

There is little evidence on the extent of unintended effects of unemployment benefit sanctions on health and other outcomes.

- The Griggs & Evans (2010) review identified one study that examined direct unintended effects. This quasi-experimental study finds that **property crime rates in the UK rose more in areas where more people were sanctioned**, and where there were more people exiting from unemployment benefits but not going into employment.
- A subsequent quasi-experimental UK study (Loopresta et al., 2018) finds that after accounting for local authority differences and time trends, **the rate at which adults were fed by foodbanks increased and fell with rising and falling sanctioning rates** in the local area.

Effects of work related sanctions in welfare benefits received by sole parents

Another strand of empirical evidence comes from the US welfare reforms to social assistance for low income families (mostly received by sole mothers). The reforms replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF), and led to increased application of work-related obligations and sanctions, with considerable variation in settings across states (Ziliak, 2016).

Sanctions were invariably part of a wider set of changes, including time limits on receipt. Studies of welfare reform (and the welfare experiments that preceded welfare reform) often look at the effects of bundles of changes as a whole. However, a small number of studies provide evidence on the distinct effects of sanctions. The majority are quasi-experimental, exploiting variation in policy across states.

Five studies examine differences in welfare caseload decline by the severity of sanctions. All find that the most severe sanctions (in particular immediate 'full-family' sanctions which removed all entitlement) produced the largest declines (Griggs & Evans, 2010 p25). These results are consistent with an earlier review in which all four studies that examine sanctions find they reduce welfare receipt, and the more stringent the sanction, the greater the reduction (Grogger & Karoly, 2005 p118-9).

In focusing on caseload reductions, these studies capture the possible effects of work related sanctions on take-up, as well as effects on exits. Studies looking at the effect of reform overall have estimated that around half the overall decline in caseloads occurred as a result of the effects of reform on take-up (Grogger & Karoly, 2005 p59).

Evidence on effects of sanctions on employment post-exit is less conclusive, with two studies indicating that sanctioned clients are less likely to be employed after leaving welfare (with one of the studies finding stronger negative effects where sanctions were most severe, and the other finding higher rates of informal work among sanctioned

clients). A third study suggests a higher risk of sanctions was associated with higher work levels (Griggs & Evans, 2010 p26).

Evidence on effects of sanctions on earnings post-exit is similarly mixed. One study finds sanctioned claimants have a reduced likelihood of exit to a higher earning job, although full-family sanctions increase the likelihood of exit to a low paying job. Another study finds imposition of sanctions was associated with lower earnings, but the threat of sanctions (where sanctions were initiated but lifted before payments were impacted) was not. A third study suggests a higher risk of sanctions is associated with higher earnings, but not with increased income (Griggs & Evans, 2010 p27).

A recent narrative review of evidence on the US **welfare reform overall** concluded that while employment and earnings rose, incomes did not. Poverty increased over the longer term (Ziliak, 2016).

"The weight of research evidence seems to indicate that welfare reform reduced participation in the TANF program, increased employment and earnings, and decreased total after-tax and transfer incomes, at least in the lower half of the income distribution of single mothers... Within the bundle of welfare reform policies, time limits and work requirements are the two leading reforms that contributed to the decline in welfare use and rise in employment rates, but what role they had on broader measures of earnings and disposable incomes is as of yet unsettled. Beyond work and welfare, our confidence begins to wane, either because of scarcity of evidence or wide discrepancy of estimates" (Ziliak, 2016 p380).

As with the literature on the impacts of unemployment benefit sanctions, **few empirical studies of US welfare reform examine the distinct effect of sanctions on other, unintended, outcomes**. In the Griggs and Evans (2010) review:

- one study explored the relationship between sanctions and economic hardship – sanctioned claimants were more likely than others to experience hardship, especially food hardship
- another investigated the impact of sanctions, work requirements and time limits on child maltreatment and out of home care using state-level administrative data – some of the results suggested tougher sanctions for non-compliance were related to higher levels of substantiated maltreatment (Griggs & Evans, 2010 p27).

Outside of the Griggs and Evans review, an experimental US study finds a strict welfare package which included use of benefit sanctions to penalise non-compliance with conditions (including permanent case closure for a third instance of non-compliance) increased substantiated neglect rates. The package included a number of elements in addition to sanctions for non-compliance (eg increased earnings disregards, time limits on welfare receipt, and expanded health and childcare coverage). However it does appear that sanctions were important. In descriptive analysis, leading up to and immediately following the stopping of benefit, the incidence of neglect increased more for those whose benefits stopped because of successively more severe sanctions than for those who left benefit voluntarily (Fein & Lee, 2003).

A recent **systematic review** examined 12 randomised controlled trials of welfare-to-work interventions and looked at their effects on the **mental and physical health of sole parents and their children** (Gibson et al., 2018).

Seven of the interventions included in the review were mandatory, involving compulsory job searching, training, work placements or other employment-related activity, with sanctions for non-compliance. All but one of the studies took place in the US or Canada before the year 2000.

There were insufficient studies to statistically investigate effects by whether the intervention was voluntary, or mandatory and accompanied by sanctions.

However, the reviewers used sensitivity analyses to generate hypotheses regarding the influence of these intervention characteristics on effect estimates. These "suggested that voluntary interventions that lead to increased income may have positive effects on child mental health, while mandatory interventions that increase employment but do not improve income may lead to negative impacts on maternal and child health" (Gibson et al., 2018).

Overall, the review found that:

- welfare-to-work interventions did not have important effects on health
- employment and income were slightly higher 18 to 48 months after the start of the intervention, but there was little difference over a longer follow-up
- even when employment and income were higher for the sole parents in the intervention group, most participants continued to be poor.

It is possible that effects on health were small because there was not much change in employment or income. Depression remained very high whether sole parents were in the intervention group or not.

Contextual studies

A range of other studies provide contextual insights into administration of sanctions, who is most affected, client experience, and mechanisms by which sanctions might have their impact.

Studies show inconsistency in the **administration of sanctions**, including racial bias in sanction imposition in the US, and high rates of variation in sanctioning rates across areas and offices (Griggs & Evans, 2010).

A review of studies of frontline practice (van Berkel, 2017) explores the way that context can explain this variation, and ways in which administration might depart from formal policy, eg:

- when caseloads are high and time and energy are scarce, or workers lack the professional expertise or organisational support needed for alternative approaches, threatening sanctions can be seen as a quicker route to securing compliance than building relationships of trust or providing a more individualised response
- performance management of staff may incentivise use of sanctions – workers may not like imposing sanctions and may not consider them effective, but may feel pressured to apply them by the need for quick results
- conversely if sanctions are time consuming to apply and frontline workers have a high work load, this may lead to administration being more lenient than intended
- non-government organisations with responsibility for delivering mandatory services may be reluctant to use sanctions in case their reputation with clients or government is damaged (van Berkel, 2017 p28-29).

A New Zealand evaluation of 1997 reforms that streamlined administration of the work test and reduced the severity of work-related sanctions found variation in staff views about whether the work test process and sanctions were effective, efficient or desirable means of encouraging work-related activities (MSD, 2002). Some staff were concerned that relationships with training providers and employers could be jeopardised if they referred a jobseeker to them only to check whether the jobseeker was meeting their obligations.

The new sanction regime, where a first failure resulted in a 20 percent benefit reduction, was believed to motivate the majority of jobseekers who failed to meet their obligations to reapply. However, staff believed a small number did not respond until the benefit was cut further or close to being cut completely. The new regime was seen as more fair than the July 1995 regime which involved a 26-week stand down of benefit on a second instance of failure in a year. As a result, staff were more likely to make a decision that could result in a sanction. Few wanted to see the sanction severity increased and even fewer wanted to return to the previous sanction levels.

Remaining system inefficiencies created some staff resistance to applying the work test process. There was variation in usage of the work test process both within and between offices (MSD, 2002).

A later evaluation found that a subsequent reform that made the work test process less administratively complex and more automated was followed by an increase in the rate at which work tests were initiated by staff, and an increase in rates of work test failure (MSD, 2004).

A large number of studies have examined **who is most affected**. Studies find a higher likelihood of being affected by sanctions among particular subgroups of clients, including:

- young claimants, claimants with large family sizes, and those from minority ethnic groups
- claimants with low qualifications and limited work experience
- those facing practical barriers such as not having access to public transport or a car, or not holding a driver's licence, not having access to a telephone
- those with unstable housing situations, or a chaotic lifestyles, which can contribute to missed appointments
- those with health problems or disability, or children with ill-health or disability (although some studies find lower sanctions rates among such clients)
- those with other personal barriers such as substance misuse and domestic violence (Griggs & Evans, 2010 p30-32).

Studies that involve interviewing claimants show variation in **client experience** of the imposition of a sanction. Sanctioned clients commonly report experiencing hardship and difficulty paying bills, feelings of anger, frustration, humiliation, depression and anxiety, and in some cases worsening health. Ways of coping include seeking practical, material or financial support from friends or family, sometimes resulting in these relationships coming under stress, using savings, borrowing, undertaking undeclared informal work, selling possessions and going without food. A small number of interviewees report turning to crime. Those with dependants, or no other source of support, appear most vulnerable to negative effects (Griggs & Evans, 2010 p33-34; 36-37).

We found no New Zealand studies specifically focused on client experience of work-related sanctions. However a range of studies find similar themes of frustration with, and in some cases disengagement from, a system experienced as hostile and complex (eg Auckland City Mission, 2014; Baker, Williams and Tuuta, 2012; Ministry for Women, 2018).

Although not focused on sanctions in particular, a recent systematic review of **16 qualitative studies of the impact of mandatory welfare-to-work requirements for sole parents**, including New Zealand studies, found that conflict with the demands of caring for children, and loss of control over decisions regarding employment, childcare, and training, were reported to lead to stress, fatigue and poor mental health. Most of the findings from the review related to negative impacts. However some respondents found participation in welfare-to-work programmes a positive experience, and reported benefiting from training, and experiencing increased self-esteem (Campbell et al., 2016).

Reviews of studies involving interviews with clients, staff and providers provide perspectives on **mechanisms by which sanctions might have their effects**.

Some studies in the UK find the threat of a sanction can lead to contact being re-established, encourage clients to participate in activities which they would have otherwise refused, or encourage claimants to 'step up' job search efforts. There is some

limited New Zealand evidence of such effects based on interviews with clients following Welfare Reform:

"Only five of the 140 clients spoken to in the evaluation remembered having their benefit suspended or reduced. All of these clients said that they had quickly contacted Work and Income to correct the error or fulfill the requirements to restore their benefits. For example, clients said:

"We ended up working it out and I explained that I never got the letter and so it was reduced but then they put it back up." (WSS client, in-depth phone interview)

"It was quite frustrating, but once they talked me through it I knew that I was in the wrong." (WFCM client, in-depth phone interview)

The reasons for clients reporting that their benefits were suspended or reduced were mixed and included not reporting income and not attending appointments or seminars. All clients that had their payments suspended felt that although they were initially frustrated, and in some cases angry, once they understood why their benefit had been affected they felt that it was fair for Work and Income to do so. For example, clients said:

"I called to change an appointment because I was sick, which they said was fine and changed, but then they tried to call me – which I didn't know because it was a private number – and I didn't answer, so they said they would cut the benefit in half because they couldn't reach me. But then in the end I called them and explained and they didn't end up taking any money off, they just threatened to." (WSS client, in-depth phone interview)

Only one client reported that a sanction motivated them to find work, all other cases were situations where the client felt they were already doing everything they could to find work or were not in a situation where they could work (e.g. looking after young children).

While most clients did not feel that the sanctions had helped them or encouraged them in their work search, it was clear that application of the sanctions resulted in the client making contact with Work and Income as soon as they were noticed.

"I missed out on a week or so of income, but I think it was back-dated." (WSS client, in-depth phone interview)

"No impact on me looking for a job at all really – I felt a bit demoralised afterwards." (WFCM client, in-depth phone interview)

One client did feel that the sanctions had pushed him towards work.

"It really did, it pushed me to look for a job and then I found a job straight away." (WSS client, in-depth phone interview)" "

(Malatest International, 2014 p21).

Studies that involve interviewing claimants show that although most claimants are aware of sanctions and understand the principles behind them, they often have little awareness of the sanctioning system, what the obligations they have mean in practical terms, and how to avoid penalties (Griggs & Evans, 2010 p29).

In UK studies, some clients are unwilling or unable to comply regardless of the penalty. And some attend activities to avoid a sanction, but do not positively engage with the activity requirements (Griggs & Evans, 2010 p34-35). Unintended consequences include

disruption to more motivated clients participating in activities, and causing or compounding hostility towards services.

Other reported effects of sanctioning regimes include causing resistance to moving into employment for fear of being penalised should the job prove unsuitable, exit off benefit but not into work, or exit from unemployment to other benefits without active work requirements (Griggs & Evans, 2010 p34-35).

Many of the themes outlined in in this section are reported in the **UK Welfare Conditionality Project** completed since the Griggs and Evans review. A longitudinal qualitative study was conducted with diverse groups of UK service users from 2013-2017, a period in which the extent, severity and frequency of use of sanctions in the UK benefit system was at a historical high.

A synthesis of results found that 'stasis', or a lack of significant or sustained change in employment status, was the dominant pattern across the repeat interviews, and job insecurity was common among those who did obtain paid work. In this context, sanctions did little to enhance people's motivation to prepare for, seek, or enter paid work.

For a substantial minority, sanctions led to negative behavioural changes and outcomes. These included 'counterproductive compliance' (eg applying for jobs they had no realistic chance of getting), disengagement from the benefit system, increased poverty and in some cases destitution, movement into survival crime, and worsened health and impairments.

Respondents commonly supported the principle of welfare conditionality and supported policies that promote responsible behaviour and paid work, but believed that in many cases conditionality was being inappropriately implemented (Welfare Conditionality Project, 2018).

Conclusion

The available empirical literature and complementary contextual studies suggest that policy design and administration needs to carefully balance the potential benefits and negative effects of work-related sanctions.

Empirical evidence provides no guidance on sanction severity that could be considered 'ideal' in achieving this balance.

However, studies of sanctioning regimes less severe than New Zealand's current regime show effectiveness in increasing movement from benefits to work.

Evidence from the US and UK suggests that a very harsh sanctions regime can have important adverse effects that drive people away from, rather than closer to, employment, and might worsen rather than improve the long-term chances of children in the families affected.

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