

PRESERVATION

Proposals for Benefit Reform

Report of the Working Group on Benefit Reform

May 1991

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THE PRIME MINISTERIAL COMMITTEE ON REFORM OF SOCIAL ASSISTANCE

WORKING GROUP ON BENEFIT REFORM

I now have pleasure in attaching the full report of the Working Group on Benefit Reform. The report comprises an

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We have sought to develop a systematic approach to the categoric benefit system which combines incentives to move off benefit and into paid work with the recognition that certain essential needs for state support are to be met.

David A Preston
Convenor

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EXECUTIVE SUMMARY
REPORT OF THE BENEFIT REFORM WORKING GROUP

1. Attached is the report of the Benefit Reform Working Group. It sets out proposals for a major restructure of the benefit system. The proposals have been developed around the philosophy that people of work force age should be primarily responsible for supporting themselves and the dependent members of their core families through their own work efforts. Accordingly the benefit system is available as a safety net where people are unable to meet these self support requirements. In return for receiving benefit support in such situations, people accept the reciprocal obligation to take all reasonable steps to move out of the benefit system and into paid employment; or undergo training or rehabilitation towards greater independence.

A New Benefit Structure

2. The Working Group proposes that the six existing categories of income tested benefits be regrouped into three main categories.
 - (a) Unemployed
 - (b) Health Related
 - (c) Sole Parents.
3. In addition, there will be
 - (i) A small benefit category for Domiciliary Care of invalids. This will be retained pending the outcome of Health/Social Welfare interface decision on funding of such care.
 - (ii) A transitional "Widow/Women Alone" group for older women without dependent children now receiving Widows Benefit or DPB. A qualified closure of this group to new entrants is proposed, with reassessment for some.
4. Officials favour merging the separate Training Benefit stream into the main categories and including training options in each of the three core benefit groups, though a separate Training Benefit could be retained. The difference would be one of names (and the numbers officially counted in the other benefit categories), rather than of substance. However, the issue of training requirements for youth still needs to be addressed.

5. The new benefit classification will involve the abolition of the current separate benefit classifications for Sickness, Invalids, Widows, Domestic Purposes, Unemployment and Training. The assumed dependence on the State involved in the present categories will be replaced by a general requirement to be assessed for capacity to take up paid employment. This will involve recipients looking for full or part time employment where health status or family care obligations for dependent children or other caring obligations do not rule this out.

Unemployment Stream

6. The Unemployment Benefit grouping would be similar to the present benefit of the same name, although it would include a wider variety of people, such as widows and "women alone" without dependent children, spouses of primary benefit claimants, and sole parents with older teenage children only, and older people currently on emergency unemployment benefit. The Unemployment stream would be subject to a full time job search test, and would face a severe income test in the short run. However, certain relaxations could apply for some categories of unemployed.

The Sole Parent Category

7. Two main workforce groupings are envisaged for the Sole Parent benefit category.
 - (a) An "employment exempt" grouping. This will include sole parents with a child under 7, and certain "special needs children" situations. This group, while not required to look for work, would be facilitated to do so.
 - (b) A "employment ready" for part time employment grouping. These sole parents with a child aged 7 to 15 would be required to seek employment of at least 20 hours a week, and would be subject to an income test, designed to facilitate permanent part time employment.

Health Related Benefits

8. The Health Related grouping largely overlaps the current sickness and invalids benefit groupings. However, medical and work capacity assessments will divide this category into long term fully incapacitated, short term fully incapacitated, and partially incapacitated.

Employment Streaming

9. Within each of the main benefit groups people will be classified into four main streams based on a Employment Ready, In Training or Employment Exempt assessment.
 - (a) Employment ready for full time employment (30 hours or more).

- (b) Employment ready for part time employment of 20 hours or more a week.
- (c) In training for employment (or undergoing rehabilitation).
- (d) Employment exempt.

Sole Parents whose youngest child is 16 or above will normally be classified as employment ready for full time employment and would be transferred into the unemployment stream.

New Groups of People Required to Seek Employment

10. The employment classification system will impose the obligation to be looking for employment or be in training for employment on substantial additional groups of people who are now exempt from any employment test obligations. The principal new groups affected by the proposals are:
 - (a) Sole parents whose youngest child is aged 7 to 15. They will be required to seek paid employment of 20 hours or more a week.
 - (b) Spouses of beneficiaries. Obligations on the spouse will vary according to family circumstances. For example in the case of a couple without children both will normally be required to seek full time paid employment.
 - (c) Former sole parents currently classified as Widows or DPB "Women Alone". Unless health reasons exist, they will be required to seek full time paid employment. However, a transitional arrangement is proposed for older women in this category.
 - (d) Semi Invalids and those with health related employment limitations. Following an independent medical examination these groups will be work capacity assessed, and may be required to undertake part time employment, and/or rehabilitation.
 - (e) The group age 55 plus now on Emergency Unemployment Benefit.

Core Family Work Obligation

11. The Working Group has used as its basic unit the "core family" definition approved by the Prime Minister's Committee. In applying assessment of income and establishing employment test obligation it is proposed that the two adults in a couple based household be subject to assessment procedures to define the obligations of each spouse. For example, couples without dependent children would each be expected, to seek full time employment. The income of the couple would be jointly assessed, but the income of dependent children (e.g. earnings from a paper run) would not be included.

12. The health status of each partner, the need to care for a sick or invalid spouse, and child care obligations would be taken into account. However the core obligations for families with children would be built up from the following case which assumes healthy spouses or sole parents with no exceptional conditions applying.

<u>Family Status</u>	<u>Employment Capacity 2 Parent Family</u>	<u>Employment Capacity Individual, or Solo Parent, Family</u>
1. No Dependent Children	2 work full time	1 works full time
2. Dependent child 16 or above	2 work full time	1 works full time
3. Dependent children age 7 to 15	1 ½ full time equivalent workers	½ time work (20 hours)
4. Dependent children aged under 7	1 full time worker	Paid work exempt

13. The exact job search requirements which match these core family work expectations require further elaboration. It should also be noted that in practice most two parent families would be able to exit from the benefit system once one partner found a full time job, or the two between them worked enough hours to qualify for GMFI.

Benefit Rates

14. Benefit rates structures for those employment exempt, and those required to look for full time paid work follow the existing rate structure for income tested benefits. Within the Health Related grouping those with a long term incapacity which fully incapacitates them from employment would be eligible for the current invalids benefit rate; others would receive sickness benefit rate.
15. A decision is required to be made by Government on the benefit structure for those classified as employment ready for part time employment of 20 hours a week or more. Three distinct options exist:
- (a) A full benefit as at present, with an income test which abates benefit rapidly in a middle range of earnings.
 - (b) A reduced base benefit, with an unemployment supplement for those unable to find paid work, plus a large "free area" to encourage employment.
 - (c) A full benefit with moderate abatement after a very low free area.

Income Test Streams

16. In respect of the income test choices have to be made about the rate at which benefit is withdrawn as earnings rise above any exemption level and about the time period of assessment. In effect, devising income tests involves a difficult trade off between four competing objectives.
- (a) Ensuring that beneficiaries always have some cash incentive to take up (extra) employment.
 - (b) Ensuring that people on benefit plus part time earnings are not better off than those undertaking full time paid employment.
 - (c) Having a logical net earnings progression, where a beneficiary gains net cash in the hand in each step between full benefit dependence, benefit plus part time work, and full time employment.
 - (d) Design constraints imposed by the current levels and abatement thresholds for Family Support and Guaranteed Minimum Family Income (GMFI).
17. The Working Group proposes to replace the present uniform income test for beneficiaries with distinct income tests which reflect the work stream classification into which the person or core family has been placed. These are envisaged as.
- (a) **EMPLOYMENT READY - FULL TIME:** a restricted income test which allows very limited income supplementation. This would apply to the unemployed, who would be discouraged from anything other than active search for a full time job.
 - (b) **EMPLOYMENT EXEMPT:** a restricted income test which envisaged limited part time or casual employment.
 - (c) **EMPLOYMENT READY - PART TIME:** an income test which facilitated permanent part time employment of 20 hours a week or more for those classified in this stream.
18. Families with children meeting the job search requirements for full time employment would continue to be eligible for a Guaranteed Minimum Family Income payment. However, the work requirement for Sole Parents is proposed to be increased from 20 to 30 hours per week. Other conditions may also need reviewing.

Employment Exempt

19. The table summarises the main options for the Employment Exempt group.

(I) EMPLOYMENT EXEMPT <u>Classification</u>	OPTION A <u>Allowable Earnings</u>	OPTION B <u>Allowable Earnings</u>
(a) Health Stream - Long term	\$50pw	\$50pw
(b) Health Stream - Other	\$50pw	\$80pw
(c) Sole parents with child under 7	\$50pw	\$80pw
(d) Women Alone group	\$50pw	\$80pw

Work Ready 20 Hours

20. Three options are considered for those required to seek employment of 20 hours a week or more.
- (a) Paying a full benefit, but applying a income test which cuts benefit entitlement in the range \$51 to \$120 earnings a week followed by a second free area between \$121 and \$200 a week.
 - (b) Cutting base benefit, but providing for an unemployment supplement for those unable to find work.
 - (c) Paying a full benefit, but abating benefit steadily between \$30 and \$200 a week.

It should also be noted that an abatement rate of 70 cents means a total Effective Marginal Tax Rate of 98 cents after tax, while a 30 cents abatement rate means an EMTR of 58 cents in the dollar after tax.

(II) Employment Ready (20 Hours)	<u>OPTION A</u>	<u>OPTION B</u>	<u>OPTION C</u>
Base Benefit Conditions	Full Benefit	Benefit Cut By \$50 with Equivalent Unemployment Supplement	Full Benefit
Allowable Earnings	\$50pw	\$175pw	\$30pw
Abatement Rates on Income (\$ Week)	Cents Lost on Benefit Per Extra Dollar	Cents Lost on Benefit Per Extra Dollar	Cents Lost on benefit Per Extra Dollar
1 to 30	0	0	0
31 to 50	0	0	30
51 to 120	70	0	30
121 to 175	0	0	30
176 to 200	0	70	30
201 and above	70	70	70

Work Ready Full Time

21. For the work ready full time group two options are considered.

Employment Ready Full Time	OPTION A Allowable Earnings	OPTION B Allowable Earnings
(III)		
Short Term Unemployed	\$50pw	\$50pw
Long Term Unemployed	\$50pw	\$80pw

SOCIAL IMPACT

22. The Working Group has had prepared some preliminary assessments of the likely social impact of its benefit proposals on particular client groups.
23. Statistics available indicated that of widow/DPB group, 61,574 had a child under 7, and 35,843 a child 7 or above. The sole parent group with older children showed up in statistics as being very different from the group with younger children.

	Youngest Child Under 7 (%)	Youngest Child Over 7 (%)
Living apart from spouse or divorced	38	63
Living apart from de facto spouse	27	16
Spouse deceased	1	10
Unmarried	33	10
Spouse of Mental Home Patient or Prisoner	1	0
Total	100	100

24. The group with younger children was drawn disproportionately from an unmarried or de facto relationship background. It also contained a disproportionately high percentage of Maori sole parents (about 40 per cent), had lower educational levels, and a high percentage of renters rather than home owners.
25. The group with older children came predominantly from a marriage break up background. It was predominantly (about 3/4ths) pakeha (though Maori were still twice the percentage in this group as in total family population). The sole parents in this group were also more likely to be home owners, and appeared to have slightly better education levels than the young group.
26. On the surface at least it would seem that the group with older children are more likely, on average to be able to cope with the new work requirements. To this extent the proposed part time work requirements have foundation in social reality. However, the group coming on behind may have somewhat greater difficulty with much higher training needs. Education and training could be a key resource for facilitating the employability of the younger group.
27. The Health related group also had a somewhat above average Maori representation (19 per cent), but was mainly pakeha. the age structure was relatively flat in the age range 18 to 49, but proportionate numbers rose in the 50 plus age range. Many seemed to be marginally employable people who would have found work in better economic times. To this extent it would seem realistic to seek to re-integrate many into at least part time work.
28. The unemployed group was predominately young. However, those aged 40 plus, while only 17 per cent of the short term unemployed, were 27 per cent of those unemployed 6 months or longer. Overall, the unemployed group had a disproportionately high percentage of Maori (17%) and Pacific Island people (6%) and lower than average educational levels. Lack of marketable job skills was a significant problem. For this group appropriate upgrading of skills also seemed to be a priority.
29. The "women alone" group without dependent children were mainly older women (50 plus). Along with the older unemployed many of this group could face particular problems in re-entering the work force. More thought may need to be given to ways of facilitating this.

CRITERIA FOR ASSESSING PROPOSALS

30. In building up the proposals in this report, officials have applied a number of key criteria. These include:
- (a) Ease of understanding and access
 - (b) Incentives to comply

- (c) Efficient Targeting
- (d) Administrative Efficiency and Feasibility
- (e) Likely Cost Savings
- (i) Equitable treatment and Safeguards

Access

31. The Working Group has laid significant stress on developing a system which, although necessarily more complex than the current system, is still reasonably easy for people to understand. This will facilitate benefit access for cases of genuine need. It should also make clear to people their own obligations to become self supporting where this is feasible. The provision of adequate, full and comprehensible information to recipients is essential if they are to understand their obligations.

Incentives

32. Also important to the Working Group is the compatibility of the positive and negative incentives in the benefit system with the policy objectives of government. This is not always the case with the current benefit system, which tends to encourage benefit dependence by many people.
33. Key incentives in the system are:
- (a) Income tests; and their compatibility with employment test obligations.
 - (b) The work tests themselves, and the associated sanctions for non compliance.

Targeting

34. In developing benefit categorisation and employment streaming proposals the Working Group has sought to follow the principle of efficient targeting. By this is meant that access to the benefit system and the conditions imposed on beneficiaries are appropriate to their situation, and give them a realistic set of options.

Administrative Feasibility

35. For the same reasons the Group has sought to make the proposals administratively feasible and with the lowest realistic cost consequences. Further development of these proposals will also require a realistic time frame for implementation by Departments. A provisional proposal for implementation is set out in a subsequent section. Without realism in the time frame, and realistic resourcing, including having the Department of Social Welfare computer system available on stream, most of the proposals will not work, and government would forego the prospect of significant savings on benefit costs.

Administrative Costs

36. A Preliminary indicative estimate of ongoing costs for implementing all of the proposals developed by officials based on Option B for the 20 hour work stream is as follows. Figures exclude initial capital and development costs, and are in millions of dollars:

<u>DSW</u>	<u>Employment Service</u>	<u>Total</u>
39.5	12.5	52.0

37. Because of the high costs involved the Working Group proposes a staged implementation concentrating initially on the groups where the cost/benefit ratio is most favourable; or the largest net fiscal savings are attainable. This leads to a phasing spread over several years as the preferred strategy. This also eases administrative peaks, and recognises the reality of the employment situation. It also reflects the fact that DSW administrative resources may be required for other fiscal measures which have a higher immediate priority.

In the case of some of the Health proposals the short term cost benefit ratio is unfavourable, and implementation should be deferred until employment prospects improve.

Fiscal Savings

38. Fiscal cost savings are expected to come mainly from behaviour changes on the part of clients. Overall, the main fiscal gains expected from the change include:
- (a) People moving off benefit entirely and into the full time work force.
 - (b) Lower average benefits paid to some beneficiaries, either from benefit abatement or transfer to lower rate categories.
 - (c) Extra tax receipts generated by increased part time and full time work by current beneficiaries.
39. In preparing estimates of fiscal savings the Working Group has taken two alternative assumptions
- (a) A base estimate, which reflects what seems feasible in current employment circumstances.
 - (b) A low estimate which assumes an even deeper employment recession and even greater difficulty in finding jobs for hard to place beneficiaries.

40. No high estimate has been done because this is not regarded as realistic in present employment circumstances. However, net fiscal savings could be two or three times as high if significant employment growth resumed for a sustained period.
41. Estimates shown below assume 50 per cent displacement effects in the base estimate, and 75 per cent in the low estimate. On this basis and assuming Option B for the 20 hour work stream the projected savings are:

	Net Benefit Savings \$M \$M	Extra Tax	Fiscal Gains \$M
Base Estimate	112	22	134
Low Estimate	52	5	57

These savings would need to be set against the extra administrative costs.

Equity and Safeguards

42. The Working Group is also concerned that the system should be fair and equitable. This involves both reasonable rules and adequate appeal rights for people subject to new work test requirements.

RISKS

43. In any new system there is a risk that planned objectives will not be reached. The "risks" need to be assessed in reaching a final decision.

44. The Benefit Reform Working Group identifies the following "risks" to the success of its proposals.

(a) **High and rising unemployment**

The long term success of the strategy in reversing growth in benefit dependence will depend on the return of some employment growth to the economic system.

(b) **Training Failure**

The lack of training places or real training options for real jobs could also limit long term placement success.

(c) **Administrative Failure**

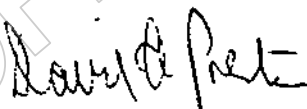
A risk of administrative procedures failing to adequately back up the policy intentions of government. This risk could be significant if the administration process was poorly prepared, under resourced, or implementation was attempted on too rushed or ambitious a time scale. This would suggest that if significant reform is wanted, it should be properly planned with a realistic implementation time scale.

The proposals should be considered in terms of immediate impact, but also, more importantly, in terms of the long term effects in expenditure and employment.

(d) **Clients Not Reacting**

A risk of beneficiary clients simply failing to react to the degree expected, and short and longer term benefit savings are not as large as anticipated. Such a reaction could imply misunderstanding of the actual social realities faced by the client groups.

45. Against these risks should be set the alternative hypothesis that the reforms will be much more successful than the relatively conservative "base" and "low" estimates made by officials; and that a benefit structure with more realistic social and economic assumptions, and better incentives could help turn around the previous high growth trends in many types of benefit dependence.
46. It should also be stressed that the proposed change to a new Health Benefit has the least favourable cost benefit outcome, and should in reality be regarded as a change to be introduced when employment conditions are more favourable.
47. More information on Government priority and likely timing of other reforms will be needed before a revised time pattern of costs and fiscal benefits can be developed.



David A Preston
CONVENOR

ANNEX

POSSIBLE TIMETABLE: IMPLEMENTATION OF BENEFIT REFORM (With Other Key Dates)

The text below gives a possible implementation timetable for benefit reform. All dates are tentative, and may need to be rescheduled in the light of signified decision in GRI, Health, Childcare, and other targeting exercises.

<u>1991</u>	July	Budget Announcements
	August	(a) Transfer existing DPB and WB with youngest child over 16 to UB. (b) Close off on new entrants to DPB and WB "Women Alone" born after 1941 or 1936. (c) Possible Budget Fiscal Measures
	November	SWIFTT "Go Live" on Main Benefits (existing)
<u>1992</u>	April	(a) Delivery of Family Support/GMFI from DSW (b) GRI changes through ITSC system of DSW (c) Possible youth benefits changes (or July)
	July	(a) Employment test sole parents with youngest child 11 - 15 (b) Accommodation supplement (c) Processing changes to UB (SWIFTT) in DSW
	October	(a) GRI payment through SWIFTT in DSW (b) Transfer WB Women Alone under 50/55 to UB (c) Transfer EUB over 55's to UB
	December	Close training benefit stream (incorporate into UB and Sole Parent
<u>1993</u>	April	Employment test UB spouses (youngest child over 12 or no children)
	July	Employment test Sole Parents (youngest child 7 - 10)
	October	Employment test UB Spouses (youngest child 7 - 10)
<u>1994</u>	April	New Health Benefit system (replacing SB, IB)
	October	Employment Test other spouses (Health Benefit stream, UB child 0 - 7)

RECOMMENDATIONS

It is recommended that the Prime Ministerial Committee:

Section 2 : Terms of Reference

- (a) note that the Terms of Reference (as set down in PMR (91) M 4/6) directed the Working Group to:

develop a new system of categorical social welfare benefits which will facilitate the Government's objectives of encouraging self-sufficiency ... and discouraging unnecessary dependence on the benefit system by people who have the capacity to participate in the full or part time paid work force;

- (b) note that Cabinet has agreed (CAB (91) M 13/10 of 8 April 1991) that the philosophical underpinning of the benefit system is:

- (i) the core family unit has primary responsibility for meeting its own welfare needs; and
- (ii) the State has secondary responsibility for meeting the basic welfare needs of those unable to do so through their own resources, recognising that this inability may be full or partial, and of short or long term duration;

Section 4 : Eligibility Issues

(Basis of eligibility)

- (c) agree that benefit eligibility be based primarily on the principle of providing income support to those who are unable to support themselves through paid employment;
- (d) note that those who are unable to support themselves through paid employment generally fall within the groupings set out in column A below, and that these relate to existing benefit categories as set out in column B:

	<u>Column A</u>	<u>Column B</u>
(i)	unemployed	Unemployment Widows (Childless) Domestic Purposes (Women Alone) Domestic Purposes & Widows where youngest child is 16 and over
(ii)	sole parent	Domestic Purposes and Widows where youngest child is under 16)

- | | | |
|-------|--------------------|-----------------------------------------------------------------------|
| (iii) | health related | Sickness
Invalids |
| (iv) | trainees | Training |
| (v) | domiciliary carers | Domestic Purposes (Carers of Sick)
Emergency Unemployment (Carers) |

(Employment tests)

- (e) agree that focusing benefit eligibility on the basis of inability for self support through paid employment:
- (i) requires assessment of the capacity to undertake paid employment; and
 - (ii) implies an obligation to seek employment up to that capacity;
- (f) note the "employment capacity" groups developed by the Working Group are :
- (i) full-time employment ready (30 hours or more);
 - (ii) part-time employment ready (20 hours or more);
 - (iii) employment exempt : no employment expectations; and
 - (iv) training for employment;
- (g) note
- (i) that the Working Group has been guided by the previous decision of Government, that the "Core Family Group" is to be used as the "unit of assessment and support" for the purposes of assessing eligibility to social assistance, (PMR (91) M 6/5) and;
 - (ii) that the Core Family Group is considered to be:
 - (1) a couple caring for at least one child or young person
 - (2) an unattached adult caring for at least one child or young person (sole parent family)
 - (3) a couple not caring for any children or young persons
 - (4) an unattached adult not caring for any children or young persons

- (h) agree that using the Core Family Group as the "unit of assessment and support", requires an assessment to be made of the capacity for employment of each adult in a Core Family Group;
- (i) agree that benefit eligibility for a Core Family Group is not dependent on (and does not require the assessment of) the employment capacity of any dependent children or young persons within that Core Family Group;
- (j) note that focusing benefit eligibility on employment capacity, and using the Core Family Group as the unit of assessment and support will impose job search requirements on the following groups, in addition to applicants of current the Unemployment Benefit:
- (i) widows without children;
 - (ii) "Women alone" (older women formerly sole parents or carers);
 - (iii) sole parents (including widows) where the age of the youngest child does not preclude paid employment; and
 - (iv) spouses of existing beneficiaries (Unemployed, Training, Sickness, Invalids)
 - (v) older unemployed (Emergency Unemployment Benefit for those 55 or older);
- (k) in respect of the assessed employment capacity of a couple (where both spouses are healthy) and the "job search requirement":
- (i) agree that where there are no dependent children, the assessed employment capacity of the unit is 2 full time jobs, and the resultant job search requirement is:

both partners are required to seek full time employment while any benefit is being paid;
 - (ii) agree that where there are dependent children with the youngest aged 16 - 18 years, the assessed employment capacity of the unit is 2 full time jobs, and the resultant job search requirement is:

both partners are required to seek full time employment while any benefit is being paid;
 - (iii) agree that where there are dependent children with the youngest child aged 7 -15 years, the assessed employment capacity of the unit is 1 full time job & 1 half time job, and the resultant job search requirement is:

both partners are required to seek full time employment until the assessed capacity is reached;

- (iv) (a) agree that where there are dependent children with the youngest child aged 1 - 6, the assessed employment capacity of the unit is 1 full time job;

and

- (b) **EITHER** (1) agree that the resultant job search requirement is:

both partners are required to seek full time employment until the assessed capacity of the unit is reached

- OR** (2) agree that the resultant job search requirement is:

that the couple nominate which partner is to be designated as the primary carer, and that the other partner seek full time employment while any benefit is paid; and

- (v) agree that where there are dependent children, with the youngest aged under 12 months, the assessed employment capacity is 1 full-time job, and the resultant job search requirement is:

that the couple nominate which partner is to be designated as the primary carer, and that the other partner seek full time employment while any benefit is paid;

- (l) (i) note that the specification of employment capacities and job search requirements outlined in the preceding Recommendation (k) covers only some of the situations which will need to be catered for, and
- (ii) direct officials to develop a comprehensive specification for assessing the employment capacity and resultant job search requirement for the remaining benefit situations, taking account of the decisions made in respect of recommendation (k);

(Benefit labels)

- (m) note that the current benefits are based on the major characteristic which either precludes active employment (eg Sickness, Unemployment) or gives rise to eligibility for State income support, rather than relating to the beneficiary's capacity for employment;
- (n) note that if benefit eligibility is more explicitly related to capacity for employment, it would be possible to develop benefit labels which reflected this, and that this would sub-divide beneficiary groups in a quite different way to the current groupings;
- (o) note that it would be possible to adopt either approach in the current benefit reform;

- (p) note that a staged implementation of the benefit reforms would be possible if the benefits were grouped along similar lines to those now used, (listed in column A of Recommendation (d));
- (q) note that using groupings based on those noted in the previous recommendation would not preclude moving to the groupings based on assessed employment capacity once such assessment procedures for all groups had been introduced;
- (r) agree to develop benefit labels around the following major groupings, together with those minor grouping agreed to in subsequent recommendations, to replace existing benefit categories, during the implementation stage of employment assessments:
- (i) unemployment
 - (ii) sole parenting
 - (iii) health related conditions;
- (s) **EITHER** (1) agree to regroup benefit labels (and therefore beneficiary groupings) around employment focus categories once the employment assessment procedures for all groups are in place (as one of the last implementation stages of benefit reform);
- OR** (2) agree to review benefit labels once the employment assessment procedures for all groups are in place;

(Benefit rates)

- (t) note that the current benefit system has different benefit rates for those on the Unemployment Benefit, the Sickness Benefit, and the Invalids Benefit;
- (u) note that in the current benefit system a couple with one spouse who is unable to take employment due to a health related condition could receive a benefit at any of the three levels note in (t), depending on the "presenting circumstance" and the nature of the health condition;
- (v) decide that in a benefit system focusing on the employment capacity of the Core Family Group, a couple with one spouse is assessed as employment exempt due to a health related condition, the rate payable will be:
- EITHER** (i) determined by the health capacity of the incapacitated spouse (so that a rate equivalent to the current sickness or current invalids benefit is payable)
- OR** (ii) determined by the assessed employment capacity of the Core Family Group (so that where there was a job search requirement for a full time job, the current unemployment benefit is payable)

- OR (iii)** a standard rate set at the current unemployment benefit rate, with additional fixed level supplements available to take account of the health condition and/or an expected long duration - with officials to further develop this option;

Section 5 : Targeting

- (w) note that the primary mechanism for targeting benefit assistance to those in need who meet the eligibility requirements is through the benefit income test;
- (x) note that the current benefit system uses a standard income test across all benefit types, and that the income test was last changed in 1986;
- (y) note that the design of an income test should take account of :
- (i) the levels of benefits and of prevailing wages;
 - (ii) the impact of benefit abatement on incentives for self-support; and
 - (iii) the administrative requirements and their costs;
- (z) note that there is currently little margin between some benefit rates and low wages;
- (aa) agree that the income test should reinforce the signals given by the employment capacity assessments, so that people are expected to undertake employment to the extent that this is possible;
- (ab) note that recommendation (aa) implies that the income tests applying to each employment capacity grouping should be tailored to that grouping, and that as a result a "standard" income test may no longer be appropriate;
- (ac) note that there are administrative reasons for maintaining an "exemption" or "free zone" over which no abatement of entitlement occurs;
- (ad) note that the Working Group has developed an income test scheme, with options, which is designed to
- provide consistent signals to the employment streams
 - differentiate on account of employment capacity
 - encourage people to seek work up to their capacity
 - ensure that people are generally better off if they progress from one stream to the next, if they find employment up to the capacity of that stream

(ae) in respect of those assessed Employment Ready 30 hours:

agree that the income test be:

- an exemption on the first 50 gross of weekly income;
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption;
- a four week period for assessment of income;

note that alternative approaches for the long term unemployed and some other groups are not recommended at this stage but could be developed.

(af) in respect of those assessed as Employment Ready 20 hours:

EITHER (1) agree that the income test be:

- an exemption on the first \$30 gross of weekly income
- abatement of benefit at a rate of 30 cents per dollar of income in excess of the exemption, and up to \$200 gross per week
- abatement at a rate of 70 cents per dollar for income in excess of \$200 gross per week;
- a four weekly income test assessment period

OR (2) agree that the income test be:

- an exemption on the first \$50 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption, and up to \$120 gross per week;
- no abatement for income between \$120 and \$200 gross per week;
- abatement at a rate of 70% per dollar income in excess of \$200 gross per week;
- a four week period for assessment of income.

OR (3) agree that the income test be:

- an exemption on the first \$175 gross of weekly income;

- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption
- a four week period for assessment of income, and that this be accompanied by a basic rate of benefit which is reduced by \$50 gross per week, with provision to pay a supplement of up to \$50 per week for those unable to find employment so that their final income would not be less than the standard rate of benefit for their family type;

(ag) in respect of those assessed to be Employment Exempt

EITHER (1) agree that the income test be:

- an exemption on the first \$50 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption
- a four week period for assessment of income for the short term health related group, and an annual period for the remainder;
(majority preference)

OR (2) agree that the income test be:

- an exemption on the first \$80 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption;
- a four weekly period of assessment of income for the short term health related group, and an annual period for the remainder;

OR (3) agree that the income test be:

- (i) for those exempt because of a long term health related condition, an exemption on the first \$50 gross of weekly income;
- (ii) for those exempt because of other reasons;
- an exemption on the first \$80 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of those exemptions
- a four weekly period of assessment of income for the short term health related group, and an annual period for the remainder;

(GMFI)

- (ah) agree that the objectives of the income tests would be complemented by employment hours rules for the Guaranteed Minimum Family Income programme of:
 - (i) in respect of couples, 30 hours a week (no change from now);
 - (ii) in respect of sole parents, an increase from 20 hours to 30 hours;
- (ai) note that the Department of Social Welfare is to take over the delivery of the Family Support programme and the Guaranteed Minimum Family Income programme for 1 April 1992 (SOC (91) M 7/1 of 8 May 1991 refers), and that officials will be reporting to the Cabinet Social and Family Policy Committee on further family assistance issues next month;
- (aj) agree that the GMFI levels be considered further by officials reviewing that programme, to take account of decisions taken in respect of the benefit income test;

(Assets Testing)

- (ak) agree that a decision on any assets test for income tested benefits be deferred until work is completed by other officials who are looking at an overall framework for possible assets testing;

Section 6 : Sanctions for Non Compliance with Employment Test

- (al) agree that effective sanctions are necessary where people fail to make the effort to seek employment they are capable of, to the extent that they are required;
- (am) note that the existing sanction for non compliance with the job search requirements of the Unemployment Benefit is a 26 week standdown period;
- (an) note that the existing Unemployment Benefit sanction is moderated :
 - (i) in respect of couples, with the spouse of the sanctioned beneficiary being able to receive a 1/2 couple rate if she/he subsequently fulfils the job search requirements; and
 - (ii) in respect of sole parents, who are able to move onto the Domestic Purposes Benefit;
- (ao) note that the Working Group has developed recommendations on sanctions, taking account of:

- (i) Government decisions for the 19 December 1990 package on sanctions for in respect of the Unemployment Benefit;
 - (ii) the focus on assessed employment capacity; and
 - (iii) the core family group;
- (ap) note that in the proposed system the sanctions will be applicable to those Core Family Groups where there is an assessed employment capacity and resultant job search requirement;
- (aq) (in respect of those with job search requirements to seek full-time employment:)
- (i) agree that where one partner of a couple with children fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
 - (ii) agree that where a sole parent (with dependent children) who is the recipient of a benefit fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
 - (iii) **EITHER** (1) agree that where one partner of a couple with-out children fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate for the duration of 26 weeks;

(Majority preference)

OR (2) agree that where one partner of a couple with-out children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;

(Treasury preference)

- (iv) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;

(in respect of those with job search requirements to seek part-time employment:)

- (v) agree that where one partner of a couple with children fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
- (vi) agree that where a sole parent (with dependent children) who is the recipient of a benefit fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
- (vii) agree that where one partner of a couple with out children fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate for the duration of 26 weeks;
- (viii) **EITHER** (1) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;

OR (2) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement until a job of 20 hours or more is found;

OR (3) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the payment of benefit at 50% of the previous rate for a duration of 26 weeks

(Majority preference)

- (ar) agree that non-compliance with the job search requirements to the extent that a sanction will be applied will involve turning down two offers of suitable employment without "good and sufficient" reason, or failing to attend two interviews without "good and sufficient" reason
(which is the current situation with the Unemployment Benefit sanction);

- (as) agree that further work be undertaken in the implementation phase to:

- (i) define "suitable employment" and "good and sufficient reason" in context of the wider groups of beneficiaries who will have an employment assessment and job search requirement;
- (ii) determine the appropriate manner of drafting legislation for "good and sufficient reason";

Section 7 : Definition of Adulthood

- (at) agree in principle that there should be a "standard minimum age" of entry into the benefit system, which defines when a young person is no longer a member of their parent's Core Family Group;
- (au) agree in principle that there should also be a range of specific circumstances which accord "adult" status on people below the "standard minimum age";
- (av) note that these circumstances could include:
 - (i) marriage;
 - (ii) welfare considerations;
 - (iii) being in full-time employment;
 - (iv) having previously been financially independent of parents; and
 - (v) being a parent;
- (aw) note that the Working Group has worked on the assumption that the "standard minimum age" would generally be 18;
- (ax) note that adopting the age 18 for entry into the benefit system would remove the entitlements currently available under all existing categories (except for unemployment);
- (ay) agree that young people not deemed to be independent of parents should be recognised in the appropriate family assistance programme;
- (az) note that further consideration of youth income support is required to take account of training and youth policy objectives (including the Student Allowance system);
- (ba) agree that a sub-group of the Benefit Reform Working Group, augmented by representatives from Youth Affairs, Women's Affairs and Education undertake further work, and report back by 30 August 1991 on:
 - (i) youth income support taking account of training and youth policy objectives (including the Student Allowance system);
 - (ii) the implications for young people and their families of adopting the age 18 as the standard entry age into the benefit system; and
 - (iii) the range of circumstances for conferring "adult status" at an earlier age;

Section 8 : Childcare and After School Care

- (bb) note that issues related to the general provision of childcare services and the provisions of out-of-school care are the subject of separate review exercises;
- (bc) note that the availability of adequate and affordable childcare is a major influence on the extent to which parents with caring responsibilities for pre-school aged children are able to engage in paid employment;
- (bd) note that the availability of adequate and affordable out-of-school care is a major influence on the extent to which parents with caring responsibilities for school age children are able to engage in paid employment, and further note the importance of this if there is a job search requirement on those with a youngest child aged 7 or over;
- (be) note that in the context of this exercise the focus on childcare and out-of-school care issues has been related to the objectives of minimising benefit dependence;
- (bf) note that assistance with childcare or out-of-school care costs could be targeted to beneficiaries by way of :
 - (i) a user subsidy; or
 - (ii) an increase t the level of the existing special \$20pw income exemption related to childcare costs;
- (bg) note that further work is required in assessing the preferred mechanism for assistance and the level of that assistance, and further note that this work should be done in conjunction with the work on the development of an out-of-school care subsidy for low income earners;
- (bh) note that there are costs for Government in assisting the beneficiary with the costs of out-of-school care either by use of a subsidy or special exemption, and further note that more work is need to specify these costs;

Section 9 : Unemployment Grouping

- (bi) agree that there be two "streams" of beneficiaries who will be required to be available for, and actively seeking paid employment ("employment ready"):
 - (i) those facing a full-time employment test (of at least 30 hours paid work)
 - (ii) those facing a part-time employment test (of at least 20 hours paid work);

(cross refer rec. (f))

- (bj) agree that those beneficiaries who will be facing a full-time employment test will include:
- (i) those currently in receipt of unemployment benefit;
 - (ii) those older unemployed currently in receipt of an Emergency Unemployment Benefit;
 - (iii) spouses in a Core Family Group who are expected to be available for full-time employment;
 - (iv) sole parents with a youngest child over the age of 16;
 - (v) those beneficiaries with a health related incapacity who have been re-assessed as capable of full-time employment;
- (bk) note that a spouse who is caring full-time for a sick or infirm partner would not be expected to seek employment;
- bl) note that the proposed system for "employment ready" beneficiaries is based closely on current eligibility conditions attached to the Unemployment Benefit, with:
- registration with the NZES;
 - mandatory work focus interviews at 26 and 52 weeks of registered unemployment;
 - possible referral to a range of employment-related programmes (employment placement, training etc);
- (bm) agree that further work be undertaken to develop a more closely targeted employment test (such as joint interviews of recipients by DSW and NZES) for those beneficiaries whose continuing eligibility may be doubtful;

Section 10 : Health Related Grouping

- (bn) note that the Working Group has developed proposals to re-focus income support for those currently on sickness and invalids benefits, towards capacity for employment, taking account of the Core Family Group;
- (bo) note that such a change would involve:
- (i) splitting the group into long term and short term;
 - (ii) enhancing the medical assessment procedures, to ensure compatibility with employment capacity assessment requirements; and

- (iii) assessing the capacity of spouse to undertake employment;
- (bp) note that the costings undertaken by the Working Group indicate that such a change would cost more in administration than it would be likely to return in reduced Crown payments, in the current employment environment;
- (bq) agree that this element of the benefit reform be deferred until there is an improvement in economic activity;
- (br) note that in the meantime there are minor changes which can be undertaken to tighten existing screening procedure for Sickness and Invalids Benefits, which are cost effective;
- (bs) agree that officials report further on more immediate changes which can be undertaken;
- (bt) note that issues related to barriers to employment for people with disabilities is the focus of another Working Group, the Working Party on Employment Policy for People with Disabilities, which will report in June;
- (bu) agree that the recommendations of the Benefit Reform Working Group relating to the income test to be applied to those with health related conditions, particularly the use of special exemptions, be referred to the Working Party identified in (bt) for consideration in the context of their brief;

Section 11 : Sole Parent Grouping

- (bv) agree that sole parents continue to be eligible to receive benefit support, subject to specific rules related to their caring responsibilities and, in some cases their assessed capacity for employment;
- (bw) agree that the new sole parent stream will incorporate sole parents currently covered by the Domestic Purposes Benefit and the Widows Benefit;
- (bx) agree that eligibility for benefit support for sole parent grouping be limited to those who, in addition to fulfilling residential requirements;
 - (i) are deemed themselves to be "adult"; and
 - (ii) have responsibility for the care of their own (natural or adoptive) child, where that child is under the age of 16;
- (by) agree that a sole parent whose youngest child has reached age 7 be required to undertake job search for employment of at least 20 hours per week;

- (bz) agree that sole parents whose youngest child is over age 16 will be required to undertake job search for full-time employment within the unemployment grouping, and that where they are unable to find full-time employment, will be entitled to payment of a benefit at the appropriate sole parent rate;
 - (ca) agree that sole parents will be exempt from job search requirements for a period of six months following the death of or separation from a spouse or partner;
 - (cb) note the need for special circumstances which limit a sole parent's capacity to undertake employment in any given situation (such as health of a child, and availability of childcare arrangements) to be taken into account when determining whether and how a job search requirement is applied;
 - (cc) note that further work is required to identify the range of special circumstances which limit a sole parent's capacity to undertake employment in any given situation, and to determine the most appropriate way of taking account of these;
- (cross refer rec (as))
- (cd) note that the rates payable to sole parents included in the sole parent stream will be the same rates payable now to sole parents receiving the Domestic Purposes Benefit;
 - (ce) note that sole parents currently included in the Invalids Benefit will continue to receive the Invalids Benefit sole parent rate;
 - (cf) agree that the bases for termination of eligibility for benefit support for sole parents will be based on those currently applying to the domestic purposes benefit, with the addition of the point at which the sole parent is required to seek full-time employment;
 - (ci) note that existing services from the New Zealand Employment Service will be required to expand to cater for the employment testing of sole parents (the associated costs are covered in later recommendations);
 - (cj) note that out-of-school care and childcare services are fundamental to the ability of many sole parents to successfully undertake employment;

Section 12 : Carers of Sick and Infirm

- (ck) note that the logical method of providing funding for the care of the sick or infirm is by way of an entitlement available to that person, but that this has cost and other implications;
- (cl) note that such an approach needs to be considered in the wider context of the health/welfare interface;

- (cm) agree that until such time as this is considered in the health/welfare interface context, carers of the sick or infirm continue to access income support through the benefit system, through a "Domiciliary Care Benefit", to replace the analogous stream currently existing in the Domestic Purposes Benefit;
- (cn) agree that the Domiciliary Care Benefit not be subject to an employment test;
- (co) agree that further work be done to determine the practicality of extending "Domiciliary Care Benefit" to cover those currently caring for a sick or infirm spouse under the Emergency Unemployment Benefit provisions;

Section 13 : Training for Employment

- (cp) agree attendance at an approved course of training meets the employment test requirements;
- (cq) note that there are two options for the treatment of trainees in the benefit system;

OPTION ONE allow all beneficiaries taking up employment related-training to remain on their parent benefit, at their current benefit rate, coded as "training for employment" for the duration of the training;

OPTION TWO allow trainees in the "employment exempt" stream to remain on their parent benefit, and require those deemed "employment ready" to move onto a separate Training Benefit;

- (cr) agree to Option One set out in recommendation (cq) in respect of adults in training;
- (cs) note that in respect of young people in training, the nature and availability of income support is dependent on decision in respect of youth support and the definition of "adulthood"

Section 14 : Women Without Dependent Children

- (ct) note that there is currently provision to pay a Widows Benefit or Domestic Purposes Benefit to those women without dependent children who have previously raised a family or have been dependent on a supporting spouse for a number of years, and further note that most of these women are over 50 years of age;

- (cu) agree that in principle women without dependent children, and without the support of a spouse, who apply for income support should be subject to an assessment of their capacity to undertake employment, and where appropriate face a requirement to seek full-time employment;
- (cv) agree to EITHER subject all women without dependent children to an assessment of their employment capacity, and impose a job search requirement on those with an assessed capacity;
 - OR (i) restrict entitlement to a benefit which is not subject to an employment expectation to those currently aged over a certain age; and
 - (ii) impose an employment test on those aged under the agreed age
 - (iii) further agree that the age be set at :
 - either 50 (ie those born before 1941)
 - or 55 (ie those born before 1936)(Working Group preference);
 - (iv) further note that this option provides protection for some of the existing recipients, as well as other women in the same age cohort;

Section 15: Social Impact

- cw) note the social impact of the proposed changes which are outlined in Section 15 of the report;
- cx) note that the changes will be most likely to produce the desired results if recipients understand them, and if they are implemented taking account of the needs of the different client groups;
- cy) agree to establish a sub-group comprising the delivery departments and Manatu Maori, Pacific Island Affairs, Youth Affairs and Womens Affairs, within the implementation phase to develop plans for consultation on implementation with the key communities affected;

Section 16: Operational Issues for DSW

- cz) note that the changes proposed in this report represent a major change in the programmes delivered by the Department of Social Welfare;

- da) note that the Department is likely to be required to deliver other reforms arising out of separate exercises, and that this will influence the Department's capacity to implement benefit reforms over the time period;
- db) note that the Department will be involved much more intensively with beneficiaries, and that this will require a different balance of skills amongst staff;
- de) note that the implementation costs are included in the recommendations relating to section cost.

Section 17: Operational Issues for NZES

- df) note that the introduction of employment testing for a larger population of beneficiaries will have major implications for the New Zealand Employment Service;
- dg) note that carrying out all of the proposed changes would see an increase of about 35% in the number of people registering with NZES;
- dh) note that an increase in the number of people work-tested would cause a significant increase in the number of people classified as unemployed by the Household Labour Force Survey;
- dh) note that NZES is not in a position to cope with a one-off increase in the register of this order, and that therefore the phase in would have to be spread over a period;
- di) note that the changes will require NZES to develop new strategies aimed at assisting job seekers into part-time employment;
- dj) note that more resources will be to provide the same level of service placement into jobs;
- dk) note that the application of job search requirements on a larger population will lead to an increased demand for employment assistance programmes - especially for those with the greatest barriers to employment, and that funding for existing programmes will need to be reviewed;
- dl) note that the implementation costs are included in the recommendations relating to section cost.

Section 18: Costings

- dm) note that the changes proposed have major operational cost implications, which need to be considered alongside of the potential for fiscal savings to Government in terms of Payments on Behalf of the Crown, and increased tax revenue;
- dn) note that the timing of costs and savings depends on the implementation scenario settled on;
- do) note that it is possible to identify operational costs with some certainty, but more difficult to be certain about the potential savings;
- dp) note that the savings will depend very much on the state of the labour market (and economic activity generally) and on the extent to which people conform to the assumptions of behavioural change built into the costings base;
- dq) note that the preliminary estimates of savings from all changes (before operational costs) are in the range \$133m (base estimate) and \$57m (low estimate);
- dr) note that the preliminary estimates of operational costs are \$39.5m (DSW) and \$12.5m (NZES) per annum (these costings do not include all capital or start-up costs);
- ds) note that detailed costings are contained in section 18 of the main report.

Section 19: Timeline

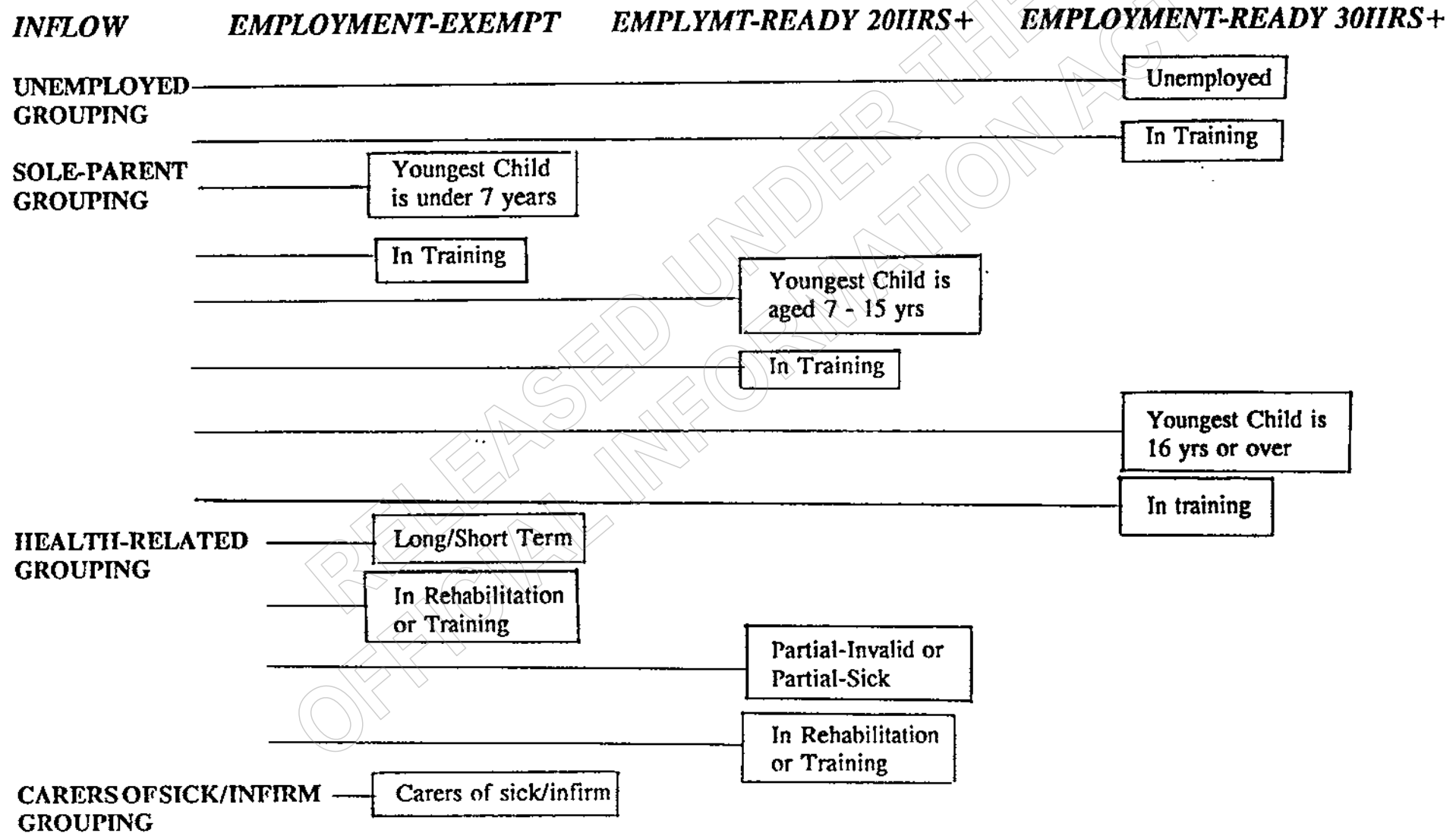
- dt) agree in principle that the benefit reform changes be phased in over a period;
- du) note that the phasing in of benefit reform changes needs to be considered alongside other changes being contemplated in the social policy area;
- dv) note that other factors to be taken into account when setting the timeline include:
 - i) the costs and benefits of each stage;
 - ii) administrative feasibility
 - iii) employment prospects
 - iv) Government's priorities
 - v) the amount of further developmental work required
- dw) note that the changes will require considerable amendment to the Social Security Act 1964;

- dx) agree that the Department of Social Welfare report further, through the Minister of Social Welfare, on the appropriate approach to legislation, including considerations of a major statutes revision;
- dy) note that the provision of appropriate information will be critical to the success of the changes in influencing behaviour, so that people maximise their efforts to be self supporting;

Concluding Recommendations

- dz) note that the areas of risk associated with these proposals relate to
 - i) the continuance of high and rising unemployment
 - ii) lack of appropriate support services, such as training places
 - iii) administrative failure
 - vi) clients not reacting
- ea) endorse in principle the benefit reform proposals presented in the preceding recommendations, and:
 - i) indicate Government's priorities for benefit reform, in the context of priorities for other social policy reforms;
 - ii) direct officials to report further on the timing (with costings) of changes, in the light of those priorities, and decisions taken in respect of the proposals.

APPENDIX : New Benefit System Overview



PART I : BACKGROUND TO BENEFIT REFORM

Section 1 Terms of Reference

Section 2 Introduction

Section 3 Current System

SECTION 1 : TERMS OF REFERENCE

- 1.1 The principal task of the Working Group is to develop a new system of categorical social welfare benefits which will facilitate the Government's objectives of encouraging greater self sufficiency by New Zealanders and discouraging unnecessary dependence on the benefit system by people who have the capacity to participate in the full or part time paid work force.
- 1.2 In developing and reporting on proposals for the benefit system and its associated structure of allowable earnings, the Working Group shall take due account of:
- (a) The practical realities affecting beneficiaries, notably their health status, ability to work, recent work experience, skill level and family responsibilities;
 - (b) Administrative measures needed to implement the system, including assessment, work testing and referral procedures, reporting and renewal procedures to establish entitlement;
 - (c) Any support measures needed to facilitate beneficiary entry into the paid work force;
 - (d) Costs, including administrative costs of the system;
 - (e) The need for fiscal savings.
- 1.3 The Working Group is responsible to oversee the development of a timetable and work plan for the progressive implementation of the new benefit system so that:
- (a) The main outlines of the new benefit system are set before the Prime Ministerial Committee by 15 May 1991, in sufficient detail for decisions taken to be announced in the 1991 budget;
 - (b) Initial priority in the post-budget implementation plans is given to measures affecting the unemployed and sole parents. This will coincide with unemployment and sickness benefits coming on line in new SWIFTT programme in October/November.

(As approved by the Prime Ministerial Committee
on 27 February 1991, refer PMR (91) M 4/6)

SECTION 2 : INTRODUCTION

- 2.1 The Working Group on Benefit Reform was set up by the Prime Ministerial Committee on the Reform of Social Assistance on 27 February 1991 (Refer PMR (91) M4/6), in order to deliver to Government proposals for a new categorical benefit system, developed according to the Terms of Reference and the philosophy endorsed by Government.
- 2.2 David Preston (Assistant Director General (Policy Development), Department of Social Welfare) was appointed as convenor by the Prime Ministerial Committee. The working group comprises a core group of officials from

Treasury
Department of Labour (including New Zealand
Employment Service)
Prime Minister's Department
Department of Social Welfare

and a wider liaison group from

Ministry of Women's Affairs
Ministry of Youth Affairs
Manatu Maori
Department of Inland Revenue

- 2.3 The Working Group was advised on 10 May 1991 its report would in fact be considered by the Prime Ministerial Committee on 22 May rather than 15 May.

Process

- 2.4 The time frame for the exercise has been tight. Sub groups on eligibility and targeting drawn from the core Departments began meeting in March with a reporting time of 15 May 1991. Initial analysis of issues was done within these groups and papers were prepared and distributed to the wider liaison group. No further consultation has occurred outside the above Departments, except for limited liaison with some of the other Working Groups undertaking work for the Prime Ministerial Committee. The Working Group believes that appropriate consultation with key groups should occur in the implementation phase of benefit reform, to ensure the most effective delivery of services.
- 2.5 The Working Group is able to make recommendations on most of the features of a reformed system. However there is a large task still to be done, with further policy development required in a number of areas, including youth income support, and family assistance, and the development of firm implementation proposals, with the associated operational policy development.

Terms of Reference

- 2.6 The Terms of Reference for the project are included at the front of this report. The Working Group has been asked to develop a new system of categorical social welfare benefits which would promote greater self sufficiency for New Zealanders. The Working Group has also been required to take account of practical realities, administrative and support measures and costs. There is in addition the requirement to develop a timetable and give priority to measures for unemployed people and sole parents and to identify possible savings.

Philosophy

- 2.7 As well as the Terms of Reference the Cabinet Committee endorsed a statement of philosophy, (Refer Appendix) in response to an initial report by the Working Group (entitled Philosophy for a New Benefit System, 18 March 1991). The philosophy emphasises that the core family group has the prime responsibility for meeting its own welfare needs and that the focus of the reform should be on the routes by which beneficiaries could be moved off benefits and into the paid work force. The philosophy also acknowledges that the State does have a responsibility to provide income support for those unable to fully support themselves. This inability may be full or partial or of short or long term duration.
- 2.8 Eligibility for income support recognises that certain conditions limit the ability to undertake employment. These might be
- the inability to find work
 - caring responsibilities for children or other dependants with special needs
 - medical or health reasons of a temporary or permanent nature.
- 2.9 An earlier decision by Government had endorsed the concept of the "Core Family Group" as the unit of assessment and support for an integrated regime of targeting for different forms of social assistance. This has implications for determining eligibility and work requirements as well as income testing for family members.

Criteria for Assessing Proposals

- 2.10 The Working Group agreed that in developing proposals and recommendations for benefit reform it would assess these against the Government's main stated objective of greater participation in the paid workforce by beneficiaries. Taking account of the Terms of Reference and the Philosophy referred to above it also notes four key principles within the 19 December 1990 Statement (Economic and Social Initiative). These are:

fairness
self reliance
efficiency
greater personal choice

- 2.11 The Working Group developed the following framework for assessing proposals around these principles:

Fairness

- 2.12 To be fair to all groups it is necessary to assess the social impact of the proposals:

Who in the community is likely to be most affected?

What is the current status of those groups and how can their needs and values be incorporated?

Will the changes be fair to all sections of the community and has anyone been overlooked?

Is the transition fair?

- 2.13 Safeguards for those who are vulnerable are seen as important, as are adequate opportunities for review and appeal. In addition, as far as possible, proposals should be easily understood by the public and enhance not diminish dignity.

Self Reliance

- 2.14 The system should encourage independence from state support and self sufficiency. This should be by way of involvement in the paid workforce or activities which encourage moves towards independence as far as possible, even for those groups who have long term illness or disability. Greater personal choice is supported where this is compatible with other objectives.

Efficiency

- 2.15 The changes should be economically efficient, promoting participation in the labour market to the greatest extent possible, with the least distortion. Associated with this, that the changes should take cognisance of the principle of efficiency, the need for fiscal savings, in the short or long term, the effectiveness and timing of delivery systems and whether or not voluntary compliance would be enhanced. The proposals ought to be coherent, systematic and flexible, with administrative costs being clearly identified. It is also important to identify the economic, social and fiscal risks involved in the proposals.

- 2.16 Finally the Working Group has sought to follow the principle of effective targeting. Will the proposals get to those for whom they are designed; are the conditions that will be imposed realistic and appropriate?

Definition of Key Terms

Employment

- 2.17 Where practicable the Working Group has used the term "employment" to denote paid work rather than the term "work". Consequently "work capacity groupings" are designated as "employment groupings".

Core Family Group

2.18 The Working Group has used the "Core Family Group" as the Unit of Assessment and Support for the integrated regime of targeting to different forms of social assistance. This follows earlier decisions by Government on the unit of assessment and support: The decision resulted from recommendations made by the Change Team on the Targeting of Social Assistance.

The Core Family Group is:

- (i) a couple caring for a least one child or young person
- (ii) an unattached adult caring for at least one child or young person (lone parent family)
- (iii) a couple not caring for any children or young persons
- (iv) an unattached adult not caring for any children or young persons.

2.19 In general the members of the core family live in the same household but this is not a necessary condition. In essence the relationship is understood to be "familial". Each of the forms of the family group may arise in a number of ways.

RECOMMENDATIONS FROM SECTION 2

2.20 It is recommended that the Prime Ministerial Committee:

- (a) notes that the Terms of Reference (as set down in PMR (91) M 4/6) directed the Working Group to:

develops a new system of categorical social welfare benefit which will facilitate the Government's objectives of encouraging self-sufficiency ... and discouraging unnecessary dependence on the benefit system by people who have the capacity to participate in the full or part time paid work force;

- (b) notes that Cabinet has agreed (CAB (91) M 13/10 of 8 April 1991) that the philosophical underpinning of the benefit system is:

- (i) the core family group has primary responsibility for meeting its own welfare needs; and
- (ii) the State has secondary responsibility for meeting the basic welfare needs of those unable to do so through their own resources, recognising that this inability may be full or partial, and of short or long term duration.

SECTION 3 : CURRENT SYSTEM

- 3.1 The features of the existing benefit system, and issues related to it are outlined in this section, as a background to the analysis which follows in subsequent parts of this report.

Description

- 3.2 The present income support system is in reality a collection of different benefit systems. Each provision has different rationale and constraints and is based on different, sometimes unclear, principles. The system is complex and has grown up in an historical context. The various benefit categories now existing reflect what has been seen as "legitimate" claims on the State.

- 3.3 The existing main benefit categories are:

- (a) Invalids Benefit (in respect of those with a permanent incapacity)
- (b) Widows Benefit (in respect of women, with or without dependent children, who survive their spouse)
- (c) Sickness Benefit (in respect of those with a loss of earnings due to short-term incapacity)
- (d) Unemployment Benefit (in respect of those who are actively seeking employment)
- (e) Domestic Puposes Benefit (in respect of those sole parents who have lost the support of a partner, and those carers of the sick or infirm, or as former sole parents)
- (f) Training Benefit (in respect of those in approved training courses)

- 3.4 In addition there is a range of supplementary assistance programmes, described in the Appendix. The categories represent various circumstances that people may have, which qualify them for income support.

- 3.5 Benefits are given "as of right" to people who qualify under one of the categories and can meet the conditions. However there are also discretionary elements within the system, (for example, emergency benefits).

- 3.6 The Social Security benefits referred to above are all paid under the Social Security Act 1964, and are all subject to an income test.

- 3.7 Rates reflect couple/single status, and the presence of children. A schedule of rates is included in the Appendix, as are details for each benefit including the most recent benefit numbers, and expenditure.

Key Features of the Current System

- 3.8 The following are aspects of the current system which are of significance for the benefit reform exercise.

Degree of Targeting

- 3.9 Income support is a targeted system, but the degree of targeting is not as great as Government now desires.

Eligibility Criteria

- 3.10 Some eligibility criteria are not as clearly defined as they could be, and are not formulated in ways which make their rationales explicit. Current eligibility criteria send "mixed signals" about the role of the State and what is expected of those whom it assists.

Long term reliance on state assistance

- 3.11 A number of groups of people (including widows, and those with health incapacities) spend long periods on benefit. Increasingly other groups are also dependent on benefits for longer. This not only increases the demands on the State, it also locks these people out of a range of opportunities available from employment, and reduces overall economic efficiency. While some will always be dependent long term there is concern that the current system exacerbates rather than constrains this.
- 3.12 Reorientation of the benefit system to promote greater paid work force participation requires deciding what are reasonable employment expectations for the various groups.

Disproportionate representation of some groups within the Welfare System

- 3.13 Maori are over represented in the benefit system. So are Pacific Island people. Similarly there are growing numbers of older people in the various systems (outside GRI).
- 3.14 The position of young people in the system needs special consideration. They are over represented in the unemployment figures and there are inconsistencies of treatment across different sectors and age levels.
- 3.15 Women are also over represented in the benefit system. Partly this is because those sole parents in receipt of benefit income are mostly women, partly because certain categories of support have been restricted to women, but also because the current economic climate means that women are more likely than men to have difficulty in finding fulltime employment.

Complexity of the current system

- 3.16 The various benefits contain a variety of requirements that are not entirely standardised and reflect different expectations of the various groups. Greater cohesion and standardisation would make it easier for people to understand the system and to access entitlements when they are eligible. Discretionary elements are a significant part of the current system. The thrust towards tighter targeting and stricter eligibility will make it difficult to reduce the role of discretion in the system.

Introduction

A benefit system comprises a number of key elements which are brought together to determine who receives support, the level, and conditions of that support. These will include determinations about:

- (i) the conditions or situations which enable entry to the system (entry rules)
- (ii) the conditions or rules that apply during the period income support is received
- (iii) who is covered by the rules (eg an individual, a family etc)
- (iv) the maximum levels of assistance available, given a range of factors, primarily:
 - (a) the composition of the unit to be supported
 - (b) the likely duration of the support
 - (c) the impact of other resources on the level of state support.

This exercise has worked within the previous decisions by Government about:

- (i) the unit to be supported (the core family group, as defined in section 2;
- (ii) the levels of benefit before income testing; and
- (iii) the introduction of a more comprehensive assessment of capacity to undertake paid employment and the requirement for all beneficiaries to be engaged in some activity which links them with the paid workforce unless there is an assessment made which deems that unreasonable.

The exercise comes down to the following main tasks:

- (i) determining the appropriate "entry rules"
- (ii) designing a feasible employment capacity assessment system and appropriate employment test rules
- (iii) designing appropriate income tests and other criteria for targeting assistance.

Related is the task of determining what action to take or sanction to apply to a person or unit when "rules" are not obeyed.

This part of the report analyses these issues, together with the issues surrounding the definition of adulthood, in as far as it influences decisions on targeting, criteria, employment and testing sanctions. This sets the scene for the consideration of options, and issues specific to the key groups of people for whom income support is to be provided.

PART II : ANALYSIS OF THE BROAD ISSUES

Introduction

Section 4 Eligibility

Section 5 Targeting

Section 6 Sanctions

Section 7 Definition of Adulthood and
the Core Family Group

Section 8 Childcare Issues

Introduction

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SECTION 4 : ELIGIBILITY

Introduction

- 4.1 This section looks at the general issues surrounding eligibility for income support. It deals with the basis for income support, the development of "categories", the rationale for employment capacity assessment/testing and the issues of sanctions for non-compliance.

Background

- 4.2 Within the current social security benefit system eligibility depends on satisfying the criteria for a particular benefit category. The major categories in the current system are:

- (i) Unemployment Benefit
- (ii) Domestic Purposes Benefit
- (iii) Widows Benefit
- (iv) Sickness Benefit
- (v) Invalids Benefit
- (vi) Training Benefit.

- 4.3 These provide income support for sole parents, carers of sick and infirm, ex-carers and ex-sole parents, people temporarily or permanently incapacitated by a health condition and those undergoing approved training.

- 4.4 The terms of reference for the working group indicate that:

"The principal task of the working group is to develop a new system of **categorical social welfare benefits which will facilitate the Government's objectives of encouraging greater self-sufficiency by New Zealanders and discouraging unnecessary dependence on the benefit system by people who have the capacity to participate in the full or part-time paid work force**", and;

(Emphasis added.)

- 4.5 That the reforms are to develop from the premise that adults have an obligation to support themselves and their dependants as far as reasonably possible through paid work or use of their own resources. The role of the state is to provide back-up where self-support is not possible.

- 4.6 The 19 December 1990 Economic and Social Initiative foreshadowed the introduction of categorisation for each benefit grouping in relation to the ability to undertake employment, with "work exempt", "training for work" or "ready for work" type classifications.

Income Support for Whom?

- 4.7 A key aspect in redesigning the income support system is identifying those for whom income support is necessary and the reasons for their inability to support themselves. It is important to note that the groups for whom income support will be provided may not differ, however there will be a stronger emphasis on self support. This analysis will enable eligibility rules to be developed and information requirements for assessing eligibility to be established.

Statements by Government indicate its view that the basic reason for income support for people of working age is now seen to be to provide an adequate income for all those who have limited resources and are restricted in their ability to support themselves and their dependants through employment.

- 4.8 The judgements which now need to be made relate to assessing:
- (a) who should continue to receive income support and;
 - (b) how the reciprocal obligations which those people are required to meet can be monitored for compliance.
- 4.9 Earlier Government decisions make it clear that the social security system should provide income support to those who are unable to support themselves from paid work. The current system could be seen to partially meet this requirement. It does so through a combination of tests and assumptions. For an unemployed person there is a test of job search activities - whereas for a widow, there is no employment test. Rather, eligibility is based on the assumption that such a requirement would be unreasonable.
- 4.10 Clearly the existing benefit categories establish the base for reassessing who is covered by the revised benefit system, if only because changes resulting from this review will require the transition from the current system to the revised system. However, it is important to signal early on that a revised set of "categories" could differ markedly from the existing ones, primarily as a result of focusing on employment capacity rather than the "entry gate" type categories now used. In using these categories it is important to consider the sub-groups contained therein with particular regard to the emphasis on self support from paid employment.
- 4.11 Examination of the characteristics of those receiving income support under the existing categories has led to the differentiation into several main and a number of subsidiary groups, as set out in table 4.1.
- 4.12 These groupings essentially replicate - with some modifications - the categories the social security system currently uses, in that they are determined in relation to the reason that income support is assumed to be required. Such categories are currently used to determine the criteria which people will have to comply with in order to first qualify for and then to continue to receive income support. In themselves they do not reflect the actual capacity a person or unit has for contributing towards their own support. Rather they reflect the reason the person is incapacitated from self support.

TABLE 4.1**POSSIBLE BENEFICIARY GROUPINGS**

<u>GROUP</u>	<u>CURRENT BENEFITS</u>
<u>Main Groupings</u>	
(a) Unemployed	Unemployment Widows Benefit - Childless or children 16 aged plus Domestic Purposes Benefit - children aged 16 plus or women alone
The main reason for people in these groupings receiving income support is their inability to find paid employment. There are no reasons why they should not be expected to seek paid employment, even though some members of this group may have certain "disadvantages" in the labour-market (e.g. limited training, redundant skills)	
(b) sole parents	Domestic Purposes - with children under 16 Widows Benefit - with children under 16
The main reason for these people receiving income support is their responsibilities to care for dependent children, which precludes or limits their ability to seek or undertake paid employment.	
(c) health related	Sickness Benefit Invalids Benefit
The main reason for these people receiving income support is their medical or health incapacity, which precludes or limits their ability to seek or undertake paid employment.	
<u>Subsidiary Groupings</u>	
(d) trainees	Training Benefit
The main reason for these people receiving income support is their activity within an approved training course, which precludes paid employment.	
(e) domiciliary carers	Domestic Purposes Benefit - carers Emergency Unemployment Benefit - carers
The main reasons for these people receiving income support relates to the caring service they provide to a third party - i.e. not a person to whom they have a legal obligation.	

- 4.13 As stated previously employment capacity must be added into the equation to be worked through when designing possible categories or classifications. This opens up a further range of ways by which to classify the recipients of income support.

Assessing Capacity for Paid Work

- 4.14 The working group has examined who should receive income support by considering what might be reasonable paid work potential for those applying for a social security benefit.

4.15 Why Assess Employment Capacity?

The rationale for assessing the paid work potential of groups extending beyond those who apply for reasons of unemployment is to encourage greater self sufficiency. There are at least two elements to this:

- (a) signalling to all recipients Governments' expectation that they move to support themselves as much as reasonably possible, as quickly as possible;
- (b) identifying hidden capacity for unemployment within the benefit system, caused by the fact that many people could meet the entry criteria to more than one benefit. (e.g. a sole parent who usually is in employment can now apply for a Domestic Purposes or Unemployment Benefit upon losing employment).

- 4.16 The assessment in itself provides a strong message to applicants, which must be complemented by:

- (a) clear criteria for ongoing entitlement;
- (b) appropriate re-assessment procedures;
- (c) appropriate income test regimes (which do not provide conflicting signals) and;
- (d) appropriate sanctions for non-compliance of reciprocal obligations

- 4.17 These must all take account of what is "reasonable", and realistic given the circumstances of any particular beneficiary unit, the economic environment, the services available, and the incentives on the delivery agency to administer the programmes to meet the underlying objective of self-support.

Relevant Assessment Factors

- 4.18 Before describing the groupings it is important to note the main factors which might limit or preclude the ability to undertake paid employment. These are:

- (a) inability to find "suitable" employment;
- (b) responsibilities of caring for children;

- (c) responsibilities of caring for an infirm or sick adult, and
 - (d) a health condition
 - (e) inability to undertake paid employment or to search for paid employment whilst in approved training
- 4.19 A further factor could relate to the limitations caused by the forced transition of a family unit from one type to another, following death of a partner or the dissolution of a relationship.
- This "re-establishment" period might be a valid limitation for some faced with sudden redundancy after a sustained period in one job.
- 4.20 These factors can be further broken down by the dimensions of:
- (a) partial or complete preclusion from employment; and
 - (b) short term or long term limitation or preclusion
- 4.21 In identifying these factors it makes it possible to examine how and why they impact on the ability to undertake paid employment. Such an examination shows that the factor can be broken into two types:
- (a) those which are based on judgements about actual ability; and
 - (b) those which are based on judgements about what is a reasonable expectation to place on the unit.

The presence of a health condition limits the ability to undertake employment in a different way to the limitations associated with caring for children or a sick adult. People who are physically not capable of employment cannot work, while people who are considered to be not capable by reason of care of children can actually take paid employment - and some do.

- 4.22 Even in a system which assesses employment capacity or potential there are judgements based on a mix of social norm or convention (e.g. for a child under seven - or whatever age - to require supervision and care which makes paid work an unreasonable obligation) and more "absolute" conditions such as severe physical or mental disabilities.

Employment Capacity Groupings

- 4.23 As noted earlier the 19 December 1990 statement made reference to the groupings of "work exempt" "training for work" and "ready for work". These form the basic framework for the Working Group's examination of reasonable employment expectations.
- 4.24 The basic "employment capacity" expectation or "paid work groupings" can therefore be seen to be:
- (a) employment ready: capable of full-time employment;

- (b) employment ready: capable of ongoing part-time employment;
- (c) employment exempt: not capable of any paid work in the short-term;
- (d) employment exempt: not capable of any paid work on an ongoing basis;
- (e) employment exempt: training for employment.

4.25 The Working Group has differentiated between several groups of beneficiaries who can be assessed as "employment ready". This is because while some beneficiaries will be able to undertake full-time employment others will be unable to do so - but could reasonably be expected to be in part-time employment. The clearest example of this is sole parents with older children. It can be argued that while these parents ought to be able to be at home to provide a reasonable degree of supervision for their children, they might have the capacity to take employment in the hours the children are at school. Not only can such employment provide income - and thereby ease the cost to the State, it is likely to improve the full-time paid employment chances of the sole parent when the child is even older, and when there is effectively no barrier to full-time employment.

4.26 Later in the paper two "Employment Ready" groupings are developed - depending on the number of hours of employment which could reasonably be undertaken (over 30, over 20).

Eligibility and the Core Family Group

4.27 Government has determined that the "core family group" will be the "unit of support" for social assistance (Reference: Change Team on Targeting of Social Assistance). For those beneficiaries with no spouse or partner this is effectively no different than if the individual was chosen. However, this decision does have important ramifications for couples.

4.28 The current system is substantially based on a form of family assessment. However, it has never been developed in the point of acknowledging the full implications of such a system of assessment. With a heterosexual couple only one partner need submit to an assessment of their employment or health status. So if one partner is incapacitated due to sickness the couple can apply for and receive a sickness benefit, without direct regard to the capacity of the other partner to earn. This also applies to unemployment and invalids benefits.

The Core Family and the Employment Assessment

4.29 The fullest implementation of the "core family group" as the "unit of support" would take into account the employment capacity of the unit. In doing so it would take account of the capacity of each partner to undertake paid employment. It would then assess the joint capacity of the two partners, taking account of the core responsibilities of the unit. This effectively means that each partner would have to have their individual employment potential/capacity tested, with the unit being required to meet its ongoing "employment requirement".

- 4.30 There are a number of combinations of the work/caring/health status of beneficiaries when an assessment of the capacity of each spouse is taken into account. These are set out below:

	<u>Partner One</u>	<u>Partner Two</u>
(a)	Unemployed	Unemployed
(b)	Unemployed	Caring for children
(c)	Unemployed	Sick/incapacitated
(d)	Sick/incapacitated	Caring for children
(e)	Sick/incapacitated	Sick/incapacitated
(f)	Sick/incapacitated	Caring for sick spouse.

- 4.31 Within these six combinations there are further permutations which could influence the employment potential, depending on the extent of a person's caring responsibilities and the extent of health incapacity.

- 4.32 However, rather than focusing on the range of combinations in this manner, it is consistent with the objectives of the exercise to focus on the employment capacity rather than cause of any limitation to it, for each partner in a couple, and for the unit together.

- 4.33 For the sake of simplicity three levels of job search requirement can be determined:

- (a) a nil requirement
- (b) a half time requirement (at least 20 hours a week)
- (c) a full time requirement (at least 30 hours a week)

Each individual in the couple can have their capacity or employment potential assessed, having regard to any health condition or care responsibility necessarily performed by that person, as being either nil or half time or full time capacity.

- 4.34 The job search requirement of the core group is derived by aggregating the capacity of each individual, and taking account of the recognised care activity of the unit. This gives five levels of Core Group Employment requirement:

- (a) nil
- (b) half time
- (c) full time (equivalent (half plus half or full plus nil))
- (d) full time plus half time
- (e) full time plus full time

- 4.35 Distinction is made between the care responsibilities which are necessarily performed by one of the partners, and the care responsibilities of the unit. This distinction means that in general for a couple with children, where both partners are able bodied, they are both expected to look for full time paid work, and that it is recognised that either one could undertake the child care responsibilities. Any exemption from requirement would therefore attach to the unit, not one particular parent.

4.36 The requirement is then:

That each adult member of the core family group is required to seek to fulfil her/his individual employment potential up to the point where either

- (a) the core family group's requirement is fulfilled, or
- (b) the core family group receives total earnings at a level which take it out of the benefit system.

An Example of the Application of the Employment Test

It is easiest to explain the application of the employment capacity assessment by starting with an examination of the assessments which would be made in respect of a couple, where both partners are fully capacitated. The following table sets out the position according to the presence and age of children.

Employment Capacity Assessment and

Job Search Requirement

CASE: Couple where both partners have no health problems or special circumstances.

FAMILY SITUATION	ASSESSED EMPLOYMENT CAPACITY (Core Family Groups)	JOB SEARCH REQUIREMENT (Work Test)
(i) No dependent children	2 Full-time jobs	Both face a full-time job search requirement while any benefit is paid
(ii) Dependent children Aged 16 to 18	2 Full-time jobs	As above
(iii) Dependent children Aged 7 to 15	1 Full-time job 1 Half-time job	Both face full-time job search until requirement met
(iv) Dependent children Aged 1 to 6	1 Full-time job	(a) as above or (b) Allow to opt 1 carer/ 1 full-time job search.
(v) Dependent children	1 Full-time job	Allow to opt

The table indicates that a couple without children would be assessed as having the capacity to undertake two full-time jobs. A similar position applies to those with older children (over 16). In both cases the employment test would be both partners registering for full-time employment with NZES, and undertaking job search activities, until such time as employment which removed them from the benefit system was obtained.

The situation for a couple with the youngest child being aged between 7 and 15 is that the core family group would be assessed as having the capacity to undertake one full-time job and one half-time job. Given the age of the children, the need for supervision during out-of-school hours is recognised, but it is not necessary for one particular parent to provide that supervision (ie either could). Therefore the job search requirements on this couple would be that both partners be work tested until the unit moves out of the benefit system.

For those with children aged under one, the caring responsibilities are clearly more likely to fall on the mother, in such a way as to effectively preclude job search or employment. The employment test would therefore be limited to a job search expectation on the other parent.

For those with a youngest child aged between one year and six years there are two possible approaches, depending on the assumption made about the choice a couple should have as to who provides care to children in this age group. To begin with it is assumed that full-time care is required, and that this limits the employment capacity of the unit to one full-time job. This is consistent with having no employment expectation for sole parents with children in this age group. Given this, should one parent be identified as the "primary carer", and be exempted from job search, with the other parent deemed the "job seeker", or should both be seen to have the potential to be in paid employment and therefore the caring responsibilities.

The issue here relates in some ways to the assumptions about roles within a family, and the realities of who does the majority of "caring" and other household management tasks within a family unit, even when the mother is in employment.

While the most direct application would be a requirement for both partners to actively look for employment, it is possible that the social reality mitigates against this. Ministers are therefore presented with both options for this group.

The exploration of the application of the employment assessment in respect of a couple where neither partners have an incapacity is a useful example of the type of issues involved in the proposed employment test. Similar determinations of the capacity and consequential employment test requirement will need to be developed and agreed to in the range of other situations, such as where one partner has a health incapacity which requires supervisory care, or is the care of another person (such as an aged parent). However, decisions in respect of the example will provide a framework for further development in this area.

- 4.37 Beyond these, it is still necessary to establish the appropriate income test to apply (discussed later) and to determine the appropriate benefit rate.

Labeling Benefits

- 4.38 An issue, to be decided is that of actual benefit names. The preceding analysis shows that it is possible to differentiate beneficiaries by presenting circumstances and by their employment capacity. To some extent, given that the reason for entry can be seen to "summarise" the circumstances of a beneficiary, any set of categories which builds in an "employment capacity" assessment will have elements of both. However, it is possible to choose either "entry condition" or "work capacity" as the basis for the actual labels used in the system.

Presenting Circumstances

Using presenting circumstances to label the two benefits would be familiar to the public especially if its labels were similar to those used now. For example:

Unemployment
Sole Parent
Health related

If employment capacity were used to label benefits the recipients would be grouped in quite different ways than is currently the case. For example a sole parent whose youngest child was under seven years would be grouped in the "employment exempt" category with those that for health reasons were unable to work. The benefit would be based on:

Full-time employment expectation
Part-time employment expectation
No work expectation

The combination of concentrating on employment capacity and the "Core Family Group" makes this a more logical classification system in the long term.

A new set of labels would need to be developed. Although they would be unfamiliar to the public they would have the potential to send more positive signals than is currently the case with existing titles - signals of independence rather than dependence, and employability rather than unemployment.

It would be possible to implement a staged process of benefit reform if the benefits were grouped around similar lines to these used now and this is recommended by the Working Group. However this would not preclude moving to benefit names based on employment capacity once assessment procedure had been developed if that is desired. Implementation proposals are contained in Part IV.

The Core Family and the Appropriate Rate

- 4.39 The rate issue arises from the fact that there are currently two benefit rates for incapacitated people (the sickness benefit rate for shorter term sicknesses, and the invalids benefit rates for longer term conditions) and a further rate for the unemployed. It is also relevant because applying an assessment on the capacity of a unit to work, rather than an assessment only on the partner who applies for income support will see more units assessed as being "employment ready" due to the capacity of some spouses of current sickness and invalids beneficiaries. If these spouses are employable and therefore placed in an employment ready stream, the issue becomes one of why the unit does not attract the same benefit rate as a unit which presents because of unemployment. Indeed, if "employment capacity" is the key to eligibility, it may no longer be sensible to think in terms of "presenting circumstance".

- | | | |
|-----|---------------------------------------------------------|-------------|
| (a) | unemployment benefit | \$216.34 pw |
| | - unemployed worker applying and subject to a work test | |
| (b) | Sickness benefit | \$245.86 pw |
| | - sick spouse applies, no work test on either | |
| (c) | Invalids benefit | \$270.44 pw |
| | - sick spouse applies, no work test on either | |

- 4.40 An example of a unit with one incapacitated person and one person able to work demonstrates the issue more clearly. Under the current benefit system if a worker has an incapacitated spouse but no dependent children they are not eligible for a benefit payment because of the income. However, if the worker becomes unemployed there are three avenues for benefit assistance - each with a different benefit rate:

- 4.41 Under a rigorous application of the "core family group" the employment capacity of the spouse of the incapacitated person would be assessed. If the spouse was assessed as employment ready, the question of which rate that unit should receive remains. Are they primarily requiring income support because of the medical incapacity of one partner, or the unemployment of the other? If the rates aim to reflect different costs, this distinction may be immaterial, as it could be assessed that any unit with one spouse who is temporarily incapacitated through health conditions should receive the sickness benefit rate, and the unit with one spouse long term incapacitated through health condition receive the invalids benefit rate.

- 4.42 There are three options which can be considered:

- (a) determining that the highest rate dominates (so if there was a full time health incapacitated spouse, the invalids rate would be payable)
- (b) determining that the employment assessment of the unit predominates (so if there was a full time employment requirement on the unit the unemployment rate would be payable)

- (c) determining that one basic rate would be payable for the unit, together with fixed level supplements for incapacity and/or long duration.

4.43 Consideration of these options raises the issue of the objectives of the existing rates differences. While working with the existing rates structure as a given, the Working Group has considered possible rationales to be extra on-going living costs, and additional costs associated with the run down of assets etc, for those on benefit long term.

Application of Eligibility Criteria

4.44 Once a set of eligibility criteria for income support is established it is necessary to consider how those criteria will be implemented for each group of beneficiaries. However the points to recognise relate to the development of mechanisms for determining the validity of the application and for ensuring that the criteria continue to be met for the duration of the benefit. Part of this relates to having in place "review" procedures which enable changes in circumstances to be identified and entitlements or requirements adjusted accordingly. In some regards this differs little from the review requirements which exist in the current benefit system. However, with an explicit emphasis placed on "capacity to undertake paid employment", the review procedures will also be required to confirm or amend the assessments of employment potential.

4.45 Clearly some groups of clients will experience relatively stable employment capacities. Others will however change at various stages in their benefit life. For example a person who cares for children will have an increased capacity to undertake employment as the children grow up. Attention is given to the design of assessment and review tracks for the current client base, under the headings of:

- (a) unemployed
- (b) sole parents, and
- (c) those with health related conditions in Part III of this report.

RECOMMENDATIONS FROM SECTION 4

(Basis of eligibility)

- (a) agree that benefit eligibility be based primarily on the principle of providing income support to those who are unable to support themselves through paid employment;
- (b) note that those who are unable to support themselves through paid employment generally fall within the groupings set out in column A below, and that these relate to existing benefit categories as set out in column B:

<u>Column A</u>	<u>Column B</u>
(i) unemployed	Unemployment Widows (Childless) Domestic Purposes (Women Alone) Domestic Purposes & Widows where youngest child is 16 and over
(ii) sole parent	Domestic Purposes and Widows where youngest child is under 16)
(iii) health related	Sickness Invalids
(iv) trainees	Training
(v) domiciliary carers	Domestic Purposes (Carers of Sick) Emergency Unemployment (Carers)

(Employment tests)

- (c) agree that focusing benefit eligibility on the basis of inability for self support through paid employment:
- (i) requires assessment of the capacity to undertake paid employment; and
 - (ii) implies an obligation to seek employment up to that capacity;
- (d) note the "employment capacity" groups developed by the Working Group are :
- (i) full-time employment ready (30 hours or more);
 - (ii) part-time employment ready (20 hours or more);
 - (iii) employment exempt : no employment expectations; and
 - (iv) training for employment;
- (e) note
- (i) that the Working Group has been guided by the previous decision of Government, that the "Core Family Group" is to be used as the "unit of assessment and support" for the purposes of assessing eligibility to social assistance, (PMR (91) M 6/5) and;
 - (ii) that the Core Family Group is considered to be:
 - (1) a couple caring for at least one child or young person

- (2) an unattached adult caring for at least one child or young person (sole parent family)
 - (3) a couple not caring for any children or young persons
 - (4) an unattached adult not caring for any children or young persons
- (f) agree that using the Core Family Group as the "unit of assessment and support", requires an assessment to be made of the capacity for employment of each adult in a Core Family Group;
- (g) agree that benefit eligibility for a Core Family Group is not dependent on (and does not require the assessment of) the employment capacity of any dependent children or young persons within that Core Family Group;
- (h) note that focusing benefit eligibility on employment capacity, and using the Core Family Group as the unit of assessment and support will impose job search requirements on the following groups, in addition to applicants of current the Unemployment Benefit:
 - (i) widows without children;
 - (ii) "Women alone" (older women formerly sole parents or carers);
 - (iii) sole parents (including widows) where the age of the youngest child does not preclude paid employment; and
 - (iv) spouses of existing beneficiaries (Unemployed, Training, Sickness, Invalids)
 - (v) older unemployed (Emergency Unemployment Benefit for those 55 or older);
- (i) in respect of the assessed employment capacity of a couple (where both spouses are healthy) and the "job search requirement":
 - (i) agree that where there are no dependent children, the assessed employment capacity of the unit is 2 full time jobs, and the resultant job search requirement is:

both partners are required to seek full time employment while any benefit is being paid;
 - (ii) agree that where there are dependent children with the youngest aged 16 - 18 years, the assessed employment capacity of the unit is 2 full time jobs, and the resultant job search requirement is:

both partners are required to seek full time employment while any benefit is being paid;

- (iii) agree that where there are dependent children with the youngest child aged 7 -15 years, the assessed employment capacity of the unit is 1 full time job & 1 half time job, and the resultant job search requirement is:

both partners are required to seek full time employment until the assessed capacity is reached;

- (iv) (a) agree that where there are dependent children with the youngest child aged 1 - 6, the assessed employment capacity of the unit is 1 full time job;

and

- (b) EITHER (1) agree that the resultant job search requirement is:

both partners are required to seek full time employment until the assessed capacity of the unit is reached

OR (2) agree that the resultant job search requirement is:

that the couple nominate which partner is to be designated as the primary carer, and that the other partner seek full time employment while any benefit is paid; and

- (v) agree that where there are dependent children, with the youngest aged under 12 months, the assessed employment capacity is 1 full-time job, and the resultant job search requirement is:

that the couple nominate which partner is to be designated as the primary carer, and that the other partner seek full time employment while any benefit is paid;

- (j) (i) note that the specification of employment capacities and job search requirements outlined in the preceding Recommendation covers only some of the situations which will need to be catered for, and

- (ii) direct officials to develop a comprehensive specification for assessing the employment capacity and resultant job search requirement for the remaining benefit situations, taking account of the decisions made in respect of the preceding recommendation;

(Benefit labels)

- (k) note that the current benefits are based on the major characteristic which either precludes active employment (eg Sickness, Unemployment) or gives rise to eligibility for State income support, rather than relating to the beneficiary's capacity for employment;

- (l) note that if benefit eligibility is more explicitly related to capacity for employment, it would be possible to develop benefit labels which reflected this, and that this would sub-divide beneficiary groups in a quite different way to the current groupings;

- (m) note that it would be possible to adopt either approach in the current benefit reform;
- (n) note that a staged implementation of the benefit reforms would be possible if the benefits were grouped along similar lines to those now used, (listed in column A of Recommendation (b) above);
- (o) note that using groupings based on those noted in the previous recommendation would not preclude moving to the groupings based on assessed employment capacity once such assessment procedures for all groups had been introduced;
- (p) agree to develop benefit labels around the following major groupings, together with those minor grouping agreed to in subsequent recommendations, to replace existing benefit categories, during the implementation stage of employment assessments:
 - (i) unemployment
 - (ii) sole parenting
 - (iii) health related conditions;
- (q) **EITHER** (1) agree to regroup benefit labels (and therefore beneficiary groupings) around employment focus categories once the employment assessment procedures for all groups are in place (as one of the last implementation stages of benefit reform);
- OR** (2) agree to review benefit labels once the employment assessment procedures for all groups are in place;

(Benefit rates)

- (r) note that the current benefit system has different benefit rates for those on the Unemployment Benefit, the Sickness Benefit, and the Invalids Benefit;
- (s) note that in the current benefit system a couple with one spouse who is unable to take employment due to a health related condition could receive a benefit at any of the three levels note in the preceding recommendation, depending on the "presenting circumstance" and the nature of the health condition;
- (t) decide that in a benefit system focusing on the employment capacity of the Core Family Group, a couple with one spouse is assessed as employment exempt due to a health related condition, the rate payable will be:
 - EITHER** (i) determined by the health capacity of the incapacitated spouse (so that a rate equivalent to the current sickness or current invalids benefit is payable)
 - OR** (ii) determined by the assessed employment capacity of the Core Family Group (so that where there was a job search requirement for a full time job, the current unemployment benefit is payable)

- OR (iii)** a standard rate set at the current unemployment benefit rate, with additional fixed level supplements available to take account of the health condition and/or an expected long duration - with officials to further develop this option.

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SECTION 5 : TARGETING

Introduction

- 5.1 This section presents recommendations for the redesign of the income test to reinforce the categories proposed for the new benefit system. There is a table summarising the proposals at the end of the section.

Before considering particular options, there is a discussion of important general issues in respect of the wage/benefit level interface, effective marginal tax rates, simplicity, and compliance.

The Purpose of Targeting

- 5.2 Targeting of benefits is an important feature in the design of a benefit system which is funded from general taxation, and under which eligibility is open to the general population. Targeting is carried out by way of an income test, which reduces the level of benefit entitlement where there is other income. The key purpose of the income test is to ensure that assistance goes only to those who need it.
- 5.3 As well as targeting to those in need (equity objective), the income test also plays a major part in influencing the incentives a beneficiary has to move into employment and off the benefit altogether (efficiency objective). It does this in two ways.
- (a) In conjunction with the benefit level itself, targeting determines the level of income a person or unit on benefit can have, relative to the level of income they might receive from paid employment; this is the **benefit/wage replacement ratio**.
 - (b) Targeting determines the return a person on benefit gets from earning any income, until they reach the level where they are out of the benefit system altogether; this is the **effective marginal tax rate** or EMTR.
- 5.4 A major objective of benefit reform is to better ensure that the system encourages self-support, and moves away from a system which promotes benefit dependence. As outlined in previous sections, it is proposed to assess beneficiaries according to their readiness for employment. To reinforce the employment capacity assessments, it is also proposed to introduce different income tests for the different groups in place of the existing standard income test applies to all beneficiaries.
- 5.5 In redesigning the income test it is important that it:
- (i) be simple to understand and administer; and
 - (ii) not result in greater fiscal expenditure.

Before outlining options for redesigning the benefit income test, this section discusses some of the issues related to income testing, in respect of the wage/benefit level interface, effective marginal tax rates, simplicity and compliance.

In the following discussion it is important to recognise the key features of an income test:

- (a) **the exemption level, which defines an amount of additional income for which there is no reduction in entitlement; this is also referred to as "the free zone" or "allowable income"; and**
- (b) **the rate of abatement, which is the rate at which benefit entitlement reduces for each dollar of income earned in a given range). An exemption is essentially a range of income with an abatement rate of zero.**

Wage/Benefit Relativities

5.6 To provide an appropriate financial incentive for those expected to seek employment, it is important that there be an adequate margin between wages currently available in the paid work force and income while on benefit. However, existing benefit rates - even after the reductions made in April 1991 - are not very far behind low wage rates. This makes it difficult to allow beneficiaries to supplement their benefit by very much without them having an income greater than many in full-time employment.

5.7 The following table compares some wage measures with base benefit levels. Figures are rounded to the nearest whole dollar.

Table 5.1: Some Comparisons Between Wages and Base Benefit Levels

	Gross/week	Net/week
Average wage (Nov 1990)	\$521	\$399
Guaranteed Minimum Family Income (without Family Support)	\$353	\$278
Minimum adult wage	\$245	\$200
Invalids Benefit - couple	\$318	\$270
Sickness Benefit - couple	\$289	\$246
Unemployment Benefit - couple	\$254	\$216
Sole parent + 2	\$249	\$203
Sole parent + 1	\$225	\$186
Invalids Benefit - single	\$192	\$162

Sickness Benefit - single	\$159	\$135
Unemployment Benefit - single	\$153	\$130

- 5.8 The table shows that all married couples on benefit receive more than the minimum wage of \$200 net a week, and couples on Invalids Benefit receive almost as much as an earner qualifying for the Guaranteed Minimum Family Income by working at least 30 hours a week. In the current system there is no way to prevent some married couples on benefit receiving more income than some very low earners. Although these cases attract considerable publicity, they are limited in number. Very few married couples on Invalids Benefit have earnings in the quite narrow band where their benefit plus earnings puts them ahead of low paid earners. The new lower real benefit rates have reduced the problem, but not overcome it.
- 5.9 The table also shows that sole parents and single people on Invalids Benefit are only a little below the minimum wage. There is not much room to give them incentives to increase their incomes through their own efforts.
- 5.10 It is only in the cases of single people on Unemployment or Sickness Benefit that it is possible to allow a significant amount of other income without bringing them into the income zone of those earning the minimum wage or a little more.

Guaranteed Minimum Family Income

- 5.11 The current Guaranteed Minimum Family Income (GMFI) provides families with dependent children, where the parents are in employment, with a minimum level of income. The base level (without Family Support) is set at \$278 net (which is about \$353 gross) a week - some \$75 a week net above the minimum wage, but \$120 below the average wage. This provides a realistic indication of the maximum amount a person should be able to receive while still receiving some income from benefit. (Including Family Support for one child, the GMFI level is \$320 net a week).
- 5.12 Ideally there should be a gap between the maximum income which can be received while on benefit and that provided by the GMFI, so that the GMFI encourages people to make the jump off benefit into full-time employment. However, it has not been possible to maintain a very large gap for some groups of beneficiaries. This is not too serious, as very few have non-benefit income in the precise range where these considerations are relevant.
- 5.13 To qualify for GMFI, a two-parent family must be in employment for 30 or more hours a week between them. A sole parent must be in employment for 20 or more hours; this recognises the extra difficulty a sole parent has in working full or near full-time. However, given the objectives of benefit reform, and the desirability to have a margin between those in part-time employment and those in full-time employment, the appropriateness of the 20 hour requirement for sole parents is brought into question.

- 5.14 As outlined in previous sections, Government statements about the employment expectations for sole parents are that those with children aged over 7 should be employed (or seeking employment) for at least 20 hours a week. The benefit income test should therefore be configured to support this, with the GMFI supporting the next step: the jump to full-time employment. Full-time employment is generally considered to be 30+ hours of employment a week. This suggests that correspondingly the number of hours in paid work which qualify a sole parent to receive the GMFI, should be increased to 30.

EMTRS: The Inevitability of High Abatement Rates

- 5.15 For efficiency reasons it is desirable to encourage self-help by making it possible for beneficiaries to improve their situation by earning additional income from their own efforts, with the income test operating in such a way as to reduce the benefit, but not so as to nullify the effect of the other income. In technical terms, the effective marginal tax rate (EMTR) should not be too high.
- 5.16 The EMTR is the combined effect of the payment of personal income tax and the abatement of benefit entitlement (through the income test) on the next dollar of income received. An EMTR of 100% means that benefit reduces by \$1 for every \$1 of other income; there is no financial incentive for self-provision. This situation is sometimes (inaccurately) referred to as a "poverty trap". Given that the rate of PAYE tax paid by beneficiaries on their extra income is currently 28%, an abatement rate of 70% gives a 98% EMTR.
- 5.17 Unfortunately, because supplementation of benefit income soon leads to unacceptable relativities between benefits and low wages, it is not possible, given current wage levels, to eliminate high EMTRs while maintaining an adequate level of benefit.
- 5.18 The lowest abatement rate - and therefore EMTR - would be achieved if there was no "free zone" or exemption, because this would provide the greatest possible range over which entitlement could be withdrawn. However, it is administratively desirable to allow a small initial "free zone" of other income where benefit is not abated. Abatement on account of small amounts of other income (e.g. from a couple of hours earnings or interest) is as complex and expensive to administer as abatement on account of large amounts of income, and the procedures could well cost more than the amount saved. There is no reliable information about beneficiary incomes at very low levels. The Department of Social Welfare considers that abating benefit for amounts less than about \$25 a week would not be cost-effective.
- 5.19 This means that the range over which income can be abated is constrained at the lower end by the desirability to have a "free zone", and at the upper end by the benefit/wage replacement level. The outcome is that the best that can be achieved is to give a reasonable incentive to earn income within a part of that range. Very high EMTRs are inevitable over most of the rest of that income range. Indeed, to allow any degree of incentive at all, it is necessary to have an abatement rate of about 70% (EMTR of 98%) over most of those ranges where it is not desired to provide an incentive.

The Present Situation

- 5.20 These constraints are reflected in the present standard income test which has been unchanged since 1986. In general, income over \$50 a week leads to some abatement of benefit, and income over \$80 a week causes benefit to be abated by 70%. At the same time the other income is being taxed at 28%, so the beneficiary receives only 2 cents for every extra dollar earned; there is an EMTR of 98%.
- 5.21 The present income test allows some moderate augmentation of benefit, but encourages a beneficiary to work either less than 10 or more than 30 hours a week; there is no gain in working between about 10 and 30 hours. Nevertheless, at 30 June 1990, of the 22,500 beneficiaries (about 7.5% of the total) who had benefit abated because of other income, some 16,500 (73%) declared income over \$80 a week. The reasons for this are unclear. It may be that they do not understand the 98% EMTR to which that income is subject. In other cases the income may be from investments or the earnings of a spouse. Alternatively, they may have a general feeling that employment is better than benefit; if that is the case, it suggests that at least for these people, the motivation for seeking and taking employment is not offset by the income test.
- 5.22 The abatement regime is expressed in terms of a percentage of benefit abated. To calculate the EMTR, the tax rate applying to other income should be added. At present the Social Welfare computer system is geared to abate net benefit, on account of gross other income. (The abatement rates are set at their current levels to take account of this.) Other income is always treated as secondary income (it is presumed that other income is usually lower than benefit income) and so is taxed at the secondary tax rate of 28%. This is adequate as long as other income is in fact less than benefit; but when it exceeds benefit, odd effects can occur.
- 5.23 The new SWIFTT computer system will be more flexible and able to handle any combination (e.g. abating gross benefit on account of gross additional income). The best option is still being evaluated by the Department of Social Welfare. While discussion here assumes the current taxation status of benefit income, the fundamental conclusions would remain the same if a gross/gross or a net/net abatement formula were to be used.

Inter-action with other Abatement Regimes

- 5.24 Any change to the abatement regime for base benefits may lead to further changes to regimes applying to other forms of assistance, so as to avoid the same level of earnings being subject to two abatement regimes at the same time. For example, Accommodation Benefit is at present abated for any income of the beneficiary up to \$80 a week - the point at which 70% abatement of base benefit begins to apply. If the free zone for base benefit were changed, there would also be a change for Accommodation Benefit.

Simplicity

5.25 The present income test is confusing in some respects, and it is possible to improve on this.

- (a)** At present there are two points at which the basic income test changes: when other income reaches \$50 a week, the benefit begins to abate at 30%; and when other income reaches \$80, the abatement rate increases to 70%. Beneficiaries seem to focus on the \$50 threshold, even though the \$80 threshold is in fact more significant. In most cases it will be possible to have only one point at which the abatement rate changes.
- (b)** For those with children the first threshold is \$60 instead of \$50. This may give them a very small additional amount of income - but its incentive effect is minimal. The new income tests need not include this provision as such, though the main purpose of it can be incorporated in the new tests.
- (c)** Sole parents can at present claim an extra \$20 exemption for the costs of child care. This could also be incorporated in a different and simpler form in the new tests; or some other mechanism adopted.
- (d)** There are several special exemptions available to the disabled; again these could be replaced by simpler provisions in the new regime.

There are other possible changes to the targeting regime which could increase the complexity but which are not recommended.

- (e)** It has been suggested that assets as well as income should be targeted. This general question is being considered in the wider exercises on targeting being conducted by the Change Team on the Targeting of Social Assistance and in connection with the targeting of Guaranteed Retirement Income. For the moment no further asset testing of income tested benefits is proposed, though it could be considered if it is introduced in other areas.
- (f)** There are also sometimes suggestions that a distinction should be made between income from personal earnings and income from other sources such as rents or interest on investments. One view held in the community is that personal earnings should receive favoured treatment to encourage effort; while another is that interest from assets should be favoured to protect for example a widow from losing the provision made by her spouse. There are no compelling grounds to make any change.

5.26 In spite of these attempts to achieve simplicity, the new income tests still have the potential to be complex and confusing. If beneficiaries are to respond to the incentives which are being designed into the income tests, they must understand how the income tests will effect them, and the gains from earning income in addition to benefit. Similarly staff must be able to explain the effects of the income tests. This does not mean that each beneficiary needs to understand what an EMTR is. However, it is important that the information which is made available do more than describe the return on income which is earned at the exemption level.

Compliance

- 5.27 A particular issue in regard to income testing is that of compliance. It would appear that a significant number of people - how many we do not know - avoid the present income test by simply not declaring their other income. When this income is derived from a cash transaction which is not recorded, it can be extremely difficult to detect. Appropriate action is taken when non-declaration is discovered. However, beneficiaries often feel that any casual income they can derive over and above their benefit should rightfully be theirs, especially if they perceive the income test to be inequitable.
- 5.28 Part of the solution may be better presentation of the income test, stressing the amount of extra it is possible to gain rather than the points at which other income is severely abated. And recognition of non-compliance can mean that better enforcement produces greater revenue.

This complex of factors needs to be borne in mind as new income tests are devised.

The New Income Tests

The Working Group has developed income tests to fit in with the objective of promoting the movement into employment. Different income tests will be used to give more precise incentives appropriate to the amount of paid employment that is expected.

The new system will assess beneficiaries into groups of those who are:

- (a) able to undertake full-time paid employment - Employment Ready 30 hours;
- (b) able to undertake paid employment of 20 hours or more a week - Employment Ready 20 Hours;
- (c) not required to undertake paid employment - Employment Exempt.

The new targeting regime will use different income tests to give more precise incentives appropriate to the amount of paid employment that is expected.

Because most of the benefit entry streams will eventually separate out into more than one of these three divisions of employment readiness, it is necessary to discuss the income tests separately from the entry streams. At the appropriate places the relevant income test for a particular group can then be noted.

Employment Ready 30 Hours

The main entry groups expected to undertake full-time employment are:

- (a) the large number - some 135,000 - of unemployed; and

- (b) the much smaller number - 3,500 - of sole parents whose youngest child has reached the requisite age of 16.

5.29 For those assessed to be employment ready 30 hours, it is recommended that the income test be:

- an exemption on the first \$50 gross of weekly income;
- benefit abatement at 70 cents per dollar of income in excess of the exemption (i.e. virtually 100% EMTR);
- a four week period for assessment of income.

5.30 It would be possible to treat the long-term unemployed differently from those unemployed short-term. Alternative options are discussed below.

5.31 The present income test has a free zone of \$50 a week (\$60 for those with children), and a zone up to \$80 where little abatement takes place. As well as allowing for small amounts of casual income, it also gives an incentive to undertake a very limited amount of employment - up to perhaps 8 hours a week. However, those who are ready for full-time employment should either be available for a full-time job or undertaking training; they should not be encouraged to opt for a life-style based on part benefit plus casual or part-time work. The present income test can be somewhat tightened.

5.32 Other possibilities for both higher and lower free zones have been considered. It can be argued that even the present free zone does not encourage significant casual or part-time work. On the other hand, a lower free zone could generate greater savings, but would considerably increase administrative costs. A \$50 free zone is acceptable and justifiable.

- (a) Such a free zone maintains acceptable relativity with low wages. A single adult on Unemployment Benefit with maximum other income will still be receiving \$35 a week less than the minimum wage. A couple will not be able to receive more than \$252 net - some \$50 more than the minimum wage but \$150 less than the average wage. Given the difficulties with wage relativity for all couples on benefit, this appears to the Working Group to be an acceptable level.
- (b) Such a free zone allows for some attachment, albeit slight, to the labour force.
- (c) It give some encouragement to initiative and self-support.
- (d) With only one change in abatement rate, it is more simple than the present three-stage regime.
- (e) It will not increase the number involved in the administratively costly process of assessing income and abating benefit.
- (f) It is somewhat less generous than the present regime, in that the second low-abatement stage up to \$80 is eliminated.

- (g) Savings of some \$5 million annually can be expected, though these would probably be somewhat offset by consequent increases in Accommodation Benefit.

- 5.33 An important dimension of the income test is the period over which assessments of income are made. For simplicity and practicability it is desirable that the period of assessment be the same as that for which income declarations are required. At present those on "short-term benefits" (Sickness Benefit and Unemployment Benefit) are required to furnish declarations every 4 weeks. For those ready for full-time employment, the period over which income is assessed should be four weeks. Alternative options would give different treatment to the long term unemployed.
- 5.34 One such approach would be to allow them an \$80 free zone rather than the \$50 for the short term unemployed. This would enable them to supplement their benefit somewhat more than others, and might increase their employment participation and ultimately their chance of full-time employment. It should be evaluated as an employment assistance measure rather than as an income test to reflect employment readiness. Some people, e.g. low skilled single young people, could be encouraged to give up looking for full-time employment once they qualify for the higher earnings exemption after say 12 months. Administratively this option would require a new classification system to be established; it would be difficult to introduce quickly.
- 5.35 A further possibility would be to open up the "Employment Ready 20 Hours" classification to the long term unemployed. This approach has not been favoured because, by definition, this group are capable of working full-time and should be encouraged to do so.
- 5.36 However, if full-time employment prospects are deemed bleak for the next few years, it would be possible to classify certain sub-groups in this way. The classification could be reviewed as employment prospects improved. Possible groups who could be considered would be:
 - (a) the older unemployed (e.g. 55 plus);
 - (b) older "women alone";
 - (c) hard-to-place individuals with limited employability even though capable of full-time work.

Employment Ready 20 Hours

- 5.37 Those expected to undertake paid employment for more than 20 hours a week will be:
 - (a) some 35,000 sole parents whose youngest child is over 7;
 - (b) a much smaller number - perhaps 5,000 - who enter the system through the health-related stream; these are people assessed as able to undertake significant employment, and some spouses.

- 5.38 In the past these groups have not been required to seek employment; to actively encourage them into employment is a new undertaking. Moreover, both these groups face obstacles in significant part-time employment. At the 1986 census, of sole parents whose youngest child was aged 7 - 12 years, 56% had no paid work, and 31% were employed for over 30 hours a week; only 13% were employed between 1 and 29 hours. There are factors - such as the cost of childcare and the different arrangements needed over school holidays - which make sole parents prefer either no employment or full-time employment rather than part-time employment. At present there are some special exemptions in regard to childcare costs; these are considered in section 8 below. In any case, strong incentives will be needed to make part-time employment attractive.
- 5.39 It is very difficult to provide such incentives because the benefit rate for a sole parent with one child at \$186 net a week is only \$14 less than the minimum wage, and about \$95 less than the base GMFI level; a sole parent with two or more children (base benefit \$203 net) is already above the minimum wage. They would expect a reasonable increase in overall income for being employed for 20 hours a week, but there is not much room to provide a significant incentive before reaching base GMFI level of \$278 net. Indeed it would be desirable to maintain a margin of perhaps \$20 between maximum income on benefit and GMFI; to do so would reduce even further the incentive which can be offered.
- 5.40 The income test should focus the incentive on levels of income which reflect employment of 20+ hours a week - at a low wage this would be in the area of \$120 plus. Those earning more than \$120 should be appreciably better off than those earning less.
- 5.41 A number of regimes are possible, but all have drawbacks. Three options are presented. The first two - the "full-benefit" options - accept the present benefit rates and do what is possible within the very tight limitations.
- 5.42 The third - the "part-benefit" option - introduces a new concept. If a person is assessed as being expected to undertake part-time employment, the basic benefit is replaced by a part-benefit at \$50 a week less. This gives a strong additional signal as to expectations and, by increasing the gap between benefit and GMFI, allows for a much simpler income test to be applied. However, recognising that a number of beneficiaries will not in fact be able to secure employment, provision must also be made for them to apply for an "unemployment supplement" to restore them to the basic benefit rate.

Option One: Simpler Full-Benefit Option

- 5.43 This option has a low exemption level - \$30 - followed by a moderate benefit abatement of 30 cents in the dollar for each dollar of other income, giving a total EMTR of 58 cents loss after tax. The area subject to this moderate abatement could go up to \$200 gross other income to give a final net income at GMFI level of \$278. Thereafter 98% EMTR (= 70% abatement) would apply.

- 5.44 An EMTR of 58% applies over an extended range of income - i.e. only 42 cents is retained from every dollar earned; this is not attractive for a group with weak attachment to employment.

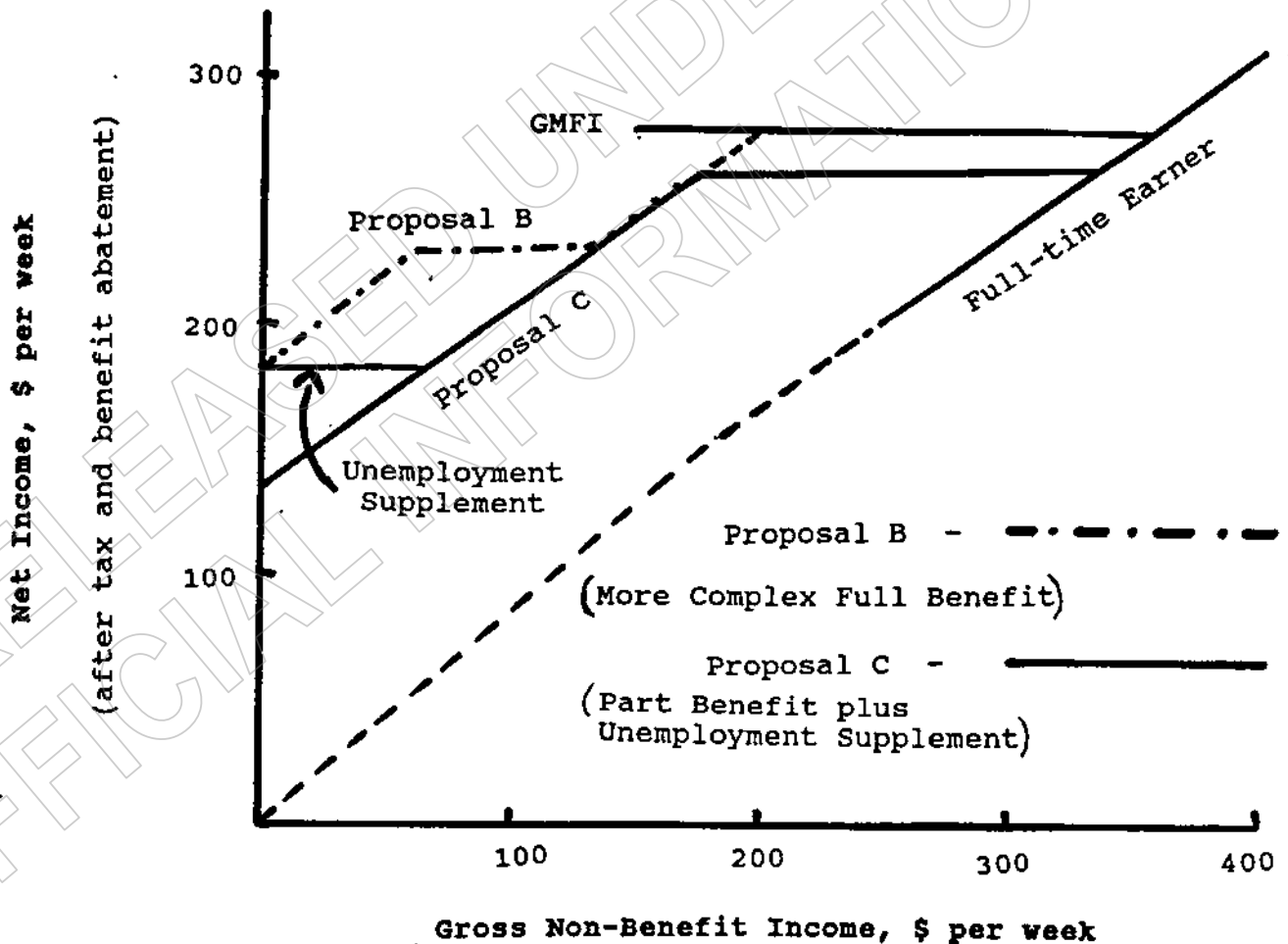
Option Two: More Complex Full-Benefit Option

- 5.45 This involves four stages - \$50 initial exemption; then 70% abatement (= 98% EMTR) on other income up to \$120 gross; a second exempt zone on other income up to \$200 gross; then 100% EMTR.
- (a) The \$50 free zone is justified by the same general arguments as for those expected to undertake full-time employment.
 - (b) These people are not to be encouraged to undertake employment less than 20 hours a week, and there should be no incentive to do so. Thus any further income up to \$120 a week is subject to 98% EMTR.
 - (c) To encourage income above \$120 a week there is then a much lower EMTR; there is no abatement of benefit as such, but ordinary tax rates would give an EMTR of 28%.
 - (d) \$200 gross other income for a sole parent with one child produces net benefit-plus-other-income of \$278 - the GMFI level; 100% EMTR would again have to apply.
- 5.46 This option is complex, although there is a rationale in concentrating the incentive in the zone where people will be working 20 hours. As a corollary, there is no incentive to earn between \$50 and \$120 a week.

Option Three: Part-Benefit Option

- 5.47 This option involves lowering the basic benefit by \$50, but with facility for an "unemployment supplement" to bring those who cannot find employment up to benefit level. The lower benefit would allow a simple abatement regime with a free zone up to \$175 gross income to maintain a margin below GMFI, after which 98% EMTR would apply.
- 5.48 When the assessment of readiness for part-time employment is made, this in itself should give a clear signal as to what is expected. Refusal to accept a suitable job will lead to sanctions. The part-benefit option adds a further and quite unambiguous signal; benefit is reduced by \$50 a week on the assumption that a part-time job has been found.
- 5.49 However, not all people so classified would in fact find part-time work to bring them up to the base benefit level. An "unemployment supplement" would be provided to bring them up to base benefit level. This would require a further application (with its attendant complexity and delay), so reinforcing the incentive to find employment.

- 5.50 This option has the same abatement rate as option B over the crucial income range of \$120 - \$200 other income per week, but differs in the treatment of those earning less than \$120.
- 5.51 Options Two and Three as they affect a sole parent with one child are graphed for easier understanding. The horizontal axis shows increasing amounts of pre-tax non-benefit income. The vertical axis shows net income after tax and benefit abatement. The base level for a benefit under Option Two is \$186, under Option Three it drops to \$136.



INCOME TESTS FOR THE EMPLOYMENT READY 20 HOURS

Comparison of Options

- 5.52 All three options are compatible with the employment test; Option Two focuses on attaining 20 hours employment, while Options One and Three give a smoother path for those who cannot attain this level.

From the point of view of the incentives offered:

Option One - is problematic, with 58% EMTR on earnings \$30 - \$200.

Option Two - focuses the incentive at \$120 - \$200 a week.

Option Three - has a high incentive to earn over the range \$70 - \$175.

From the point of view of client reaction:

Option One - will be seen as cutting allowable earnings from \$60 to \$30 a week.

Option Two - will be seen as confusing; there is a slight cut in allowable earnings, and then an "income collar" between \$50 and \$120.

Option Three - will be adversely received in respect of the initial \$50 benefit cut and the need to apply for unemployment supplement if insufficient employment can be found. However, those successful in finding employment are likely to view the system favourably.

- 5.53 From the point of view of administration, all options replace the present annual income declaration and assessment with a four-weekly requirement, so there is a significant increase in administrative costs. In regard to the particular options:

Option One - will be the most costly as everyone with income over \$30 a week will have their benefit affected.

Option Two - will require benefit recalculations for those with income over \$50 a week - much the same as now; but there will be no recalculation for those with income between \$120 and \$200.

Option Three - will create two groups, those who need unemployment supplement, and those who do not. The administration costs for those needing the supplement will be high. However, for the rest the costs will be very low; for them the system becomes self policing. At present about 5,000 sole parents with a child over 7 have income over \$50 a week, and some 28,000 would have to apply for the unemployment supplement. These numbers could be expected to change with the new incentives and employment requirements.

Option One is assessed as the least promising approach. The majority of the Working Group prefer Option Three over Option Two.

Employment Exempt

5.54 This group consists of three major sub-groups:

- (a) those with long-term disabling health-related conditions, corresponding to the current 30,000 on Invalids' Benefit;
- (b) those with short-term health-related conditions, corresponding to the current 20,000 on Sickness Benefit;
- (c) 65,000 sole parents whose youngest child is not yet 7 years old.

5.55 People in this group are not usually able to achieve much other income, so the incentive should focus on small amounts of other income. After the free zone, there should be an EMTR of virtually 100%.

5.56 At higher levels of income, any such regime would be more restrictive than for those assessed as Employment Ready 20 Hours. It should be unusual for people in these groups to have other income at that level; if they do, the appropriate course would be for them to seek reassessment of their employment capability so that all relevant factors could be taken into account.

5.57 Those who are disabled face particular difficulties and costs in undertaking employment, yet it is important that they can live as normally as possible within the constraints of their disability. To assist and encourage them, there is at present a special additional income exemption of \$20 a week for those on Invalids' Benefit, there is also a total exemption on the personal earnings of the severely disabled and of the totally blind. As well as being highly valued by the groups affected, these extra exemptions are important for the funding and operation of workshops for the intellectually handicapped and other disabled people.

5.58 The question of continuing these special exemptions will be able to be considered when decisions on the basic income test for this group have been made.

5.59 Three options are presented.

Option A: \$50 Exemption

The same general arguments for a \$50 free zone apply as for those expected to seek full-time employment. However, this is considerably more restrictive than the present regime, especially if there are no special exemptions. There would be savings in the order of \$4.6 million annually.

SUMMARY OF TARGETING REGIME

Work Test	Eligibility Condition	Income Test
1. Employment Ready 30 Hours	a. Unemployed b. Sole Parent no dependent children.	\$50 free zone, then 100% EMTR.
2. Employment Ready 20 Hours	a. Sole Parent youngest child aged over 7. b. Health-related	Either: 1. Full benefit with free zone, 30% abatement to \$200 70% abatement thereafter. OR 2. Full benefit with \$50 free zone. 70% abatement to \$120, no abatement to \$200, 70% abatement thereafter. OR 3. Part-benefit with \$175 free zone, 70% abatement thereafter with unemployment supplement to benefit level if necessary. 4. Weekly assessment.
3. Employment Exempt	a. Sole Parent youngest child aged under 7. b. Health-related: (i) Long-term (ii) Short-term	Either: A. \$50 free zone then 70% abatement, OR B. \$80 free zone then 70% abatement OR C. \$50 free zone for invalids, \$80 free zone for others then 70% abatement.
4. Training for Employment	a. Unemployed b. Sole Parent c. Health-related	Same as parent benefit

Option B: \$80 Exemption

The majority in this group will be employment exempt because of sole parenthood or sickness, and will eventually be returning to more significant employment. It can be argued that they should be encouraged to maintain an attachment to the workforce through casual or limited part-time employment, and this would be encouraged by a higher income exemption. The figure of \$80 avoids crowding too close to those assessed as Employment Ready 20 hours.

This would be slightly more generous than the present regime, and might increase expenditure by some 1.8 million. This higher figure could be presented as allowing people affected by the benefit cuts to recoup some of the effect by increasing their other income.

Option C: \$50 Exemption for Invalids, \$80 for Others

Those who are Employment Exempt because of a long-term health-related condition are somewhat different from others in this category in that there is little expectation of them returning to employment. This is reflected in the higher rate of benefit they receive. If they are correctly classified as unable to engage in employment, they should have little need of an income incentive, and a lower income exemption could be appropriate. On the other hand, a lower exemption for invalids could be perceived as discriminatory. Option C would make little change to present expenditure.

Those who are Employment Exempt for short-term health-related reasons should have their income assessed every 4 weeks. Others who are Employment Exempt should, as at present, have their income assessed annually.

5.60 RECOMMENDATIONS FROM SECTION 5

- (a) note that the primary mechanism for targeting benefit assistance to those in need who meet the eligibility requirements is through the benefit income test;
- (b) note that the current benefit system uses a standard income test across all benefit types, and that the income test was last changed in 1986;
- (c) note that the design of an income test should take account of :
 - (i) the levels of benefits and of prevailing wages;
 - (ii) the impact of benefit abatement on incentives for self-support; and
 - (iii) the administrative requirements and their costs;
- (d) note that there is currently little margin between some benefit rates and low wages;

- (e) agree that the income test should reinforce the signals given by the employment capacity assessments, so that people are expected to undertake employment to the extent that this is possible;
- (f) note that recommendation (aa) in the Executive Summary implies that the income tests applying to each employment capacity grouping should be tailored to that grouping, and that as a result a "standard" income test may no longer be appropriate;
- (g) note that there are administrative reasons for maintaining an "exemption" or "free zone" over which no abatement of entitlement occurs;
- (h) note that the Working Group has developed an income test scheme, with options, which is designed to
- provide consistent signals to the employment streams
 - differentiate on account of employment capacity
 - encourage people to seek work up to their capacity
 - ensure that people are generally better off if they progress from one stream to the next, if they find employment up to the capacity of that stream
- (i) in respect of those assessed Employment Ready 30 hours:
- agree that the income test be:
- an exemption on the first \$50 gross of weekly income;
 - abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption;
 - a four week period for assessment of income;
- note that alternative approaches for the long term unemployed and some other groups are not recommended at this stage but could be developed.
- (j) in respect of those assessed as Employment Ready 20 hours:
- EITHER** (1) agree that the income test be:
- an exemption on the first \$30 gross of weekly income
 - abatement of benefit at a rate of 30 cents per dollar of income in excess of the exemption, and up to \$200 gross per week
 - abatement at a rate of 70 cents per dollar for income in excess of \$200 gross per week;
 - a four weekly income test assessment period

OR (2) agree that the income test be:

- an exemption on the first \$50 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption, and up to \$120 gross per week;
- no abatement for income between \$120 and \$200 gross per week;
- abatement at a rate of 70% per dollar income in excess of \$200 gross per week;
- a four week period for assessment of income.

OR (3) agree that the income test be:

- an exemption on the first \$175 gross of weekly income;
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption
- a four week period for assessment of income, and that this be accompanied by a basic rate of benefit which is reduced by \$50 gross per week, with provision to pay a supplement of up to \$50 per week for those unable to find employment so that their final income would not be less than the standard rate of benefit for their family type;

(k) in respect of those assessed to be Employment Exempt

EITHER (1) agree that the income test be:

- an exemption on the first \$50 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption
- a four week period for assessment of income for the short term health related group, and an annual period for the remainder;
(majority preference)

OR (2) agree that the income test be:

- an exemption on the first \$80 gross of weekly income
- abatement of benefit at a rate of 70 cents per dollar of income in excess of the exemption;
- a four weekly period of assessment of income for the short term health related group, and an annual period for the remainder;

OR (3) agree that the income test be:

- (i) for those exempt because of a long term health related condition, an exemption on the first \$50 gross of weekly income;
- (ii) for those exempt because of other reasons;
 - an exemption on the first \$80 gross of weekly income
 - abatement of benefit at a rate of 70 cents per dollar of income in excess of those exemptions
 - a four weekly period of assessment of income for the short term health related group, and an annual period for the remainder;

(GMFI)

(l) agree that the objectives of the income tests would be complemented by employment hours rules for the Guaranteed Minimum Family Income programme of:

- (i) in respect of couples, 30 hours a week (no change from now);
- (ii) in respect of sole parents, an increase from 20 hours to 30 hours;

(m) note that the Department of Social Welfare is to take over the delivery of the Family Support programme and the Guaranteed Minimum Family Income programme for 1 April 1992 (SOC (91) M 7/1 of 8 May 1991 refers), and that officials will be reporting to the Cabinet Social and Family Policy Committee on further family assistance issues next month;

(n) agree that the GMFI levels be considered further by officials reviewing that programme, to take account of decisions taken in respect of the benefit income test;

(Assets Testing)

(o) agree that a decision on any assets test for income tested benefits be deferred until work is completed by other officials who are looking at an overall framework for possible assets testing;

SECTION 6 : SANCTIONS

Introduction

- 6.1 This section discusses the sanctions within the current benefit structure and makes recommendations about those that would be applicable within the proposed system to cover all groupings. Also included is a discussion of the application of the "good and sufficient" reason for turning down "suitable employment".
- 6.2 If the eligibility criteria are to be effective in providing the signals Government intends - that people should move towards self support as quickly as reasonably possible if they have the capacity to do so - these must be backed up by effective and clear sanctions where the criteria are not met. Without effective sanctions the integrity of the system is open to question.
- 6.3 In the context of this discussion the sanctions will relate to non compliance with the employment test requirements.

Current Sanctions

- 6.4 Within the current benefit system there are two main types of sanction imposed:

- (a) suspension of a benefit over the duration of non-compliance.

Upon remedying this situation the benefit is reinstated immediately. This is currently used to get people to comply with the requirements of returning declarations of income and employment activity.

- (b) suspending the right of a person to receive an unemployment benefit for an extended period of time after a certain event. This means that following the specified event the person cannot receive the benefit for a further number of weeks (currently 26), even if the eligibility criteria are otherwise met.

- 6.5 The second type of sanction is increasingly important, and is designed to have a strong deterrent effect. The events it applies to within the current system are:

- (a) voluntary unemployment - ie leaving paid employment without "good and sufficient" reason. (Voluntary unemployment includes dismissal by an employer for misconduct).
- (b) the refusal - without good and sufficient reason - of an offer of "suitable" employment, after having already turned one job offer down.
- (c) the failure - without good and sufficient reason - to turn up to an arranged job interview, after having already failed to attend one interview.

- 6.6 The issues related to what constitutes an offer of "suitable" employment and what constitutes "good and sufficient reason" for refusing an offer of "suitable" employment or to attend an interview are dealt with elsewhere.

- 6.7 There are currently no similar sanctions applied to other benefits, as there are no employment test requirements.
- 6.8 The 26 week standdown is applicable across all applicants for unemployment benefit, irrespective of the presence of a dependent partner or dependent children. However, in reality the sanction is not as tough on those with dependants as it is on those without, as those with dependants have some other options available to them:
- (a) single person - no dependent children - 26 week standdown
 - (b) single person with dependent children - can transfer onto a Domestic Purposes Benefit, and thereby maintain income support for the full duration
 - (c) married person - no dependent children - spouse can apply in own right, and receive 1/2 the married couple rate, thereby reducing the impact of the sanction. There is also access to Special Needs Grants.
 - (d) married person with dependent children - same as (c), but will also continue to receive Family Support.

Sanctions Within the Proposed Benefit Structure

- 6.9 In designing sanctions which are appropriate, it is important to consider the objectives of the sanctions. Primarily sanctions are a penalty for non-compliance with eligibility requirements. They are designed to be imposed when the unit fails to meet its reciprocal obligation. The two relevant factors here are:
- (a) that the penalty will be adequate to signal the importance of compliance;
 - (b) that the unit is aware of and understands the obligations it accepts when receiving income support (and the consequences of non compliance).
- 6.10 When sanctions for non compliance were increased for the unemployment benefit (in the December 1990 Statement) it was considered that while the sanctions were now much tougher, they gave very clear signals to those receiving benefits, and would, because of this, be rarely required.
- 6.11 With the extension of "employment requirements" under the proposals developed in this report it is necessary to revisit the sanctions which currently exist. In considering a simple extension of the 26 week standdown, to all who face an employment test, the Working Group identified the conflicting social policy objective related to the care of children. This is met within the existing system by having the "outs" identified in paragraph 54 above.
- 6.12 Under the proposed benefit system it would not be possible for a sole parent who failed an employment test to shift to a "sole parent benefit" without an employment requirement. Therefore, non compliance would inevitably lead to the imposition of a sanction.

- 6.13 A further complication is the development of the part time employment requirement. Existing sanctions were not developed to take account of non-compliance in these situations.
- 6.14 Given these factors, and starting with the existing sanctions applicable to single adults failing a full time employment test, the Working Group has developed the schema set out in the following table.

POSSIBLE SANCTIONS REGIME FOR PROPOSED BENEFIT SYSTEM

Employment Assessment of Unit	Family Status	Sanction in event of non compliance
a. Full Time Employment Ready	i. Couple with children	Reduce rate to ½ UB couple rate (+ Family Support) for 26 weeks
	ii. Single with children	Reduce rate to ½ UB couple rate (+ Family Support) for 26 weeks
	iii. Couple without children	Reduce rate to ½ UB rate for 26 weeks
	iv. Single without children	Remove entitlement entirely for 26 weeks
b. Part Time Employment Ready	i. Couple with children	Reduce rate to ½ UB couple rate (+ Family Support) for 26 weeks
	ii. Single with children	Reduce rate to ½ UB couple rate (+ Family Support) for 26 weeks
	iii. Couple without children	Reduce rate to ½ UB rate for 26 weeks
	iv. Single without children	i. Remove entitlement entirely for 26 weeks; or ii. Remove entitlement entirely until a job of 20 hours is found; or iii. Reduce the benefit rate by 50% for 26 weeks.

- 6.15 The schema starts from the position that it is reasonable to reduce significantly the benefit payable to a unit where the employment test is not complied with. In the case of a full time requirement for adults with no dependants there is no compelling reason why the benefit should not be suspended entirely. However where dependants are involved, the penalty ought to take some account of their ongoing needs. This is not to suggest that the presence of dependants should give the unit an exemption from sanction in the event of non compliance.

- 6.16 It is therefore proposed to sanction non compliance by units with a full time employment expectation where there are children, or partners, by lowering the rate to equate to half the current couple unemployment benefit rate, plus any Family Support entitlement. That reduction would apply for 26 weeks. The unemployment benefit rate is the lowest rate available. Reducing a unit with dependants to half the couple rate for that benefit provides a minimal income - but also imposes a reduction which is significant enough to provide the clear message that non compliance is unacceptable. Being reduced to this rate will cause hardship. However the rate is such that there is likely to be a lesser level of resistance/reluctance to imposing the sanction by the officials administering the benefit.
- 6.17 Similar arguments hold for non compliance of a part time employment requirement where there are dependants. The Working Group considered the case for a lesser sanction for these units, but concluded that the obligation to seek part time employment and accept a part time offer of paid work was as important for those units with part time capacity, and as fundamental to their continuing eligibility, as the obligation of those full time ready. A lesser sanction could be seen as a signal that Government was less concerned about compliance with this group. Such a signal would be inconsistent with benefit reform objectives. Therefore, as Table 6.1 shows, the Working Group suggest the same sanctions for those with full time and part time employment assessments where there are dependants.
- 6.18 The position of those without dependants, but with a part time expectation is less clear cut. It would be possible to withdraw entitlement entirely for 26 weeks in the event of non compliance. This would be consistent with the existing position for single adults who have a full employment expectation placed on them. If the sanction is imposed on the "full time" person that person can, theoretically, overcome the total lack of income by accepting a job. However, for a person who has limited capacity, even if they do get a job it will be a part time one, which may not provide them with an acceptable level of income. An alternative for them is therefore to impose the total sanction but only until such time as they find a part time job (of 20 hours or more a week). Again though there is the problem of income support in the period during which they cannot find such a job. This could be overcome by looking at a different type of sanction - one which reduced their benefit by an arbitrary figure -say 50% - for the 26 weeks.
- 6.19 It is unclear whether single people who are part time employment capable are in fact more vulnerable than those who are full time employment capable, when it comes to imposing a sanction. If then a total suspension of benefit for 26 weeks is considered to be harsh for the former, it may be appropriate to reconsider the nature of sanction on the latter. For example, an alternative to the schema presented in the table could be either:
- (a) a shorter term total suspension of benefit for all (perhaps extending the term in cases of repeated non compliance) or
 - (b) a standard reduction of entitlement for all, for 26 weeks (say 50% before family assistance).

"Good and Sufficient Reason" and "Suitable Employment"

- 6.20 The penalties for the possible sanctions are significant, and an important element and safeguard in the system is the interpretation and application of "good and sufficient reason" and "suitable employment".
- 6.21 The reasons the Department of Social Welfare may consider as "good and sufficient" have not been defined in the unemployment benefit legislation. There is a wide range of possible circumstances which could require decisions to be made and flexibility and discretion by the Department is needed to assess individual cases. Defining the reasons in legislation can unintentionally lead to both the inclusion of some people and the exclusion of others. It is recommended that the sanctions for the part-time work ready group be phrased in the legislation the same way as the current unemployment benefit legislation.
- 6.22 The current guidelines for "good and sufficient reason" require that District Office staff deal with issues on a case by case basis. It is expected they will take the following types of factors into account:
- travelling time and distance
 - availability of transport
 - cultural appropriateness and health condition of the client.
- 6.23 In addition there is a recent ministerial instruction that for those under 20 years of age the job must pay \$15 more than the benefit, and that for those over 20 years it must pay at least the minimum wage.
- 6.24 With the proposed extension of sanctions to those with a part-time work expectation, further work will be required on guidelines. While the current unemployment benefit guidelines will be relevant for these groups, in addition there will be other specific reasons. In the health area there will be reasons related to the health assessment of the individual, while for the sole parent there will be further reasons such as the availability of adequate childcare, the health status of the child, and in some circumstances, the numbers of children and possible evidence of family dysfunction.
- 6.25 In the application of the unemployment benefit sanctions, "suitable employment" is determined by the New Zealand Employment Service. Before referring applicants to a job interview they determine whether the job is suitable for the applicant, taking into account qualifications and skills, aptitude and any disability. It is recommended that the New Zealand Employment Service also determines the suitability of employment for the part time work test.

6.26 RECOMMENDATIONS FROM SECTION 6

It is recommended that the Prime Ministerial Committee:

- (a) agree that effective sanctions are necessary where people fail to make the effort to seek employment they are capable of, to the extent that they are required;
- (b) note that the existing sanction for non compliance with the job search requirements of the Unemployment Benefit is a 26 week standdown period;

- (c) note that the existing Unemployment Benefit sanction is moderated :
- (i) in respect of couples, with the spouse of the sanctioned beneficiary being able to receive a 1/2 couple rate if she/he subsequently fulfils the job search requirements; and
 - (ii) in respect of sole parents, who are able to move onto the Domestic Purposes Benefit;
- (d) note that the Working Group has developed recommendations on sanctions, taking account of:
- (i) Government decisions for the 19 December 1990 package on sanctions for in respect of the Unemployment Benefit;
 - (ii) the focus on assessed employment capacity; and
 - (iii) the core family group;
- (e) note that in the proposed system the sanctions will be applicable to those Core Family Groups where there is an assessed employment capacity and resultant job search requirement;
- (f) (in respect of those with job search requirements to seek full-time employment:)
- (i) agree that where one partner of a couple with children fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
 - (ii) agree that where a sole parent (with dependent children) who is the recipient of a benefit fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
 - (iii) **EITHER** (1) agree that where one partner of a couple without children fails to comply with a full-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate for the duration of 26 weeks;

(Majority preference)

OR (2) agree that where one partner of a couple without children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;

(Treasury preference)

- (iv) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;

(in respect of those with job search requirements to seek part-time employment:)

- (v) agree that where one partner of a couple with children fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
- (vi) agree that where a sole parent (with dependent children) who is the recipient of a benefit fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate - together with Family Support - for the duration of 26 weeks;
- (vii) agree that where one partner of a couple without children fails to comply with a part-time job search requirement, the sanction be the reduction of the benefit rate to 1/2 the current unemployment benefit childless couple rate for the duration of 26 weeks;
- (viii) **EITHER** (1) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement for the duration of 26 weeks;
OR (2) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the complete removal of entitlement until a job of 20 hours or more is found;
OR (3) agree that where a single adult without dependent children fails to comply with a full-time job search requirement, the sanction be the payment of benefit at 50% of the previous rate for a duration of 26 weeks

(Majority preference)

- (g) agree that non-compliance with the job search requirements to the extent that a sanction will be applied will involve turning down two offers of suitable employment without "good and sufficient" reason, or failing to attend two interviews without "good and sufficient" reason
(which is the current situation with the Unemployment Benefit sanction);
- (h) agree that further work be undertaken in the implementation phase to:
 - (i) define "suitable employment" and "good and sufficient reason" in context of the wider groups of beneficiaries who will have an employment assessment and job search requirement;
 - (ii) determine the appropriate manner of drafting legislation for "good and sufficient reason";

SECTION 7 : THE DEFINITION OF 'ADULTHOOD' AND THE CORE FAMILY GROUP

7.1 Employing the "core family group" as the unit of support raises issues about who is in a core family, and when a young person ceases to be in the same unit as his or her parents. These issues need to be addressed in order to determine:

- (a) how young people are to be supported
- (b) whose income and circumstances are considered in assessing entitlement to income support.

Part of this relates to the consideration of how "adulthood" might be defined. The Change Team on Targeting of Social Assistance identified three approaches to this issue:

- (a) focus on age;
- (b) focus on whether a substantial degree of financial independence has been achieved; and
- (c) a combination of both of these elements.

7.2 This section examines whether there should be a common age applying to all types of benefits and, if so, what the age should be. It also raises a number of subsequent issues.

7.3 Current provisions have three different entry ages:

Invalid's and Sickness benefit	age 15;
Domestic Purposes, Widow's, and Training benefits	age 16; and
Unemployment benefit	age 18.

(The Independent Youth Benefit, and the Job Search Allowance are both available from age 16, and provide income support under very tight criteria to unemployed people aged under 18).

7.4 The current benefit entitlements for young people aged under 18 are:

(a) Training Benefit and Job Search Allowance	\$ 86.14
(b) Sickness Benefit and Independent Youth Benefit	\$108.17
(c) Invalids Benefit	\$131.30

- 7.5 In the student support area, the Student Allowance is currently available from age 16 to those undertaking study in a tertiary institution. Students still at secondary school do not receive income support directly, but support is paid to their parents via Family Support, up until the end of the year in which they turn 18. While not part of the benefit system the nature of support to students is relevant in the consideration of youth income support more generally.

Implication of the Core Family Group

- 7.6 The broader targeting framework which has been developed assumes that the same unit (the core family group) applies to all benefit types. This framework does not provide any straightforward basis for maintaining the sorts of age distinctions which apply currently. Maintaining those distinctions would undercut the essential concept of a "unit of support".
- 7.7 Standardisation of eligibility ages offers the advantage of simplification. The present distinctions do not have a well defined rationale. They arose from independent ad hoc decisions about different types of support.
- 7.8 While some current arrangements for funding of social services (for example institutional care of invalids) were developed to take advantage of the current eligibility ages these do not provide a fundamental difficulty to a change in the age of eligibility. If the age were changed, it would be necessary to make consequential changes in such funding arrangements.

At What Age Should Young Persons Be Considered To Become Adult? One Option: Adulthood at Age Eighteen

- 7.9 The Working Group has looked at the implications of using age 18 as the standard age for eligibility for income support for a young person, in their own right, as a "core family group" of their own. It settled on age 18 because this is the age of entry to the unemployment benefit currently, and it would be inconsistent with previous Government decisions and statements, to consider lowering the age for this group. In addition a case can be developed for applying this "entry age" to the other existing categories - though, as the following analysis shows, this is problematic for some groups.
- 7.10 Settling on any age involves some "rough" judgement about when young people reach or should be given a significant degree of "independence" from parents. There will always be some people who are independent at a younger age, and some who - for a variety of reasons - remain dependent for a longer period. It is possible to look at the range of circumstances in which it could be considered appropriate to deem a person who is under the "usual" age - in this case 18 - to be independent, for benefit purposes.

Marital Status

- 7.11 **Marriage** (de jure or de facto) would also confer adult status because, a couple is one of the four types of groupings which constitute a core family. The Independent Youth Benefit is paid automatically for a young person who is married, to recognise that they are no longer dependent on their parents.

Wellbeing

- 7.12 A further circumstance which could be considered to justify benefit entitlement for those under 18 is where the physical or emotional wellbeing of a young person (who was not a child requiring parental supervision) would be seriously jeopardized (eg by physical abuse, and an extreme breakdown in relationships with parents) if they remained with their parents. For these young people, aged 16 years or older the most appropriate arrangement may involve independent living. It is desirable that the income support system should be capable of providing income support to these young people.

Earlier financial Independence

- 7.13 Another possible circumstance for conferring "adulthood" is the achievement of substantial financial independence (which for some persons occurs before age 18). If this is not so recognised it follows that the young person is regarded as a member of the parents' core family group, with the consequence that the young person's earnings should be regarded as part of the group's aggregate earnings for income testing purposes. This would depart greatly from what most New Zealanders would regard as appropriate, and would be administratively difficult.
- 7.14 On the other hand, if early financial independence is taken to imply the achievement of adulthood, an issue arises concerning the income support provisions which should apply if there is a subsequent loss of income (through unemployment or sickness). Should the young person then revert to dependence on the parents, or should she or he be independently eligible for a benefit?
- 7.15 Reverting to dependency on parents would maintain the greatest degree of consistency within the income support system, is straightforward to explain, and reinforces the "signal" that parents have some continuing obligations towards the support of their offspring. However it does not accord well with widely held views about the transition to adulthood, and could result in instances of young persons moving in and out of the core family group; (an occurrence which undermines the notion of a transition to adulthood). In addition, it would lead to hardship in some cases where - whilst earning - the young person had entered into substantial financial commitments to establish independent living arrangements. This last consideration would probably result in the creation of "backup" provisions, thus undermining the simplicity of the approach.

- 7.16 According eligibility to under-18s who have been financially independent for a period probably accords with the general public view of what is appropriate and recognises actual living situations which are fairly common. However it introduces additional complexity into the definition of adulthood and in some instances may be an incentive to an undesirably early cessation of full time education.

Parenthood

- 7.17 The Working Group has considered the case for according "adulthood" status to young people aged under 18 where they have children of their own. If the above circumstances of:

- marriage
- physical or emotional wellbeing; and
- earlier financial independence

are accepted as enabling eligibility as an "adult" to benefit support, then the issue whether parenthood should also do so relates to a subgroup of parents under 18. Those who are married would already have eligibility, as would those who had previously been financially independent of their parents. Similarly, a young parent who could establish that their wellbeing would be jeopardised if they were required to be dependent on their own parents for income support would be already covered. The remaining group therefore comes down to those parents who were sole parents aged under 18 who had continued to be financially dependent on their own parents, and whose wellbeing was "secure".

- 7.18 Currently an emergency benefit can be paid to a single parent who is too young to qualify for a Domestic Purposes Benefit. The emergency benefit is subject to an assessment of the parents ability to support the young sole parent.

- 7.19 In considering whether this group of young sole parents should be deemed "adult" or considered to still remain part of their parents "core family" factors to be taken into account include:

- (a) the long term and immediate welfare and opportunities of the young mother
- (b) the choices open to the young mother
- (c) the actual responsibilities and how they are shared between the young mother her own parents and the father of the child.

- 7.20 In terms of long term welfare of both the young parent and the child, a strong argument exists for that parent continuing in training, so as to avoid being "unqualified" at a later stage when employment could be a possibility. It is clear that the issue of income support for these young single parents cannot be considered in isolation from the issue of social and other services available to them. These services include training, childcare, and counselling/facilitation to assist the young parent with information about future situations.

Alternatives using Age 18 as the Primary Determinant

- 7.21 From the above alternative specifications of when a young person makes the transition to adulthood, such that they would be eligible for income support as a "core family unit" of their own, are as follows:

Specification 1:

A young person has ceased to be a member of his/her parents' core family group when he or she:

- (a) is aged 18 years or older; or
- (b) is aged under 18 years and
 - (i) is married (de jure or de facto); or
 - (ii) is 16 or over and is unable to remain with parents for welfare reasons.

Specification 2:

As with Specification 1, with: "(b) (iii) or is in full time paid work."

Specification 3:

As with Specification 2, with: "(b) (iv) or is not currently in work but has previously been financially independent of parents for a specified period (say 6 months)."

Specification 4:

As with Specification 3, with "(b) (v) has a dependent child of her/his own, and is performing the parenting role in relation to that child."

Relative merit of the options

- 7.22 Serious attention has not been given to the first specification, which implies that young people in paid work remain members of their parents' core family group, with their income being regarded as part of that group's aggregate income. Of the other options, the third and fourth accord best with prevailing views of what is involved in a transition to adulthood and are most explicit and transparent in providing a basis for income support provisions.

Implications of Adopting Specification 3 or 4

- Support of those not adult.

- 7.23 If it were decided that young people did form part of their parents core family group until age 18, except where they meet one of the other conditions specified above, this would mean that those young people would not qualify for income support in their own right. The issue of how to recognise them within the payments made to parents therefore has to be addressed.
- 7.24 The logical way of doing this is by the continuation of Family Support entitlements for all people up to age 18, where they do not qualify under one of the special conditions specified.
- 7.25 As noted above, Family Support already provides some income support for people aged under 18 where they are still at secondary school (or are unemployed). The payment is made to the parents, in recognition of the costs of maintaining the young person. The payments are at the same rates as for other family support children.
- 7.26 Payment through the Family Support system would ensure that the income targeting of assistance was compatible with other targeted assistance going to that "core family group". However there are issues about the appropriateness of the current 16 and 17 year old rate of family support, the maximum of which is less than half the current rate of training benefit for a 16 or 17 year old.
- 7.27 It would be possible to pay the unit through a separate mechanism though there would seem to be little case for doing so if the payment was to be made to the recipient of the Family Support payment.
- 7.28 The issue of Family Support for the child of a sole mother aged under 18 has also been considered in the light of the above. If the sole mother is seen to be part of the care family group of her own parents, then Family Support for the baby would be assessed as part of the entitlement of the young mother's parents, and paid to the recipient of family support for that unit (i.e. not to the young sole mother).

Support in Training

- 7.29 If it was accepted that income support would be payable for those under 18, through their parents this could have implications for the take up of training opportunities by young people. The Working Party on Skills Training, which reported to Government recently, identified young people as being a key target group for further training and skills development. To this end they suggested that this group form one of the target groups for the Training Opportunities Programme, and also made recommendations in respect of a Traineeship Programme for young people. The design of Income Support for those in such training is seen to be important when assessing whether young people will access the training opportunities provided. Clearly the work of the Benefit Reform Working Group in the area of youth income support needs to be considered in the context of the skills training objectives of Government. The Student Allowance (for Tertiary Students) and Studyright are also relevant in this regard.

Conclusion

- 7.30 It is clear that for consistency reasons, given the "core family group" concept, there are compelling reasons for settling on a standard age of entry into income support, with a limited range of narrowly defined situations which would allow entry at an earlier age. The Working Group has looked closely at one age - 18 - in order to better understand the issue involved in settling on a "standard age". However its work needs to be considered alongside other considerations in respect of youth policy, and training policy. The Working Party has not had time to undertake what is considered to be the vital next stage. It also considers that the agencies dealing with training and youth policies should be more closely involved in this next stage than has been possible to date. A recommendation follows on the setting up of a sub group of the Benefit Reform Working Group augmented by representatives from Manatu Maori, Youth Affairs Women's Affairs and Education. The sub group would assess the implications of adopting a standard entry age, the circumstances for conferring earlier adult status and youth income support policy.

RECOMMENDATIONS FROM SECTION 7

- 7.31 It is recommended that the Prime Ministerial Committee:
- (a) agree in principle that there should be a "standard minimum age" of entry into the benefit system, which defines when a young person is no longer a member of their parent's core family group;
 - (b) agree in principle that there should also be a range of specific circumstances which accord "adult" status on people below the "standard minimum age".
 - (c) note that these circumstances could include:
 - (i) marriage
 - (ii) welfare considerations
 - (iii) being in full time paid work
 - (iv) having previously been financially independent of parents; and
 - (v) being a parent;
 - (d) note that the Working Group has worked on the assumption that the "standard minimum age" would generally be 18;
 - (e) note that adopting the age 18 for entry into the benefit system would remove the entitlements currently available under all existing categories (except for unemployment).
 - (f) agree that young people not deemed to be independent of parents

should be recognised in the appropriate family assistance programme;

- (g) note that further consideration of youth income support is required to take account of training and youth policy objectives (including the Student Allowance system);
- (h) agree that a sub group of the Benefit Reform Working Group, representatives from Manatu Maori, Youth Affairs, Women's Affairs and Education undertake further work, and report back on:
 - (i) youth income support taking account of training and youth policy objectives (including the Student Allowance System),
 - (ii) the implications for young people and their families of adopting the age 18 as the standard entry age into the benefit system; and
 - (iii) the range of circumstances for conferring "adult status" at an earlier age.

SECTION 8 : CHILD CARE ISSUES

- 8.1 The employment test requirement that sole parent beneficiaries whose youngest child is aged over 7 years, be involved in training or seek part time employment of at least 20 hours, may be made ineffective without the availability of adequate, affordable out of school care. The concern is both with the provision of services and the affordability of the services for beneficiaries and low income families.

Childcare Subsidy

- 8.2 Sole parent beneficiaries whose youngest child is under 5 years of age and who wish to undertake employment full time or part time, can access the childcare subsidy. The subsidy is income tested and is paid for children attending licensed childcare centres or approved family daycare for a minimum of 12.5 hours. There are three rates of payment depending on income, and the maximum amount payable is \$32 per week for a full time subsidy, which is a minimum of 30 hours attendance. There are pro-rata rates for part timers. A parent does not have to be employed or training to access the subsidy, and it is available to beneficiaries and non-beneficiaries alike.
- 8.3 The childcare subsidy was reviewed by the Department of Social Welfare in 1990, but no further action has been taken, as the childcare subsidy is included in the current review of early childhood funding.

Out of School Care

- 8.4 Out of school care includes before and after school care, and school holiday care. It may be provided by formal services or by informal caregiving in private homes. The latter arrangement may or may not involve a cost to the user. The lack of care for primary school age children was stated by 25% of parents, surveyed by the Ministry of Education last year, as preventing a household member from undertaking any sort of job or training ("Out of School Care - Provision and Demand", Ministry of Education, 1990). When asked why they were not using out of school care, 21% of all parents surveyed stated that it cost too much, and 14% of all parents surveyed stated that there were no services available in their area. The same survey indicated that currently a greatly disproportionate number of high income earners use out of school care.
- 8.5 The Cabinet Social and Family Policy Committee has considered a report on out of school care which addresses both the provision of services and affordability issues. Agreement in principle was given last week for a user subsidy officials have been asked to do further work on the parameters of the subsidy. The initial proposal was for a subsidy is at a rate of .81 cents per hour for families earning up to \$18,000, and .41 cents per hour for families who have an abating level of Family Support. The payment of .81 cents per hour is seen as a 30% subsidy rate. It is intended that home based care would not be excluded from subsidy payment. However, such a system is likely to be easier to access for those using organisational based care.

- 8.6 The proposal did not specifically address the position of sole parent beneficiaries with a part time employment test, nor were beneficiary families included in the costings. Options for this group are discussed below. While it is crucial to address the barrier of out of school care costs, it is difficult to do so significantly and maintain equity between beneficiaries and low income workers, and retain an incentive for beneficiaries to enter the full time workforce.

Current Special Exemption

- 8.7 The current income test for a sole parent has, in addition to the standard \$60 income exemption, a further \$20 special exemption for childcare costs. This exemption was introduced in 1978 and has not been adjusted since. The exemption applies to pre school and school age children, and does not relate to actual hours of use. While its use is not limited to formal provision, the Department does require some proof such as a receipt.
- 8.8 There is a low uptake of this exemption. As at 28.2.91 there were only 170 current Domestic Purpose beneficiaries using the child care costs exemption. The reasons for this low use are not known, but could in part relate to lack of knowledge by those who have entitlement, and the overall lack of incentives for sole parents on benefit to be in the part time workforce. In addition it is suggested that many informal care arrangements are paying arrangements, but commonly take place outside the tax system. Such informal caregivers would be unwilling to provide receipts.

Difficulties in design of assistance measures

- 8.9 Out of school care costs can vary each week, and in addition there are larger costs at intervals during the year for school holiday care. The pattern of hours of care required is particular to the individual and depends on the actual hours of employment. It is likely that the hours of many low paid part time jobs are at least in part, outside school hours.
- 8.10 It is difficult to design a system which gives recognition to the costs of informal care, which is harder to administer within a government funded scheme, and some of which is likely to take place outside the tax system. It is also difficult to have a system which assists with costs at the time of payment, especially when those costs fluctuate. Nevertheless the weekly costs of care for children for both beneficiaries and very low income families can be a significant disincentive to be in paid employment. In particular the costs for those with more than one child can be prohibitive, if the system design does not recognise the additional costs borne by one earner.

Options for assisting sole parents with out of school care costs

- 8.11 There are several different mechanisms that could be used to assist with costs. Two possible methods have not been considered further : namely rebates through the tax system and subsidy assistance to providers. A mechanism through the tax system does not provide any help at the time of paying for the costs, and is therefore ineffective in assisting the very low income earner.

Assistance to providers will not necessarily help meet the needs of this target group. Therefore the two methods of assistance for consideration are a user subsidy and a special exemption within the income test; the latter only applies to beneficiaries.

Subsidy to user

- 8.12 The proposed out of school care subsidy for low income earners could be extended to beneficiaries. This relates the assistance to the actual hours of use, and is equitable both to low income earners and beneficiaries.
- 8.13 However, a 30% subsidy is not a particularly generous subsidy for this target group of sole parents. If this is the preferred mechanism, further work is needed on the amount and percentage of subsidy payable to this group of users, and this work should be done in conjunction with the development of a subsidy for low income earners.

Extension of the \$20 special child care costs exemption in the income test

- 8.14 The other way of assisting beneficiaries with these costs is to increase the existing special income exemption for the costs of childcare in the income test, from \$20 to \$50, to acknowledge their possible additional childcare costs. The \$50 exemption relates to gross income, which means an income exemption up to a maximum of \$36 net. In practice there are many difficulties doing this in conjunction with the income test which involves a lower benefit.

Comparison of subsidy and exemption by effect on net income

- 8.15 A comparison is made using two different income test options, and uses the example of a sole parent working for 20 hours, earning \$160 gross, and paying for 10 hours of out of school care costing \$30 for one child.
- 8.16 Income test Option Two involves four stages - \$50 exemption; 98% EMTR to \$120; 28% EMTR to \$200; then GMFI (100% EMTR). Income test Option Three involves a lower benefit, but with facility for an "unemployment supplement". The lower benefit would allow a simple abatement regime with a free zone up to \$175 of other income, followed by 98% EMTR.
- 8.17 Using either the subsidy mechanism or the exemption for both income tests results in an hourly net earnings rate of less than \$3 from \$8 gross per hour for the sole parent. With the subsidy of .81 cents per hour, the beneficiary earns \$44.30 net above base benefit, or \$2.20 net per hour. The exemption is very difficult to make work in the income test which has a lower base benefit. However it should effectively operate as a 72% subsidy in both income tests, and result in \$2.85 net per hour from earnings.
- 8.18 Within the part time income test the maximum a beneficiary can earn is \$4.50 net per hour. The reduction of this to below \$3 an hour for beneficiaries with child care costs may be perceived by them as inadequate for 20 hours work.

It is not possible to provide more generous treatment for childcare costs for beneficiaries through the proposed income tests, as their design precludes this. However the subsidy could provide greater assistance than 30% at this low income range. If a subsidy is developed for low income earners it would be preferable to operate one system across the board. Its operation would also be more easily understood by the target group and administered more efficiently.

- 8.19 The net income of these beneficiaries must be compared also with a sole parent on GMFI receiving a subsidy for 10 hours out of school care. After payment of childcare costs the sole parent on GMFI would have \$256.10 net per week (this figure does not include family support). This amount is still above the benefit plus earnings for the sole parent, in the examples considered above.

Costs of subsidy or exemption

- 8.20 The following figures are preliminary estimates of possible savings associated with sole parents moving into part time work and the costs incurred by subsidising the out of school care which some will require. Savings result from reduced benefit payments and increased revenue from income tax. As at 31/3/91 there were nearly 36,000 parents on domestic purposes benefit whose youngest child was over 7 years of age. The table below is based on the assumption that 3,600 (10%) of these parents will find work of 20 hours per week at \$8 per hour. If half, ie. 1,800 do so without incurring out of school care costs, the other 1,800 will require out of school care of 10 hours per week costing perhaps \$30. It is assumed that this is subsidised at 72% ie. on average the state pays \$21.60 (72% is the rate of subsidy obtained if an income exemption is successfully used).

Savings per annum

Those finding work with no child care costs	\$ 8.9 million
Those finding work who do require childcare	\$ 6.9 million
Total Savings	\$15.8 million

Some \$2 million would have been expended on subsidising childcare for beneficiaries assessed as Employment Ready 20 hours.

- 8.21 Whatever mechanism is used to assist with out of school care costs, there are costs to the government. However, these costs will only accrue if people indeed become less reliant on benefit. If they do this, the savings are considerable. Further work is needed to quantify the costs of out of school care assistance to beneficiaries, to enable the decision on how much of these savings can be channelled back into assistance with out of school care costs.

RECOMMENDATIONS FROM SECTION 8

It is recommended that the Prime Ministerial Committee:

- (a) note that issues related to the general provision of childcare services and the provisions of out of school care are the subject of separate review exercises;
- (b) note that the availability of adequate and affordable childcare is a major influence on the extent to which parents with caring responsibilities for young children are able to engage in paid employment;
- (c) note that the availability of adequate and affordable out of school care is a major influence on the extent to which parents with caring responsibilities for school age children are able to engage in paid employment, and further note the importance of this if there is a job search requirement on those with a youngest child aged 7 or over;
- (d) note that in the context of this exercise the focus on childcare and out of school care has been related to the objectives of minimising benefit dependence;
- (e) note that assistance with childcare or out of school costs could be targeted to beneficiaries by way of:
 - (i) a user subsidy
 - (ii) an increase to the level of the existing special \$20 pw income exemption related to childcare costs;
- (f) note that further work is required in assessing the preferred mechanism for assistance and the level of that assistance, and further note that this work should be done in conjunction with the work on the development of a out of school care subsidy for low income earners;
- (g) note that there are costs for government in assisting the beneficiary with the costs of out of school care either by use of a subsidy or special exemption, and further note that more work is needed to specify these costs.

PART III : SPECIFICATIONS AND IMPACTS ON GROUPINGS

Introduction

Section 9 Unemployment Grouping

Section 10 Health-Related Grouping

Section 11 Sole Parent Grouping

Section 12 Carers of the Sick and Infirm

Section 13 Training for Employment

Section 14 Women without Dependent Children

Section 15 Social Impact Overview

Introduction

In broad terms the proposals for the new benefit system are as follows:

1.1 The introduction of three broad groupings which at this stage are based on the reason for inability for self-support. These are:

- Unemployment
- Sole Parents Caring for Children
- Health Related

1.2 The retention of a minor category to accommodate carers for the sick and infirm.

1.3 Transitional arrangements for women without dependent children on Domestic Purposes and Widows Benefits.

This part brings together the specifications for each of the above. This includes:

- entry conditions
- employment capacity groupings
- levels of entitlement
- income tests

Also included are proposals for training for employment as it relates to the benefit system and finally an assessment of the social impact of the proposals.

Attached as an Appendix to the Executive Summary is a chart entitled "The New Benefit System". The chart shows the main components of the system.

SECTION 9 : UNEMPLOYMENT GROUPING

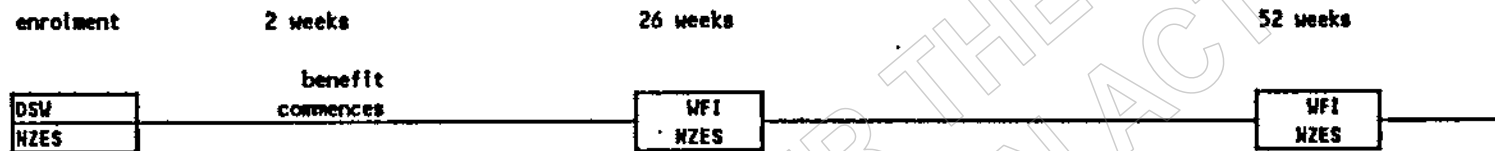
Background

- 9.1. Under the proposed benefit structure, there will be two employment capacity groupings of beneficiaries who are required to be available for, and actively seeking paid work (ie: the "employment ready"):
- (a) those facing a full-time employment test (ie: those expected to be available for at least 30 hours paid work);
 - (b) those facing a part-time employment test (ie: those expected to be available for at least 20 hours paid work).
- 9.2. This section concentrates on the first of these groupings. The key issues surrounding eligibility, entitlement and income tests for those who will be facing a part-time employment test are discussed in more detail under the sections on health-related incapacity and sole parents. However, it is also proposed that those facing a part-time employment test will be required to fulfil many of the same obligations as those facing a full-time employment test (eg: registration with NZES, matching to vacancies, attendance at employment focus interviews etc), and the discussion below notes where this will be the case.

Description

- 9.3. Those beneficiaries who will be facing a full-time employment test will include:
- those currently in receipt of unemployment benefit;
 - those older unemployed (55 plus) currently in receipt of Emergency Unemployment Benefit (EUB)
 - other members of the "core family group" (ie: dependent spouses of beneficiaries) who are expected to be available for full-time employment;
 - those currently in receipt of widows benefit, and "women alone" DPBs (although this will depend on which of the options set out in **Section 14** is accepted);
 - sole parents with youngest child over 16 (see **Section 11**);
 - those beneficiaries with a health-related incapacity who have been re-assessed as capable of full-time employment.

Indicative Flow Diagram: Income Support for those Seeking Full-time Work



Eligibility for Benefit

- * unemployed
- * available for full-time work
- * 16 yrs old +
- * residential test
- * not on strike
- * not a full-time student
- * stand-downs for:
 - voluntary unemployment
 - dismissal for misconduct
 - prior high earnings
 - redundancy pay

Options (ongoing)

- * self-placement
- * NZES activities
 - placement
 - job self-service
 - Job Clubs, mobility assistance etc
- * referral to other agencies

Conditions (ongoing)

- * income test
- * maintenance of reg. with DSW & NZES
- * full-time job search
 - acceptance of jobs offers
 - attendance at job interviews
- * attendance at assessments (eg: WFIs)
- * regular decs to DSW

Options (following from WFI)

- * placement
- * continued full-time job search
- * employment & work experience schemes
- * training schemes ("training for work")
- * referral to other agencies
- * removal from register (ineligibility for benefit)

Conditions (additional at 26 weeks)

- * acceptance of place on scheme
- * stricter evidence of job search
- * possible additional assessments (eg: joint I/views)
- * possible contract between job seeker & DSW/NZES

Table 9.1

Entry/Eligibility Criteria

9.4. The preceding diagram illustrates a potential pathway through the benefit system for this category. It lists:

- factors determining eligibility for benefit;
- conditions underlying continued receipt of the benefit (ie: employment test and income test);
- referral options for beneficiaries who are in the system (these options are not exhaustive).

9.5. The eligibility rules set out in the diagram incorporate the current rules for UB, including the more stringent conditions imposed by the recent Social Security Amendment Act. Progression from another benefit grouping would also confer eligibility. Beneficiaries will be able to self-select a more rigorous employment-test regime if they wish.

It is important to note that the unit of eligibility for income support purposes is the "core family group" (see Section 4), and that it is the unit's capacity to support itself that is being assessed. This may result in varying combinations of full or partial employment requirements being placed on individual adult members of the unit, depending on the employment capacity of the unit as a whole.

Expectations and Requirements

9.6. The proposed system is based closely on current conditions attached to the UB:

- all "employment ready" clients would, in the first instance, be required to enrol with DSW; and, if new to the benefit system, would face an initial two week stand-down (which could be extended for up to 26 weeks depending on prior earnings and circumstances). Clients would continue to be required to send DSW a four-weekly declaration of earnings and circumstances;
- all those with a full-time employment expectation would be required to register with NZES as active job seekers. Sole parents facing a part-time employment expectation would also be required to register with NZES. While NZES may also be an appropriate placement agency for some of those with health-related incapacities, other options (eg: Workbridge) should be explored (see Section 11). It should be noted that any unemployed job seeker is free to register with NZES;
- NZES would continue to match job seekers to "suitable" vacancies, and provide a range of other labour market services. Those with a part-time employment expectation would have this status flagged on the NZES register, and would be referred to part-time vacancies;

- all "employment ready" clients would be called in for a mandatory employment focus interview (Working Focus Interview), run by NZES, at 26 and 52 weeks' registered unemployment. A range of labour market programmes will be targeted at the 26 week plus unemployed (see discussion under "support and service issues" below).
- 9.7. It is proposed that older unemployed aged 55 plus (who are currently able to receive EUB with no requirement to maintain registration with NZES) be classified as "employment ready" for full time employment. This would encourage older unemployed to maintain a degree of labour force attachment, which will be increasingly important over the long term, as an ageing population and a possible rise in the qualifying age for GRI will tend to increase labour force participation amongst older groups.
- 9.8. The proposed system re-emphasises the role of the Work Focus Interview as a screening and referral mechanism for long-term beneficiaries. The first WFI (at 26 weeks) provides a "break" in the nature of the job search process: while short-term unemployed are, in the main, expected to pursue their own job search, longer-term unemployment signals a need for greater attention to be paid to the reasons why this job search has been unsuccessful.
- 9.9. Interviews have been found to be a successful instrument in many OECD countries. WFIs are primarily a facilitative tool. The interview assists the long-term unemployed to assess and explore alternative options, including employment, training, services provided by other agencies, more appropriate benefit groupings, or simply new job search strategies. However, the WFI also has a compliance role: attendance is mandatory, and those who do not turn up, or who otherwise indicate that they are not genuine job seekers, are lapsed from the register.
- 9.10. There is scope to develop a more intensive employment test for those who may have given up active job search activities. The parameters of this enhanced test still need to be developed, but measures which have been introduced in other countries include:
- greater documentary evidence of job search activities;
 - contracts setting out expected activities for selected beneficiaries;
 - greater exchange of information between DSW and NZES (including joint interviews);
 - regular reporting to DSW for selected beneficiaries.
- 9.11. The Social Security Act imposes a 26 week stand-down on those who fail the employment test. It also provides for the spouses of beneficiaries who are stood-down to receive half the married rate of UB. Legislation sets out strict rules about what behaviour constitutes a breach of the employment

test, but leaves wide discretion to NZES and DSW to determine what is "suitable employment" and "good and sufficient reason" respectively. This raises two issues in the context of benefit reform:

- (a) to what extent is it possible, or desirable, to codify the conditions that may fulfil the "good and sufficient reason" criteria? It is desirable that these conditions be more clearly specified than at present. This is particularly acute given the inclusion under the employment test of new groups of clients (for whom availability of childcare, in particular, imposes a real constraint). This issue is discussed in more detail in Section 6;
- (b) what sanctions should be applied to beneficiaries with dependants? The 26 week stand-down will not be appropriate in this case, but neither will beneficiaries who fail the employment test be able to make strategic shifts onto non-employment tested benefits. This issue is also explored in Section 6 which concludes that for those with dependants, a significant reduction in the level of entitlement, to the half UB couple rate provides a clear sanction, but also takes account of the needs of the dependant.

Levels of Entitlement

- 9.12. It is proposed that beneficiaries facing a full-time work test would receive the rates currently attached to the unemployment benefit. Issues of changes in rates associated with reclassification from a part-time to a full-time employment stream are dealt with under subsequent sections on employment capacity groupings.

Income Test

- 9.13. As discussed in Section 5, it is recommended that the income test for the unemployment grouping be:

- an exemption on the first \$50 gross weekly income;
- benefit abatement at 70 cents per dollar of income in excess of the exemption.

The possibility of a more generous regime for particular sub-groups is also discussed. Such groups might be the long-term unemployed, the older unemployed, older "women alone", certain hard-to-place individuals. No further recommendations are made at this time.

Support and Service Issues

- 9.14. Implicit in the proposed system is an emphasis on the particular needs of the long-term unemployed (those registered as unemployed with NZES for at least 26 weeks). There is relatively high turnover of job seekers at the "front end" of the register, with many job seekers being able to find jobs themselves or with the assistance of NZES placement activities. However, longer periods out of the paid work force can become self-perpetuating, with job seekers losing motivation and skills, and employers using long-term unemployment as a proxy for low value.
- 9.15. Cabinet has agreed that employment assistance should be primarily targeted at the long-term unemployed, and Government has recently announced a range of new programmes for this group. These include:
- an employment experience scheme (Community Taskforce), offering three days' employment per week for long-term unemployed. This programme begins on 1 July, and will need to be monitored before any thought could be given to extending it beyond its current target group;
 - a four week "job introduction" programme (Job Link);
 - a second WFI for those who remain unemployed for 12 months;
 - closer targeting of the Job Plus wage subsidy scheme to the long-term unemployed.
- 9.16. Government needs to make judgements about the costs and benefits of expenditure on labour market assistance. Entrenched long-term unemployment has social and economic costs. On the other hand, large-scale interventions can distort behaviour elsewhere in the labour market. Careful targeting is one way to minimise these distortions.

Social and Client Impact

- 9.17. For those who are currently on UB, the principal effect of the proposed system is likely to be felt in stricter employment test requirements. Stricter employment tests are a means of maintaining the integrity of the benefit system by both re-emphasising labour force attachment and detecting benefit abuse. It is important, however, that any increase in the "hassle factor" be complemented by opportunities to gain the kinds of skills and experiences that lead to viable employment.
- 9.18. This "facilitative" approach is particularly important for those groups being newly employment tested (eg: some sole parents and older unemployed). Unless there are meaningful opportunities for this group to increase their participation in the labour market, the proposed reforms run the risk of simply creating a new group of "unemployed", with the

stigma attached.

- 9.19. Whether the incentives to move from "welfare" to "paid work" that are embodied in the proposed reforms will have their desired long-run effects will depend, to a considerable degree, on labour market conditions. There continues to be growth in part-time employment, at a time of stagnant or falling full-time employment, which may ease the transition for some newly employment tested clients. However, the phasing in of these new employment test requirements needs to be carefully managed if the pitfalls identified above are to be avoided. It is important, too, that DSW and NZES are sensitive to the needs of those groups who are being required to adjust their behaviour and expectations.

Specific Operational Implications

- 9.20. There are substantial operational implications for NZES. These include:

(a) a greater volume of clients. DSW statistics indicate up to:

- 36,000 DPBs and widows with youngest child over 7;
- 30,000 UBs sickness and invalid beneficiaries with dependent spouses;
- 11,800 "women alone" and widows without children; and
- 5,700 EUB's aged over 55

could be required to register with NZES as the new structure is phased in. This could increase registered unemployment by up to 50 percent as the new structure is phased in. This does not include those moving from the health-related grouping.

(b) a wider variety of clients (eg: sole parents, older people) and client needs (eg: those requiring part-time employment, job search skills, training etc). Part-time placements currently represent a small (approximately 4-5 percent) but growing proportion of NZES business. Approximately 13 percent of vacancies with NZES offer part-time or flexible hours. The proposed reforms will place much greater emphasis on part-time placements;

(c) potential eligibility of these new groups for labour market programmes.

- 9.21. However, it is unlikely that the impact of benefit reform will be as dramatic as these numbers suggest. Firstly, many of those who fall within the specified parameters will, on assessment, be deemed "employment exempt" (eg, on grounds of health, care for children with special needs, etc). Secondly, some of these clients will already be registered with NZES as unemployed job seekers. Thirdly, some newly employment tested groups will be facing a period of transition as the new system is phased in. The increase in NZES workload will therefore be a gradual one.

- 9.22. Details of the preliminary operational costings and a possible timeline are included in Part IV of this report.

RECOMMENDATIONS FROM SECTION 9

It is recommended that the Prime Ministerial Committee:

- (a) **agree** that there be two "streams" of beneficiaries who will be required to be available for, and actively seeking paid employment ("employment ready"):
- i) those facing a full-time employment test (of at least 30 hours paid work);
 - ii) those facing a part-time employment test (of at least 20 hours paid work);
(cross refer rec (f), Recommendations)
- (b) **agree** that those beneficiaries who will be facing a full-time employment test will include:
- i) those currently in receipt of unemployment benefit;
 - ii) those older unemployed currently in receipt of an Emergency Unemployment Benefit;
 - iii) Spouses in a "core family group" who are expected to be available for full-time employment;
 - iv) sole parents with a youngest child over the age of 16;
 - v) those beneficiaries with a health related incapacity who have been re-assessed as capable of full-time employment.
- (c) **note** that a spouse who is caring full-time for a sick or inform partner would not be expected to seek employment;
- (d) **note** that the proposed system for "employment ready" clients is based closely on current eligibility conditions and obligations attached to the unemployment benefit with:
- registration with the NZES;
 - mandatory work focus interviews at 26 and 52 weeks of registered unemployment.
 - possible referral to a range of employment-related programmes (employment placement, training etc);
- (e) **agree** that further work undertaken be undertaken to develop a more closely targeted employment test (such as joint interviews of recipients by DSW and NZES) for beneficiaries whose continuing eligibility for benefit may be in doubt.

SECTION 10 : HEALTH RELATED GROUPING

Introduction

- 10.1. In this section the Working Group presents a set of specifications for re-shaping the existing income support provisions for those incapacitated due to a health condition. The new criteria for entitlement for these people have been developed around the notion of capacity for employment, and take into account the general basis established by Government for benefit reform.
- 10.2. However the Working Group concludes that these changes will not be cost effective in the current employment environment. This is because they would impose a high operational cost on those with the least likelihood of moving to paid employment. Savings are expected to be in the order of only \$9 million (base) or \$3.9 million (low estimate), while operational costs for DSW would exceed \$7 million, excluding additional resourcing of agencies such as Workbridge (perhaps \$3 million to \$5 million).
- 10.3. Instead it is anticipated that the existing provisions can be tightened, by improved screening procedures, so that the problem of interface with the unemployment benefit, is better addressed.

Background

- 10.4. The objective of the sickness and invalids benefits is to provide income support for people who are unable to work because of short or long term physical or mental incapacity. The eligibility criteria for the benefits have developed around the notion of incapacity of the individual for employment rather than capacity for employment within the family unit.
- 10.5. This has contributed to a diminution of responsibility for developing measures to aid disabled people in returning to employment. Invalids benefit has become a life-time income for the majority of people with disabilities. Admission and renewal procedures are centred around the accumulation of medical evidence supporting incapacity for employment rather than examining capacity for employment and the measures that can be taken to facilitate return to the work force.

Description of Possible Long Term Approach

- 10.6. A possible health-related grouping would merge short and long term income support for the sick and disabled. The cornerstone would be an assessment criteria that identifies continuing capacity for employment and directs people towards self support where this is possible or alternatively provides rehabilitation and training to enable them to participate in the workforce and the community as far as possible.

- 10.7. Under the new arrangement short and long term reduced capacities would continue to be recognised and different levels of income support would continue to be paid. However all persons (apart from persons who are immediately recognised as being employment exempt on a long term basis with no prospect of recovery) would initially receive one rate, the present sickness benefit rate, and the higher invalids benefit rate will only be paid after the expiry of a certain period perhaps six months, and only to those identified as having an employment exempt status or part time employment expectation.

Entry/Eligibility Rules

- 10.8. At entry persons would be required to establish their degree of impairment, level of capacity for employment for themselves and their spouse (if applicable) and the expected duration of reduced capacity for employment.

Core Family Group

- 10.9. A full discussion of the impact of the Core Family Group on eligibility for income support is in Section 6. This covers employment assessment and the appropriate rate of payment, for which several options are put forward.

Impairment and Incapacity

- 10.10. The proposed assessments whether at entry or at some given point in the benefit life cycle need to take account of two factors, degree of impairment and level of reduced capacity for employment and the relationship that may exist between them.

- 10.11. Impairment ratings could be used in two ways:

- (a) as a factor in assessing eligibility for benefits
- (b) as a factor in assessing capability for employment.

Assessment of Incapacity

- 10.12. Incapacity implies reduced ability or an inability to engage in an activity. A person may be incapacitated for present employment, or for any employment, or incapacitated for undertaking household and caring tasks. Assessment of a persons incapacity to engage in an activity differs in the short term and the long term, and changes as a persons condition becomes more stable over a period of time. In assessments of long term incapacity a judgement is made of whether impairment is a crucial factor in incapacity. This involves assessing not only level of impairment, but also skills and qualifications, and considering all these factors in relation to the persons age and sex.

- 10.13. Whether a person should be assessed as incapacitated for employment may depend on the resources available for rehabilitation and training. Even if fairly severe permanent impairment is present, permanent incapacity for employment cannot be presumed. For this reason, and because of the variable nature of individual skills and characteristics, it would be too simple to assume that a given percentage of impairment should guarantee eligibility for a health-related benefit. However further work is required in determining how best to assess capacity for employment, and the link with impairment.

Accident Compensation

- 10.14. The Accident Compensation Corporation is currently reviewing its assessment process. The situation that exists at the moment is as follows. Applicants for earnings related compensation are required to establish that their problems are the direct result of injury by accident and that their ongoing incapacity is related to that work related injury. A medical certificate from the claimant's doctor is accepted as evidence of incapacity.
- 10.15. If Accident Compensation is still current after 13 weeks further information about the incapacity is obtained from the client's medical practitioner. In addition a Rehabilitation Coordinator (employed by the Corporation) will investigate ways of assisting the person. At 13 weeks the person may be referred for further examination and assessment to a specialist nominated by the Corporation. The Corporation also employs Medical Advisors to review cases and advise staff. The Medical Advisors are retired general practitioners and specialists and are based in each regional office. The Medical Advisors do not examine clients.

Expectations and Requirements

- 10.16. One of the worst features of the present system is that persons with disabilities are categorised as being incapable of employment. Access to sickness and invalids benefit at age 15 signals to young people entering the benefit system that the community has no expectation (particularly in the case of invalids beneficiaries) that they enter or return to the work force or engage in occupational or rehabilitative training. Older persons coming into the system have not been encouraged to engage in rehabilitative or occupational training programmes designed to facilitate a return to paid work.

Employment Test

- 10.17. Employment testing of those with health conditions would represent a fundamental shift in philosophy, signalling the Government's expectation that they would participate in the paid workforce to the extent possible.

- 10.18. The definition of a good and sufficient reason for refusing employment would need to take account of the special difficulties of people with disabilities or an impaired health condition.

Initial Assessment

- 10.19. Entry to the health-related grouping would be decided on the basis of:

- (a) A statement from the applicant together with any supporting evidence;
- (b) A medical certificate from a general practitioner containing the following information:

- (i) date of medical examination
- (ii) cause of incapacity
- (iii) treatment given
- (iv) capacity for employment (as a percentage)
- (v) capacity for other type of work or part time work
- (vi) period of reduced capacity for paid work
- (vii) details of hospitalisation.

The assessment of capacity for employment would be regarded as indicative. There would be provision for a second medical opinion if required.

- (c) Information from employers concerning a loss of earnings and whether alternative paid work according to the reduced level of capacity is available.

- 10.20. On receipt of this information decisions would be made concerning:

- (a) The core family's entitlement for benefit and employment capacity grouping.
- (b) Whether rehabilitation services should be provided.
- (c) What form of monitoring or review process there should be.
- (d) Whether, in view of the degree of impairment and reduced capacity for employment there should be an immediate assessment as employment exempt on a long term basis with no prospect of recovery. In these cases the higher rate of payment could be made immediately and the need for re-certification dispensed with except at the 52 week assessment.

Reassessment

- 10.21. A critical feature of the assessment process would be an individual programme of regular review, leading to discharge from the system or transfer to the employment ready group or the identification of long term

residual total or partial reduced capacity for employment. On the basis of each reassessment, the department would:

- (a) decide the continued entitlement to income support
- (b) decide the appropriate employment capacity grouping
- (c) approve the development/continuation of a rehabilitative programme
- (d) update a monitoring/reassessment schedule
- (e) decide the employment capacity of a dependent spouse
(Refer Section 4 for a discussion of employment testing for spouse).

10.22. In the majority of cases however the following would apply:

- (a) A further medical certificate would be produced after the expiry of 13 weeks. In addition to the information detailed in 18 (b) above the certificate would ask the medical practitioner to report on the patient's response to treatment, prognosis and to provide an updated assessment of capability for employment including part time employment and suitability for rehabilitative training.
- (b) If at 26 weeks income support is current there would be a requirement for the person to undergo a medical examination by a medical practitioner nominated by the Department of Social Welfare. This medical practitioner would independently report on the person's medical condition, capacity for employment and the expected duration of the reduced capacity.

The report of the medical examiner would be used to assist the department in determining the continuation of income support for a further 13 weeks.

- (c) At 39 weeks there would be a requirement to furnish a further medical certificate attesting to the degree of reduced capacity for employment. In cases where it is clear that continued income support is required over a long term, notification would be given of requirement for a more rigorous medical examination at 52 weeks. This would assist the department to make decisions concerning long term income support needs and employment test obligations.
- (d) At 52 weeks an assessment approximating the current invalids benefit examination would take place. This would be undertaken by a departmentally selected medical practitioner or specialist and would involve a detailed scrutiny of the degree of impairment and the relationship to reduced incapacity for employment.

On the basis of the advice contained in the medical examination report the Department in combination with another agency concerned with rehabilitation e.g Workbridge would decide the future form of income support and employment capacity classification. At this point those persons identified as having only a part-time employment expectation on

a long term basis or a work exempt classification would proceed to the higher rate currently paid to persons eligible to receive invalids benefit.

- (e) The employment capacity classification of persons receiving income support at the higher level of payment would be reviewed at least annually and if necessary they would be medically examined to confirm their continuing eligibility for payment.

Income Test

- 10.23. Section 5 discusses the income tests for those assessed as Employment Ready 20 hours and Employment Exempt. In each case three options are presented. The issue of special exemptions, or other mechanisms to address particular barriers faced by those with health conditions would need to be further considered. A separate Working Group is currently looking at broader employment policy issues in respect of people with disabilities.

Levels of Entitlement

- 10.24. It is proposed that there be two levels of entitlement in the health-related grouping. The rate of payment at entry point for persons with a temporary incapacity would be the current sickness benefit rate and for persons with a permanent reduced capacity for employment the rate of payment would be the current invalids benefit rate.
- 10.25. The justification for a two stepped rate structure is twofold; equity reasons and the costs associated with long term disability. The proposed structure recognises the different characteristics of the current client groups. Persons with a short term reduced capacity for employment by and large enter the benefit system directly from employment. Income support is a stop gap measure until they are recovered sufficiently to return to work. Persons who move from paid work into the benefit system have had the advantage of participating in the work force, i.e earning an income often in excess of benefit rates and of accumulating capital and assets. Persons with long term disabilities or congenital birth defects may have never undertaken paid work and therefore have not had the same opportunity of working and saving. Moreover those with longer term incapacities will continue to have disability related costs over their life such as medical fees, medication, special foods, special clothing and extra costs for day to day transport.

Termination Points

- 10.26. The termination points would be:
 - (a) clearance from the medical examiner that a person is capable of full time employment.
 - (b) income of the beneficiary or spouse precludes entitlement to benefit.

Support and Service Issues

- 10.27. There are a number of organisations providing direct and indirect rehabilitative services, training courses, and employment subsidies for persons with disabilities. These include the Foundation for the Blind, Sheltered Workshops, Polytechnical Institutes, Workbridge and the New Zealand Employment Service (NZES). Workbridge and the NZES are however providing assistance nationally to help people with employment difficulties to find paid work.
- 10.28. Workbridge evolved from a review of the Rehabilitation League. Under the Workbridge structure the Rehabilitation League functions from 23 sites in 20 cities/towns. The role of Workbridge is to identify ways of improving training and employment related skills, provide an employment brokerage and job placement service and to arrange short term placement support for people with disabilities. The objective of Workbridge over 1991/92 is to place 3,500 persons in paid work, 7,000 into training and 2,000 into job retention and post placement support.
- 10.29. Workbridge would seem to be the most viable option for the assessment, training and placement of persons with reduced capacities for employment. Workbridge has however moved away from providing assessments of work capacity and is now a service broker. Medical and work assessments are provided for Workbridge by Area Health Boards. If Workbridge were to be asked to provide an assessment, training and brokerage service for persons in the incapacity system extra funding would be required. The Working Party on Employment Policy for People with Disabilities, which is reporting in June, will be considering the service needs of people who will be part of the health stream.

Social Impact

- 10.30. The arrangements described above do not take away any existing entitlements of persons currently eligible to receive sickness or invalids benefit. Beneficiaries in receipt of support at the lower rate must re-establish entitlement on medical grounds every 13 weeks. This is a continuation of the current system with the exception that the medical certificate would be more detailed. There is one additional requirement and that is that after 26 weeks on benefit the beneficiary must undergo a medical examination by a medical practitioner nominated by the Department of Social Welfare. It is proposed that the beneficiary meet the cost of this independent medical assessment. This is a continuation of current expectation.
- 10.31. The proposal would most affect those receiving benefit at the higher rate because of a long term or permanent reduced capacity for work. This impact would however be a positive one as beneficiaries would be employment assessed on the same basis as other categories of beneficiaries and required to undertake occupational/rehabilitative training and to enter or return to the paid work force. The regular review of employment capacity

classification would ensure that people with disabilities are not discouraged from seeking to be self sufficient.

- 10.32. The employment test is a positive way of signalling the expectation that beneficiaries with long term reduced capacity for work participate in the workforce to the degree possible in accordance with normalisation policy.

Conclusion

- 10.33. This system of assessment is much more intensive than the existing system. It involves more frequent medical assessments, and assessments of employment capacity. These are staff intensive. It would also involve an increased referral of people through services such as Workbridge. Because it is more intensive, and involves more contact with beneficiaries it would also be more costly to administer.
- 10.34. As noted above, the Working Group estimates that additional DSW costs alone would exceed \$7M per year. In the current employment environment these costs would not be offset by reductions in benefit expenditure. A short term alternative which would be cost effective would be to tighten up the screening procedures associated with the existing Sickness and Invalids Benefit.

RECOMMENDATIONS FROM SECTION 10

- (a) note that the Working Group has developed proposals to re-focus income support for those currently on sickness and invalids benefits, towards capacity for employment, taking account of the Core Family Group;
- (b) note that such a change would involve:
- (i) splitting the group into long term and short term;
 - (ii) enhancing the medical assessment procedures, to ensure compatibility with employment capacity assessment requirements; and
 - (iii) assessing the capacity of spouse to undertake employment;
- (c) note that the costings undertaken by the Working Group indicate that such a change would cost more in administration than it would be likely to return in reduced Crown payments, in the current employment environment;
- (d) agree that this element of the benefit reform be deferred until there is an improvement in economic activity;
- (e) note that in the meantime there are minor changes which can be undertaken to tighten existing screening procedure for Sickness and Invalids Benefits, which are cost effective;

- (f) agree that officials report further on more immediate changes which can be undertaken;
- (g) note that issues related to barriers to employment for people with disabilities is the focus of another Working Group, the Working Party on Employment Policy for People with Disabilities, which will report in June;
- (h) agree that the recommendations of the Benefit Reform Working Group relating to the income test to be applied to those with health related conditions, particularly the use of special exemptions, be referred to the Working Party identified in (bt) Recommendation of the Executive Summary for consideration in the context of their brief.

SECTION 11 : SOLE PARENT GROUPING

Background

- 11.1. Income support for sole parents with dependent children is provided by the Domestic Purposes and Widows benefits. Current eligibility criteria for both benefits are contained in the Appendix.

Description

- 11.2. The proposed sole parent category will provide income support for sole parents caring for dependent children. It will merge current provisions for the DPB and the Widows Benefit for income support for the care of children by sole parents. Approximately 94,000 clients from the DPB and 3,500 from the Widows Benefit will be affected. (The provisions for carers and for women without dependent children on these benefits are discussed later in this section).
- 11.3. A major feature to be introduced in this benefit grouping is the new employment expectation for sole parent beneficiaries.

Eligibility

- 11.4. Eligibility will be determined by
- (a) the sole parent having responsibility for the care of a dependent child or children. The sole parent could be either single, separated, divorced or widowed.
 - (b) the sole parent having reached whatever age is determined to constitute adulthood.

Current eligibility for DPB and Widows Benefit begins at age 16. Refer Section 7 for a discussion of the age of adulthood. Recommendations contained within this section will apply to sole parents.

Any changes to the age of eligibility will need to ensure income support for those who do not qualify because of age and cannot obtain parental assistance.

- (c) The child being either the natural or adoptive child of the applicant.

The above definition of dependent child should be assessed later in the reform process, as should the issue of income support in cases of split custody.

Expectations and Requirements : Employment Expectations

11.5. Initial Assessment and Selection of Employment Capacity Groupings

Once eligibility is determined the sole parent will be placed in one of three employment capacity groupings:

- (a) employment exempt
- (b) employment ready (20 hours)
- (c) employment ready (30 hours)

11.6. The appropriate group will primarily be determined by :

- (a) the age of the youngest child
- (b) the time which has elapsed since the person became a sole parent

11.7. Provision for exempting a sole parent from an employment ready classification for other reasons is discussed further on in this section.

Employment Exempt

11.8. Sole parents will be eligible for income support without a paid work requirement until their youngest child reaches age 7. The rationales for work exemption until this point are, first, recognition that it is reasonable for sole parents to be able to choose to care for children of this age themselves. Second, studies of factors influencing sole parents' labour force participation show that a large proportion would have difficulty complying with a paid work requirement.

11.9. Of the current recipients of the DPB and Widows benefits, 63% have a youngest child aged under 7. Income support will be provided in the expectation of their commitment to become self-supporting as early as possible. Provisions will emphasise facilitative measures to prepare sole parents for self-support. Sole parents will be encouraged (but not required) to take advantage of appropriate training and education opportunities and to do part-time work.

Employment Ready : Part-time

11.10. Once their youngest child reaches age 7 sole parents will be "required to be available for paid work for at least 20 hours per week or to be engaged in work related training or education". (Economic and Social Initiative - December 1990).

Provisions for Education and Training

- 11.11. Access to training and education places will enable sole parent beneficiaries to improve their chances of eventually entering the full-time paid workforce. Given that the majority of sole parents are women, enhancing their employment prospects would improve their earning capacity and consequently play a part in reducing the relative poverty of women and children in sole parent families.
- 11.12. Sole parents will be able to access approved training in the same way as other people in the unemployed stream. Sole parents participating in training or education courses will remain on the sole parent benefit but be exempted from the employment requirements.

Part-Time Employment

- 11.13. There is currently a growth in part-time employment which will give the sole parent the opportunity to gain some skills and employment experience and to adjust to the need to accommodate the demands of paid work and childcare responsibilities. However, the part-time work available to sole parents is often outside school hours when informal or no childcare is available, and in the service industries (often in casual, low paid jobs with little chance of full-time employment).
- 11.14. A fulltime job search requirement at this stage would not be reasonable unless impediments to full-time participation were removed. If support services such as out of school care were not available the stress placed on sole parents and the cost to their families would be very high.

Employment Ready : Full-time

- 11.15. At some point the sole parent will be classified as required to be available to work full-time (a minimum of 30 hours per week). The simplest determinant is the age of the youngest child. The age would be one at which it is agreed that:
- (a) the child's development and well-being would not be impaired by lack of access to the parent or parental supervision, and;
 - (b) on balance the obligation on the parent to be self-supporting outweighs the right to fulfil the parenting role fulltime.
- 11.16. Considering these issues, the choice is between two options:
- (a) When the youngest child reaches 14

Existing legislation provides some guidance on the definitions of "child" and of children's requirements for parental supervision. The Summary

Offences Act 1981 requires any parent to make reasonable provision for the supervision and care of a child under the age 14. The Children, Young Persons and Their Families Act also defines a child as being under 14. At this age a young person has to accept some legal responsibility for their own actions.

9% of Domestic Purposes and Widows beneficiaries have a youngest child aged 14 or over.

(b) When the youngest child reaches 16

This is proposed as the new school leaving age.

It is felt that children under 16 still require supervision especially in the school holidays. Option (b) is the preference of the Working Group.

- 11.17. The Working Group proposes that the age of 16 be adopted.

Exemptions from Employment Requirements

Adjustment Period for New Entrants

- 11.18. All new entrants to the system who would otherwise be classified employment ready, whether for part-time or full-time work, will for a 6 month period be "employment exempt". This is to allow for the distress associated with the death of a spouse or break up of a family, and the need for the family to adjust to the new sole parent situation. This exemption will be available to those who apply for a sole parent benefit within a short period after the qualifying event; it would not, for example, be available to those who had been in employment since becoming a sole parent.

- 11.19. In the majority of cases the settlement of matrimonial property will have taken place within 6 months of the death of a spouse or separation or there may have been a reconciliation. The Ministry of Women's Affairs and Manatu Maori both favour a two year adjustment period. However, the Working Group believes that exemption would not usually be necessary.

It is, however, recognised that an adjustment period is not necessarily uniform. Individuals who are still not in a position to be available for employment after 6 months can be accommodated within other provisions. They could either be considered for a further period of exemption within the general criteria proposed below for sole parents, or be assessed for eligibility for income support within the health grouping. A medical certificate would be needed in this case.

- 11.20. Other Circumstances

- 11.21. The assessment of a sole parent's employment capacity will have to recognise the realities of parenting alone, by taking account of a range of possible situations. These could include:

- (a) caring for a disabled sick child
- (b) caring for a large family alone
- (c) isolation from childcare services and/or employment opportunities

These and other possible circumstances could be dealt with by giving an exemption from a job search requirement or be taken into account in the routine application of the employment test (ie. by considering a decline of an offer of work to meet the "good and sufficient reason" rules.)

Clearly some such circumstances will be an ongoing, while others will be temporary. Further, it is likely that one factor alone might not limit a persons availability for employment, but the combination of factors could (eg. large family and a disabled child).

This is an area which requires further consideration, in order to cater appropriately for the situations faced by sole parents. It is proposed that special attention be given to this in the implementation phases.

Proposed Process

New Entrants

- 11.22. All new entrants will be interviewed by DSW staff. Those whose youngest child is under age 7 will have the Government's expectations of them set out and information about options to assist them in planning for later self-support provided. One month prior to their youngest child turning 7 they will receive a letter informing them of their forthcoming change in employment capacity and of the provision to be assessed for exemption (if this is agreed).
- 11.23. Those whose youngest child is already aged 7 or older will be informed of the requirements placed on them. After the 6 month adjustment period if they qualify, they will be interviewed by DSW to assess their employment readiness. They will then be required to register with NZES or to undertake employment-related training or education unless exemption is available and they meet the criteria.
- 11.24. The initial interviews for these groups will in fact be an enhancement of the existing application interview.

Current Beneficiaries

- 11.25. Those whose youngest child is aged under 7 will be provided with information about the new benefit structure and expectations by mail with the option of an interview if they preferred one.
- 11.26. Those whose youngest child is already 7 will be informed of the new requirements, initially by letter. All beneficiaries will need to be interviewed to explain the new system and to provide them with information about assistance available, eg, with childcare. Those who have already been on the benefit 6 months will be employment ready. If there is provision for exemption from the employment requirement, those who consider they meet the criteria would initiate an interview with DSW for assessment and decision. Otherwise they will be required to register with NZES or to undertake employment-related training or education.
- 11.27. The details of the process of assessment and referral require further work once decisions are made on, for example, the income test provisions, whether there is to be provision for exemption from the employment requirement on what grounds, and whether joint interviews will be used.

Reclassification Issues

Sanctions

- 11.28. Sole parents will transfer to the unemployment benefit once classified full-time employment ready. The rates for sole parents in both benefit categories will be the same. Sole parents will then be subject to the same provisions and sanctions as others in the unemployed category.
- 11.29. A discussion on sanctions as they might affect sole parents in all groupings is contained in Section 6. There are approximately 4,320 sole parents receiving the unemployment benefit. They are currently able to transfer to DPB if stood down. This option would no longer be available. If sole parents were in the part-time employment grouping there would also be sanctions for non-compliance.

Levels of Entitlement

- 11.30. Rates will be the same as those paid to existing Domestic Purposes and Widows beneficiaries. The current rates are :

	Basic Benefit	With Family Support
With one child	\$185.93	\$227.93
With 2 or more children	\$202.83	\$266.83

11.31. Section 5 on Targeting presents two options for the rates structure for sole parents with a part-time employment requirement - a full benefit, and a part benefit plus an unemployment supplement (which together would equate to the full benefit).

11.32. At the termination of the sole parent benefit beneficiaries will drop to the rates for the Unemployment Benefit .

Income Test

11.33. The proposed income test provisions for sole parent beneficiaries are presented in detail in Section 5.

11.34. For those with a full-time job search requirement, it is recommended that there be a free zone of \$50 gross other income per week (= \$36 net), with benefit abatement at 70 cents per dollar of income in excess of the exemption.

11.35. For the group assessed as Employment Ready 20 hours, three options are presented. The first two are "full-benefit options" in which the base benefit is not affected. The third "part-benefit option" reduces the basic benefit by \$50 a week, but also provides an "unemployment supplement" to ensure that no-one who fulfills the work test requirements receives less than full benefit.

Termination of Benefit

11.36. This will occur when any of the following take place :

- * core family group income increases to reach benefit cut-out point (this will be determined by the decisions on targeting)
- * remarriage (or entering a "relationship in the nature of marriage")
- * beneficiary classified as full-time employment ready and moves into unemployed category
- * beneficiary no longer has the responsibility for a child
- * the child reaches an as yet to be determined age (see Section 6 Definition of Adulthood)

11.37. Currently the Domestic Purposes Benefit is paid while a parent has responsibility for a child up to the age 16. There is provision for extension in some circumstances:

(a) the DPB continues until the child is 18 so long as the child is not financially independent (eg receiving a benefit in his/her own right or in employment) and is still being supported by the parent, or;

(b) if the child is still at school or in tertiary education the benefit will be paid until the end of the school year in which the child turns 18,

11.38. It is proposed that these provisions apply to the new sole parent category. Termination needs to be considered in conjunction with income maintenance provisions for youth, the level of expected parental support of independent children, and the need to encourage completion of secondary education.

Impediments to Labour Force Participation, Support and Service Issues

11.39. Within the current social security system and the wider social environment there are a number of difficulties sole parents face in returning to the workforce. Parenting responsibilities create a significant barrier to labour force participation, particularly when the parent is a sole parent. 90% of Domestic Purposes beneficiaries are women and they face the same barriers to labour force participation as women in general.

(a) Out of School Care and Recreation

Finding adequate and affordable childcare is a major barrier for sole parents who are seeking to train or enter the workforce. This issue is addressed in Section 8.

(b) Operation of Income Test

The effect of the current income test and abatement regime means that it is financially advantageous for sole parents to undertake significant part-time work. New proposals for the income test are in Section 5.

(c) Availability of Suitable Employment

(i) An important issue is the availability of suitable part-time and full-time employment. To fit in with childcare responsibilities as has been described earlier, work for sole parents is frequently only available on a casual basis or shift work. This usually does not give provision for school holidays or sick children.

(ii) The employment requirements will create a large new client group for the NZ Employment Service with particular implications for part-time placements. Perhaps 33,000 seeking assistance in finding part-time work. The operations and support services implications for the NZES are discussed in Part IV and Section 9.

(d) Need for Education and Training

- (i) A major disadvantage for sole parents seeking to enter the workforce is lack of educational qualifications and workforce experience. Of sole parent families in the 1986 Census, 59% had no educational qualifications, 21% had a secondary qualification as their highest qualification, and 20% had a tertiary qualification as their highest. The employment streaming of sole parents whose youngest child has reached 7 will provide participation in approved work related training and education as options for meeting the requirements until they are full-time employment ready. The lack of training places or real training options could limit long-term placement success. This has implications for the development of training systems such as Study Right and for the priority given to sole parents when training places are allocated.
- (ii) The Training Incentive Allowance is currently available to sole parents as well as to invalids. It assists with the costs of training for those undertaking courses at universities, polytechnics, colleges of education, and since the beginning of this year secondary school courses. The interface of this provision with a sole parent's access to a Study Right is not clear.

(e) Numbers of Children

The numbers, ages and health of the children of a sole parent can compound the difficulties of a sole parent both in entering the workforce and in maintaining a job. Sole parents will also have different abilities in coping with combining paid work and domestic responsibilities.

(f) Lack of Information

A significant barrier for sole parents is a lack of information and understanding about the options and support services available. Provision of these must be a key component in facilitating their entry into the paid workforce.

Social and Client Impact

- 11.40. Unreasonable requirements will place additional stress on sole parents. This will be detrimental to their health and to the well-being of their children. (There are nearly 160,000 children in sole parent families.)
- 11.41. The majority (63%) of sole parents will be employment exempt because they have a youngest child under 7. A statistical profile on sole parents is attached as an Appendix. Similarly there is a further discussion on the social impact of the proposed reforms in Section 15.

There will be considerable impact on the group that will be employment ready. The statistical profile identifies high proportions of Maori sole parents especially those with younger children. Those with the older children may be slightly better educated than the larger group with youngest children. Nevertheless access to suitable jobs and training will be an issue for them.

- 11.42. Any raising of the age of eligibility above 16 years will have an impact on youth and Maori. (In 1986 57% of DPB recipients aged 16 - 19 were Maori.)
- 11.43. Given the characteristics of the sole parent population, they should be given information in an accessible form about the new benefit system, and receive encouragement and assistance early in the process so they can undertake training and employment and avoid long-term benefit dependency.

Operational Implications

- 11.44. A discussion of the operational implications for this grouping is contained in Part IV.

Other Issues

- 11.45. Further work in this area, in particular provisions to overcome barriers to labour force participation, should also address the needs of people who become sole parents while in paid work so that they do not subsequently become beneficiaries.

RECOMMENDATIONS FROM SECTION 11

It is recommended that the Prime Ministerial Committee:

- (a) agree that sole parents continue to be eligible to receive benefit support, subject to specific rules related to their caring responsibilities and, in some cases their assessed capacity for employment;
- (b) agree that the new sole parent stream will incorporate sole parents currently covered by the Domestic Purposes Benefit and the Widows Benefit;
- (c) agree that eligibility for benefit support for the sole parent grouping be limited to those who, in addition to fulfilling residential requirements;
 - (i) are deemed themselves to be "adult"; and
 - (ii) have responsibility for the care of their own (natural or adoptive) child, where that child is under the age of 16;
- (d) agree that a sole parent whose youngest child has reached age 7 be

required to undertake job search for employment of at least 20 hours per week;

- (e) agree that sole parents whose youngest child is over age 16 will be required to undertake job search for full-time employment within the unemployment grouping, and that where they are unable to find full-time employment, will be entitled to payment of a benefit at the appropriate sole parent rate;
- (f) agree that sole parents will be exempt from job search requirements for a period of six months following the death of or separation from a spouse or partner;
- (g) note the need for special circumstances which limit a sole parent's capacity to undertake employment in any given situation (such as health of a child, and availability of childcare arrangements) to be taken into account when determining whether and how a job search requirement is applied;
- (h) note that further work is required to identify the range of special circumstances which limit a sole parent's capacity to undertake employment in any given situation, and to determine the most appropriate way of taking account of these;

(cross refer rec (as) Recommendations)

- (i) note that the rates payable to sole parents included in the sole parent stream will be the same rates payable now to sole parents receiving the Domestic Purposes Benefit;
- (j) note that sole parents currently included in the Invalids Benefit will continue to receive the Invalids Benefit sole parent rate;
- (k) agree that the bases for termination of eligibility for benefit support for sole parents will be based on those currently applying to the Domestic Purposes Benefit, with the addition of the point at which the sole parent is required to seek full-time employment;
- (l) note that existing services from the New Zealand Employment Service will be required to expand to cater for the employment testing of sole parents (the associated costs are covered in later recommendations);
- (m) note that out-of-school care and childcare services are fundamental to the ability of many sole parents to successfully undertake employment.

SECTION 12 : CARERS OF THE SICK AND INFIRM

Background

- 12.1 Domestic purposes benefit and emergency unemployment benefit are currently available to people who have given up employment or are unable to undertake employment because they are providing full time care and attention at home to a person who would otherwise be admitted to hospital.
- 12.2 Where the statutory entitlement to domestic purposes benefit is not met, emergency unemployment benefit is available on the grounds of hardship, taking into account the patients ability to pay for the care.
- 12.3 As at 31 March 1991, 717 carers were receiving DPB and 517 carers were receiving EUB. It is expected that the majority of DPB and EUB carers are related to their patients (statistics are not available).
- 12.4 Assistance is also available to help maintain the sick and infirm in their own homes through the home help and attendant care programmes. However this assistance is not available if the care is provided by a spouse, a relative, or some one living in the same house. The family is expected to accept primary responsibility for the care of sick or disabled members and home help and attendant care is only available where this is not possible. These services are not designed to meet 24 hour care requirements and the maximum is 35 hours per week. These are also limitations on the age of the person for whom care can be provided and the disability.
- 12.5 A support subsidy is being piloted on the health/welfare interface for people with intellectual disabilities who are being discharged from institutions and hospitals. This subsidy is paid to approved service providers who provide supervised residential accommodation to the clients.

Description

- 12.6 Carers currently receiving assistance through domestic purposes and emergency unemployment benefits are providing a valuable service to people who would otherwise require hospital or institutional care. The cost to the state of hospitalisation would be considerably higher than the cost of paying a benefit to the carer. This assistance should continue to be available. Three different approaches to providing such assistance have been identified. They are:
- (a) continue to provide assistance to carers through the benefit system;
 - (b) introduce a new system whereby financial assistance is given to the patient to purchase the service of a carer; and

- (c) amend the attendant care and home help programmes to cater for this client group.

12.7 Option One: Continue to maintain separate entry conditions.

This option is the status quo. Carers would continue to access the benefit system as a distinct group. There are two alternatives:

- (a) The status quo ie either the DPB or EUB;
- (b) merge the two benefits into one and relabel, (eg. carers benefit).

Approach two: Integrate the provision with the Health/Related grouping for purchase of service by the patient.

This approach would require some resolution of the question:

12.8 What would be the determining factor for the person requiring care to be eligible to access the ability or allowance to purchase the service? (Type of care required or the degree of disablement, benefit status, income, availability of someone in the family to provide the care).

12.9 This option could give the person more control over who provides the care. It could free the family from accepting care responsibilities under obligation, duress or guilt. The person may be able to buy the service from a wider range of providers. But at what cost?

12.10 The issues would need to be discussed in more depth with the Health/Welfare interface people.

Approach three: Align the system with other subsidies paid by the Health system for Home Help.

12.11 The present Home Help and related services are not accessible by the carers using DPB and EUB. There is concern that a relaxation of the criteria to allow payment to family members may cause a large increase in expenditure. Much unpaid care is currently provided in the community.

12.12 A gate keeping mechanism would be necessary and on going monitoring to prevent abuse of the person and the system.

12.13 It is proposed that in the short term assistance should continue to be provided through the benefit system to the carers rather than develop alternative approaches. The reasons for this are:

- (a) there are no systems currently in place to deliver assistance through either of the alternative options;

- (b) considerable further work is required to consider whether either of the alternatives is viable; and
- (c) the health/welfare interface has been put on hold for a year and decisions made in that exercise could affect the outcome of work done in this area.

Further Issues

- 12.14 Assuming that assistance will still be available to carers through the benefit system, there are two further alternatives concerning the payment of DPB and EUB. They are:
 - (a) continue to provide assistance through both DPB and EUB (that is, the status quo); or
 - (b) merge the two provisions into one benefit.
- 12.15 A major problem with the current system of delivering through two different benefits is that people in the same situation are getting two different rates of benefit. That is, people who qualify for DPB receive a higher benefit than those who qualify under the EUB provisions.
- 12.16 In addition, merging the two mechanisms for providing assistance will make the assistance more explicit for monitoring purposes.

Eligibility Rules

- 12.17 The eligibility rules would remain the same as the present rules. Carers qualifying for a benefit under either the DPB or EUB provisions would be categorised as employment exempt for the duration of the medical certificate.

RECOMMENDATIONS FROM SECTION 12

It is recommended that the Prime Ministerial Committee:

- (a) note that the logical method of providing funding for the care of the sick or infirm is by way of an entitlement available to that person, but that this has cost and other implications;
- (b) note that such an approach needs to be considered in the wider context of the health/welfare interface;

- (c) agree that until such time as this is considered in the health/welfare interface context, carers of the sick or infirm continue to access income support through the benefit system, through a "Domiciliary Care Benefit", to replace the analogous stream currently existing in the Domestic Purposes Benefit;
- (d) agree that the Domiciliary Care Benefit not be subject to an employment test;
- (e) agree that further work be done to determine the practicality of extending "Domiciliary Care Benefit" to cover those currently caring for a sick or infirm spouse under the Emergency Unemployment Benefit provisions.

SECTION 13 : TRAINING FOR EMPLOYMENT

Introduction

- 13.1. Training and education have been identified as important means by which beneficiaries can upgrade their skills, improve their prospects of gaining viable employment, and maximise lifetime earnings. Income support for people engaged in these activities needs to be compatible with both skills development and benefit reform objectives.

Background

- 13.2. The Government currently provides two categories of income support for people in education/training:

(a) Training Benefit (TB) is available to people 16 or over who undertake ACCESS training, or other employment-related courses approved by Social Welfare. TB is paid by Social Welfare, at UB rates. Unemployment beneficiaries who enter training must transfer to the Training Benefit. Beneficiaries in receipt of DPB, widows or invalids benefits can remain on their parent benefit while in training. Receipt of a benefit is not a prerequisite for receipt of Training Benefit; eg: ACCESS is not restricted to beneficiaries.

(b) Student Allowance (SA) is available, with some exceptions, to people who undertake recognised post-secondary courses in universities, teachers colleges, polytechnics and other approved tertiary institutions, and is paid by the Ministry of Education, and is limited, in general, to five years.

- 13.3. DPBs, invalids and widows are able to attend tertiary institutions while remaining on their parent benefit. Full-time students are ineligible for UB (on the grounds of unavailability for full-time work). While the intention of the previous Government's Youth Support Package was to align Unemployment and Training Benefits, and Student Allowance rates, various anomalies have emerged. These reflect the different circumstances of the client groups, as well as different administrative procedures.

Description

- 13.4. It is proposed that those beneficiaries who enter training will fall into the "training for employment" stream. This description would simply indicate that the beneficiary is engaged in an approved course of training, and is not immediately available for paid work (ie: is not subject to an employment test) during this period.

13.5. Given this approach, there are two sets of issues which need to be resolved:

- (a) would those who are in "training for employment" remain on their original benefit for the duration of the course; be transferred to a separate Training Benefit; or (as now) would there continue to be a mixture of both?
- (b) what is the boundary between "training" and "study", and what implications does this have for the continuation (or otherwise) of separate income maintenance provisions for persons engaged in these activities?

13.6. The first of these issues is discussed in this section. The second issue is touched on under the heading of income support for young people.

13.7. There are two options for treatment of those beneficiaries who are in training:

- (a) allow all beneficiaries taking up employment-related training to remain on their parent benefit, for the duration of the training. Trainees would continue to receive the same rate of benefit;
- (b) allow trainees in the "employment exempt" stream to remain on their parent benefit, and require those deemed "employment ready" to move onto a separate Training Benefit. This option would most closely align the benefit category with the employment test, and most closely resembles the current situation. On the other hand, an appropriate rate would need to be devised (given the difference in rates between unemployed and incapacitated beneficiaries with an employment expectation).

13.8. In both cases, being in training would satisfy the employment test.

13.9. The Working Group prefers the first option. The advantages of this approach (as opposed to a separate Training Benefit) are that it:

- allows beneficiaries to stay on their current rates, obviating the need to devise a set of rates for a separate benefit, and avoiding the administrative hassles of moving beneficiaries on and off a separate benefit;
- more closely integrates "training" with the other elements of employment-related assistance.

Entry/Eligibility Rules

13.10. Training schemes will have their own entry criteria. This is discussed under "support and service issues" below.

- 13.11. Any training that attracts income support must be approved and monitored. This is a way to ensure that training is of a high quality, as well as a means of placing some limits on the kinds of activities that will exempt a job seeker from the presumption that they be available for paid work. It is envisaged that employment-related training courses will continue to be validated, and their performance monitored, by responsible agencies (eg: NQA, ETSA etc).
- 13.12. The age and other conditions attached to eligibility for income support (including income support for trainees) will depend upon decisions about when dependence on the core family group ceases. Possible rules are discussed in Section 6 of this paper. The implications that any rules might have for income support for young people in education or training are discussed below.
- 13.13. Those outside the benefit system could also qualify for approved training schemes; (the level of income support received by this group would still be a function of the income test applied to the core family).
- 13.14. It is proposed that "employment ready" beneficiaries entering other post-secondary courses would continue to be required to transfer to Student Allowance. "Employment exempt" beneficiaries could continue to apply for Student Allowance if eligible. However, it is desirable that benefit and Student Allowance rates and conditions be aligned to the greatest degree possible.

Expectations and Requirements

- 13.15. Those entering approved training from the "employment exempt" grouping would simply have their status noted by DSW.
- 13.16. For those entering training from the "employment ready" grouping there would need to be some mechanism for exempting beneficiaries from the employment test; flagging this status within the benefit and NZES system; and reactivating "employment ready" status once the training was terminated. Beneficiaries may be referred into training via alternative routes (ie: not just through NZES); it is therefore important that mechanisms exist to provide this information to NZES.
- 13.17. Mandatory registration for non-beneficiaries with NZES would depend upon whether this was a condition for entry onto the training scheme (eg: entry conditions for some schemes may be based on duration of registered unemployment).
- 13.18. Beneficiaries in the "employment ready" stream who turned down the offer of a place on a training scheme (or who quit without good and sufficient reason) would face the same sanctions as those who refused a suitable job offer, although the reality is that competition for training places will be very strong, and providers will only be interested in those who indicate that they

are will be committed to the programme. People on benefit who quit a part-time job to enter a training scheme should not be penalised.

- 13.19. There is an issue as to whether those streamed "employment ready" who take up part-time training would be exempt from any employment test for the duration of the course. This is more an issue of the sort of training courses that are approved; the great majority of approved courses for this group are likely to be full-time (and those that are part-time do leave some free time for job search for a full-time job). It seems unnecessarily complex to impose an additional part-time employment test on this group.

Levels of Entitlement

- 13.20. As noted above, trainees would continue to receive the level of benefit that they received on their parent benefit. People not currently in receipt of a benefit, but who qualified for approved training, and met the other criteria for income support, would receive the level of benefit appropriate to their circumstances (ie: employment ready, short-term incapacity, long-term incapacity etc).
- 13.21. Levels of support for young people (under 18) in training are discussed under "other issues" below.
- 13.22. Currently, there is a minimum rate of Training Benefit available to trainees who have an earning spouse. Unless specific provisions were made, there is no rationale, with the core family as the unit of assessment, for this minimum rate to continue.

Income Test

- 13.23. It is proposed that trainees would also face the same income test that they faced on their parent benefit. For those in the "employment ready" and "employment exempt" streams, this is relatively straightforward.

It is a little more complex for those with a part-time employment expectation. With the "step-down" option, those in training would (at the least) be topped up to the full benefit rate, while those whose training was part-time would still have the incentive of a larger free zone.

Support and Service Issues

- 13.24. The provision and funding of tertiary education is being addressed as part of the education sector reviews. Associated with this process, the Working Party on Skills Training has been considering the structure, targeting, funding and delivery of possible training programmes for school leavers and "disadvantaged" adults.

- 13.25. There are unlikely to be sufficient places on training schemes for all those who fall into these categories. Nor will training be the most appropriate option in all cases. Issues of targeting and assessment/referral are therefore important. This requires coordination between the relevant Working Groups.

Income Support for Young People in Education and Training

- 13.26. There is an issue of what income support there should be for young people in education and training. This is related to the age (and other conditions) that determine "independence" from the core family. Under the model discussed in Section 9, those younger than 18 in education and training would be assumed to remain within the core family, with some degree of parental support. It would be consistent, therefore, for any income support to this group to be income tested against the core family's income. This implies integration and redesign of current Training Benefit and Student Allowance regimes for those under 18.
- 13.27. The alternative is that participation in education/training be considered grounds for "independence" from the core family; this would lead to a significant increase in rates of Student Allowance for those in education (which is already parentally income tested), with attendant fiscal costs.
- 13.28. Both approaches raise the issue of equity for those in secondary education.
- 13.29. The issue of what (if any) income support should be paid to a core family which includes those in education or training has not been addressed as yet. This needs to be done in conjunction with a review of youth benefits, and would require consultation with the Ministry of Education.
- 13.30. This raises the wider issue of the relationship between the Student Allowance and benefits. The advantage of closer integration of the wider Student Allowance and training benefit regimes is that it breaks down the barriers between "education" and "training". This will become more important with the move towards a more modular system of skill development, with the outcome of training schemes being credits towards a National Certificate. However, before this degree of integration could occur, issues of variations in levels, conditions and delivery between the two regimes would need to be resolved.

Social and Client Impact

- 13.31. For adults on income tested benefits who enter training, the proposed approach should be little different from the current regime. The ability to stay on benefit while in training should be administratively more convenient for staff and clients.

- 13.32. On the other hand, the logic of the "core family" implies that two groups would receive less income support than at present. Firstly, the minimum rate of Training Benefit for trainees with an earning spouse would no longer exist. Secondly, and more importantly, those currently aged under 18 in education or training would no longer have a right to income support. What (if any) support they might be eligible for is yet to be addressed.

Specific Operational Issues

- 13.33. The principal operational issues have been noted above. These include:
- a mechanism for approving courses (probably the same as currently, eg: NQA);
 - a mechanism for DSW to tag that a person is "in training", and to pass information on commencement and termination to NZES (for "employment ready" groups). This could probably be done via the existing computer link. It would also be desirable to be able to calculate the level of Government expenditure on income support for "training";
 - a mechanism for NZES to tag that a job seeker was "in training", and to adjust the job seeker's status at the end of this period.
- 13.34. Two broader issues, which need further work, but which will require wider consultation, are:
- some consideration of the means by which job seekers would be assessed as requiring training, and then referred to appropriate providers;
 - some consideration of the delivery issues that may arise from a closer alignment of Student Allowance and benefit rates and conditions.

RECOMMENDATIONS FROM SECTION 13

It is recommended that the Prime Ministerial Committee:

- (a) agree attendance at an approved course of training meets the employment test requirements;
- (b) note that there are two options for the treatment of trainees in the benefit system;

OPTION ONE allow all beneficiaries taking up employment related-training to remain on their parent benefit, at their current benefit rate, coded as "training for employment" for the duration of the training;

OPTION TWO allow trainees in the "employment exempt" stream to remain on their parent benefit, and require those deemed "employment ready" to move onto a separate Training Benefit;

(c) agree to Option One in respect of adults in training;

(d) note that in respect of young people in training, the nature and availability of income support is dependent on decision in respect of youth support and the definition of "adulthood".

SECTION 14 : WOMEN WITHOUT DEPENDENT CHILDREN ON DPB AND WIDOWS BENEFIT

Background

- 14.1. The existing Domestic Purposes and Widows benefits support lone parents caring for dependent children. The DPB also covers carers of people who would otherwise be hospitalised. Both benefits with various requirements also support older women without dependent children.

Impact of New Entry Criteria

- 14.2. The creation of the new benefit category "Sole Parents Caring for Children" brings together some components of the Widows and Domestic Purposes Benefit. It however, leaves the carers of the infirm and the older women without dependent children to be accommodated.

Position of Carers

- 14.3. The position of "carers" is somewhat different from the others falling outside the new benefit category. Recommendations for this group are included in Section 12.

Remaining Groups of Older Women without Dependent Children

- 14.4. The remaining group would be drawn from the following:
- (a) widows who have spent at least 15 years as a wife and parent of a child;
 - (b) widows who have been married over 5 years and widowed after age 50 years;
 - (c) widows after age 50 who were married for at least 10 years, were over 40 when widowed and were married more than 15 years previously;
 - (d) single, separated or divorced women who spent 15 years as a wife and parent and ceased their child-rearing responsibility after age 50 years;
 - (e) formerly married women who were married for five years and lost the support of their husbands after age 50 years;
 - (f) unmarried women who spent 5 years caring for an infirm relative and who ceased this work after they reached the age of 50 years.

Characteristics of the Remaining Group

- 14.5. The table below shows at intervals the ages and numbers of those without children receiving Widows Benefit since 31 March 1988.

Widows Benefit - No Children

Age	31.3.88	31.3.89	30.6.90	31.3.91
35-39	38	49	57	57
40-44	250	283	276	259
45-49	791	801	812	810
50-54	1847	1863	1875	1909
55-59	4292	4176	4009	3945
60 +	1915	2126	1963	1153
Total		9133	9298	8992

The numbers of Women Alone are considerably smaller than those on Widows Benefit and are nearly all in the 50-59 group with small numbers in the 60+ group.

Women Alone (and EMA)

31.3.88	2667
31.3.89	2741
30.6.90	2820
31.3.91	2755
30.4.91	2681

All of the above have in common their gender and history of family responsibilities. They also have in common prolonged absence from the full-time work-force. For most they are in the fifty + age groups but there are some widows who are younger; 1125 in March 1991.

Chargeable Income

- 14.6. A preliminary assessment has been made of those who may have chargeable income and consequently might be working. Departmental statistics show that only approximately 12% of Women Alone have chargeable income. It is not possible to be precise about this because Departmental statistics include the income earned by carers and those on Emergency Maintenance Allowance as well as Women Alone. 22% of widows without children have chargeable income.
- 14.7. The statistics do not indicate what is included in the income; it could be interest, dividends, or earned income.

Numbers on Benefit Over time

- 14.8. As can be seen from the table, over time the numbers have been relatively stable. To be noted are decreases since June 1990 in all but the 50 to 54 age groups with greater numbers moving to GRI over the age of 60. They may be transferring to GRI because of the discontinuation of the Telephone Service Rental Allowance and the availability of the Living Alone Allowance on GRI. It is likely that the main reason some still remain on DPB and Widows Benefits over the age of sixty is that they do not meet the residential test to qualify for GRI.

Expectations for Older Women

- 14.9. Original provision for the support of widows without dependent children conferred recognition that they had foregone the opportunity to undertake paid work because of domestic duties. Consequently the loss of the bread winner was seen as a proper reason for income support. This argument was also encapsulated in the introduction of the "Women Alone" provisions of the DPB (with some distinctions)
- 14.10. The older women have lived through a period where there was little expectation of self-support. Indeed there was active discrimination in the work-place over pay rates, superannuation and other conditions of work. They were also discouraged from working once married with children. Certainly no support services such as childcare were available and education and training opportunities were limited. It is likely that the older women have had few opportunities to build up a work record and limited means of saving. They are likely to be at a disadvantage in comparison with their male and female counterparts on the unemployment benefit.

Expectations for Younger Women

- 14.11. For those younger women on the Widows Benefit, although potentially at a disadvantage, their position is not as serious as that of the older women. Their relative youth would make it easier to compete with others or to retrain.

Possible Transitional Arrangements

- 14.12. In principle in today's climate it may seem that there is no reason why these categories of benefit should be maintained separately. The Working Group believes that ultimately there should be no separate entry conditions for lone women without dependent children. Nevertheless in the light of the discussion above, it would seem that the position of older women is still somewhat different from that of the unemployed and that transitional arrangements will be necessary to allow time to prepare for re-entry into the workforce.

Possible Options

- 14.13. There are two possible options that could be considered in effecting the transition.
- 14.14. The first, a "grandparenting" option, maintains a separate limited entry condition for those aged over 50 years (or perhaps over 55 years) and an adjustment period for those under that age; the second provides an adjustment period only for everyone.

The two options are set out below:

Option (1) Grandparenting Option

Eligibility

Eligibility would be restricted to:

Women of fifty years (or fifty five) and over born prior to say 1941 (or 1936).

Note: Fifty is suggested at this stage because this is the current age of eligibility for women alone and for most categories of Widows Benefit now. If Government wishes to pursue this option then more work would need to be done to settle on the most appropriate age at which eligibility should occur so that entry is restricted.

Other existing eligibility criteria could apply as now; or

existing provisions could be rationalised i.e. there are a number of routes in and inconsistencies between the two existing benefits.

Employment Expectations

This group would be employment exempt.

Levels of Entitlement

Rates would be the same as those paid to Domestic Purposes and Widows Beneficiaries now.

Income Test

The relevant income test for the "Employment Exempt" would apply. Options for this test are discussed in section 5. For women without dependent children on DPB and Widows Benefit, the choice would be between an exemption of \$50 or \$80, with benefit abated by 70 cents per dollar of income in excess of the exemption.

Termination

The benefit would be terminated once the recipient:

- * receives income past the cut-off point.
- * forms a relationship "in the nature of marriage".
- * finds full-time employment.
- * is entitled to GRI or another benefit.

Adjustment Period for People under 50

For women already in the system who are under fifty, it is suggested that they be given an adjustment period before transferring to the Employment Ready stream. Efforts should be made during this time for them to receive information on work or training possibilities. One approach to this might be to advise them early of the plans for their future and to implement this part of the reform last. This would give a long preparation period and could also apply for Option (2).

Option (2) Adjustment Period for Everyone

- (a) The second option is "tougher" than the first in that it would classify all current recipients as "employment ready" after an adjustment

period, but it would treat everyone in the system in the same way and further rationalise the number of benefit eligibility criteria.

- (b) What is proposed in this option is that no new entrants would be accepted into the system after a nominated period of time had elapsed. The existing group would be notified that after a period they would be determined as "ready" for full-time employment. It would be up to the individual to advise the Department of reasons for inability to work, i.e. turning 60 or ill-health.

Potential New Entrants

15. If option (2) is preferred, potential new entrants in the future would be eligible for Unemployment Benefit on the same terms as anyone else, or would need to meet the eligibility criteria for the Health/Related stream.

Equity Considerations

16. In considering the above options it should be noted that Option (1) raises equity considerations with:
- (a) the older unemployed;
 - (b) other sole parents who will be expected to be in full-time employment once their youngest child 16;
 - (c) younger women on Widows Benefit expected to transfer.
17. Option (2) would place everyone on the same footing. However, it would need to be decided just what was a reasonable expectation of women over 50 or 55 now on Widows Benefit and Domestic Purposes Benefit. Could they reasonably be expected to compete on the same terms as anyone else in the paid work-force?

Differential Rates

18. The rates of payment for single people on DPB and Widows Benefit are a little higher than that of Unemployment Benefit. For example a woman alone receives \$135.22 while a single adult on Unemployment Benefit receives \$129.81. If option (2) is favoured then some thought must be given to the most appropriate way of dealing with this issue.

Social Impact

19. The first option would not have an adverse impact on those over who would

be maintained in a separate category, depending on the age selected, the younger group would be treated differently. However as has been pointed out, their expectations for work or training are greater than for the others.

20. If option two was favoured, the impact would be equally felt on all recipients of DPB and Widows Benefit with dependent children. The statistical profile section identifies the impact of larger numbers of older woman being placed on the Unemployment Benefit. The estimates show that women could then make up 54% of older people on Unemployment Benefit.
21. The foregoing discussion highlights the position of unemployed older people generally and the potential for them to be unemployed for long periods especially if the age of receipt of GRI is to be moved back. It is recommended that further work be done on this issue.

RECOMMENDATIONS FROM SECTION 14

It is recommended that the Prime Ministerial Committee:

- (a) note that there is currently provision to pay a Widows Benefit or Domestic Purposes Benefit to those women without dependent children who have previously raised a family or have been dependent on a supporting spouse for a number of years, and further note that most of these women are over 50 years of age;
- (b) agree that in principle women without dependent children, and without the support of a spouse, who apply for income support should be subject to an assessment of their capacity to undertake employment, and where appropriate face a requirement to seek full-time employment;
- (c) agree to EITHER subject all women without dependent children to an assessment of their employment capacity, and impose a job search requirement on those with an assessed capacity;

OR
 - (i) restrict entitlement to a benefit which is not subject to an employment expectation to those currently aged over a certain age; and
 - (ii) impose an employment test on those aged under the agreed age
 - (iii) further agree that the age be set at :

either 50 (ie those born before 1941)

or 55 (ie those born before 1936)

(Working Group preference);

- (iv) further note that this option provides protection for some of the existing recipients, as well as other women in the same age cohort.

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SECTION 15 : SOCIAL IMPACT : AN OVERVIEW

Introduction

- 15.1 This section provides a preliminary overview of the social impact of the proposed benefit reforms. It describes the current status of the groups affected and then assesses the impact that the benefit system will have with reference to the new employment expectations on Maori people, Pacific Islands people, women and youth.

The Working Group has concluded that policy changes will need to be carefully managed and explained. They will need to be backed up by culturally appropriate training and education opportunities and adequate support systems.

In making these assessments account is taken of the framework suggested by the Prime Minister to Convenors of Review Teams on the Reform of Social Assistance in the evaluation of the impact and effectiveness of reform recommendations on populations with particular perspectives and needs. In summary these questions cover:

- (1) a description of the current status of the larger group,
- (2) the impact of the reforms on the larger group now and over time,
- (3) the consultation process,
- (4) the priorities, needs, values and concepts of the larger group.

Current Status of the Group

- 15.2 According to the 1986 Census one in three Maori aged 15-59 receives income maintenance, compared with one in every eight Europeans and one in five Pacific Islands people. The Working Group, has prepared a statistical profile to illustrate in more detail the groups affected by the proposed reforms. This is included as Appendix 3. Percentages of Maori and Pacific Islands people on Unemployment Benefit, Sickness and Invalids Benefit are shown in the profile. A breakdown by gender and age is also given.

Gaps in the Statistical Profile

- 15.3 The statistics that are available covering the potential benefit groupings provide restricted information on the social characteristics of the groups. However, Benefit data does not include educational qualifications, employment experience or details of family or household composition.

Disadvantage in the Current System

15.4 It is clear that beneficiaries are disadvantaged in relation to the rest of the community. Beneficiaries may:

- be unemployed (for prolonged periods in some cases)
- lack formal educational qualifications or training
- have limited income
- not speak English as their first language
- be adjusting to urban or western-style ways of living
- have disabilities
- be in poor health
- be facing personal prejudice or cultural bias
- be unfamiliar with bureaucratic requirements
- be coping with the stress of marriage or family break-up, domestic violence, bereavement or living alone
- have been on benefit for long periods
- be in sub-standard or over-crowded accommodation

15.5 The current benefit system has further compounded many of these difficulties with its inherent encouragement of benefit dependency and assignment to people to a poverty trap.

15.6 It is considered that the proposed benefit system by encouraging moves into the paid work force seeks to address some of those underlying concerns and provided the implementation of the policy recognises the needs of disadvantaged groups and addresses those in a culturally appropriate, facilitative and positive way, then the changes should better prepare people for self determination and self sufficiency.

Impact on the Maori People

15.7 The over-representation of Maori in the benefit system means they will be significantly affected by the proposed changes. 19% are represented in the Health grouping and 17% in the Unemployment grouping. Their numbers although high, are not as high for those in the sole parent grouping with older children who will be assessed employment ready, but they are particularly high in the group with children aged under 7 years. They also form the largest number of very young people, (under 18) receiving DPB (60%). Any change to the age at which young people can receive benefit will severely impact on Maori people. (Refer discussions on youth later in this paper).

15.8 Maori people in general face multiple disadvantage in the current system and difficulties for them will be especially acute when they:

- have low levels of formal education and training
- are in the lowest income brackets
- have poor health
- are in sub-standard accommodation

- have limited skills
- are faced with racism.

15.9 Health and wellbeing for Maori people may be closely tied to the maintenance of culture and support of the whanau and iwi. This extends to the care of the sick, the young and the elderly and their financial support if that is necessary. Maori families may often face greater pressure on their income than nuclear families. For many Maori, communal ways of living and sharing are the reality.

15.10 In recent times various reports to Government have raised the issue of the economic and social disadvantage of Maori and have suggested various solutions for moving towards greater self-sufficiency.

15.11 The new benefit system with employment testing for a much wider range of people represents a fundamental shift in philosophy. It will be assumed that some sole parents will seek paid employment, that older widows and "women alone" will eventually be seeking work and that the partners of beneficiaries will be expected to seek employment. The Core Family Group will have responsibility for meeting its own welfare needs. The State's responsibility will be for those who are unable to do so through their own resources.

The new system will be a positive move if training and better educational opportunities can be provided for Maori and consequently the opportunity for improvement in earning capacity through paid work. However it should be noted that Maori are under-represented now in tertiary education. Much work would be needed to develop training packages that would be accessed by Maori.

The requirement for employment testing of the Core Family Group will in some circumstances raise issues about traditional gender roles that are discussed more fully in section on "Women".

Impact on Pacific Islands People

15.12 Pacific Islands people now living in New Zealand come from many different islands in the South Pacific region, such as, Western Samoa, Cook Islands, Tokelau, Niue, Tonga, Fiji, Tuvalu, Kiribati, and other groups. In 1986 (Census) they formed roughly 4% of the total population and the majority live in urban centres.

15.13 As has been indicated, Pacific Islands people are disproportionately represented in the benefit system. One in five Pacific Islands people aged 15-59 receives income maintenance.

15.14 The greatest impact of the policy changes will be in the increased complexity of the system, and in the employment requirements for those who have not previously been expected to take on paid work while on benefit. Pacific Islands people form a percentage of those on Unemployment, DPB, Widows, Invalids

and Sickness Benefit now. (Refer Appendix 3, Statistical Profile for the percentages). Consequently, much of the discussion about the impact of the reforms generally will apply to them.

- 15.15 However, many Pacific Islands people may be more severely disadvantaged than others, because they often speak English as a second language, they may be adjusting to urban/western ways of living, and they may be having difficulty in understanding the myriad of rules and regulations of the social agencies, particularly the Department of Social Welfare and NZES.
- 15.16 There are indications too, that there are Pacific Islands people who have health problems, yet who are not currently receiving Sickness or Invalids Benefits. They may be 'hidden' amongst other benefit groupings or in the population as a whole.

Impact on Pacific Islands Families

- 15.17 It should be recognised that the well-being of Pacific Islands people is closely tied to the maintenance of their cultures, and to the care and support of the extended family and community. Particularly important is the personal care of any members who are young, sick, infirm or elderly, who might otherwise need to be institutionalised. Demands on family income often include obligations to contribute to the wider family, and to those local projects of the community to which the family belongs - often in New Zealand and in the Islands.
- 15.18 Consequently, the introduction of employment-testing for all family members, may impair impact on the ability of Pacific Islands people to continue caring for their own. The process of employment-testing would need to take account of different cultural values and responsibilities. It would need to be well-supported by the availability and active communication of information to Pacific Island peoples in forms which they are able to understand and access.
- 15.19 On the other hand, the caring and supporting role within Pacific Island families, also includes the support of those members who are seeking to develop their prospects with further education and training and whose future potential is often valued as a positive potential gain for the whole family. If opportunities are freely available for those on benefit to improve their situation then the impact could be positive.

Impact on Pacific Islands Youth

- 15.20 Standardisation of the age of eligibility for benefits, to 18 years and the loss of the Training Benefit without other arrangements put in place would have a significant impact on Pacific Islands young people and their families. Many Pacific Islands families are already living on very limited incomes which may mean that there is little money left to provide the type of support needed for young people to develop their employment potential. Pacific Island young

people are under-represented in training and tertiary studies.

- 15.21 It is also apparent that because those remaining income support provisions for young people under 18, may be especially tied to the criteria of 'independent' living, Pacific Islands families may be further penalised. It is not generally part of Pacific Island cultures to be oriented towards becoming 'independent individuals', but rather that ways of living are centred around the extended family and community. Generally, as other family members have particular roles and contributions to make within this lifestyle, so too do young people, and in many cases they may be discouraged from moving away from home.
- 15.22 Consequently, if there is family breakdown, the young people may often move to live with other relations, and may continue this cycle, if there are subsequent breakdowns. However, it may be uncommon for Pacific Islands young people to live in total independence from all family members, unless there is a move to live on the streets. Further work done in the youth income support area should take account of the particular differences of the situation for Pacific Islands young people.

Impact of the Reforms on Women

General Considerations

- 15.23 The policy is a signal that all women should maintain some labour force attachment as there will generally be a requirement to rejoin the labour-force if "breadwinner" support is lost and it is impossible to predict if and when this could occur. The best way for women to protect themselves against this eventuality is to maintain labour force attachment. Whilst labour force involvement is generally curtailed for some time when children are very young, in general the more attachment women can maintain over this period, the greater chance they have of maintaining active involvement in the future.
- 15.24 On the positive side, this policy supports an increasing degree of economic independence for women which, in the long run should support their emancipation, increase their share of wages and ability to protect themselves from poverty in retirement thus lessening the requirement on the state to provide income support.
- 15.25 On the negative side for women there are real difficulties in combining paid and unpaid work which need acknowledgement. There are also the implications of an increased involvement in the workforce by women on the withdrawal of their labour from unpaid community or caring roles.
- 15.26 If the carers of children are to have fair opportunities in paid work and not to be permanently segregated into a narrow range of low paid occupations, then other employment issues will need to be addressed.
- 15.27 The new policy incorporates judgements on the extent to which the care of

dependent children hampers an individual's ability to seek and undertake paid employment. For sole parents it is proposed that the parent must be available for part-time employment when the youngest child is over 7 years. With the youngest child aged 16 no further allowance is made for the physical, social and emotional tasks of child rearing. Full-time employment potential is assumed.

- 15.28 Eventually the Widows Benefit and the Woman Alone Benefit will be phased out; consequently support as of right will no longer be available for some women without children who lose the financial support of their husbands.
- 15.29 For couples there will also be a requirement for employment testing; the extent of which will be determined by the ages of dependent children and other caring responsibilities. The assumption is that the caring role can be provided by either parent. (Refer Section 4 for details).

Sole parents

- 15.30 The vast majority of sole parents are women and the majority of these are dependent on Social Welfare benefits for income. There are likely to be positive benefits for both these women and society, if they are supported to become involved in the paid workforce as much as is practical given their caring responsibilities. Given the current education profile of female sole parents, further education or training will need to precede the search for paid work in many instances if this search is to be successful. Moreover, sole parents typically face considerable difficulties and expense in juggling their paid work, whether full or part-time, and caring responsibilities. Compared with families with two parents in paid employment, sole parent families will only ever have one income, have half the amount of domestic leave and annual leave entitlements available to them and cannot start their job late and finish early on any one day.
- 15.31 Access by sole parents to education/training opportunities and associated income support prior to their youngest child attaining the age of seven will be important. The best way to facilitate maximum financial independence on the part of sole parents is to support their maintenance in, and return to, "good" jobs in the labour force at the earliest stage practicable.
- 15.32 Costs and availability of child care, out of school care and school holiday care will be realities for almost all sole parents whether they are in full-time or part-time employment. There is also the question of the extent to which the state will provide assistance with these services to sole parents, in paid workforce, whose youngest child is under seven. Sole parents may also face higher transport costs than other workers because of their limited flexibility.

Women alone and widows with no dependent children

- 15.33 Women without dependent children on the DPB and Widows Benefit have

frequently been out of the paid workforce for many years. Older women in this group will have grown up in a period where married women were discouraged from labour force participation and had their role as full-time wife and mother heavily sanctioned. Many of these older women will lack the confidence and skills to seek full-time paid work and will find the process highly stressful, particularly given the current employment climate, the discrimination they are likely to face and their age. It is for these reasons that the review has proposed that these older women for a limited period are not compelled to face employment tests. (Refer Section 14 for a full discussion of this issue).

Married Women

- 15.34 Currently beneficiaries who are married (de jure or de facto) can claim support for their spouses without any question as to why the spouses have no income. As a rule the spouses are women, and the claimants men. Employment testing will occur for many of these female spouses in the future.
- 15.35 Full account will be taken of the caring responsibilities which spouses have for sick or invalid beneficiaries. Caution will need to be taken in assessing employment availability in the case of couples who have children. It should be noted that for reconstituted families the issue may not be as straight forward as for other families. The policy also needs to ensure that fairness is achieved between one and two parent families by ensuring that each have a similar provision for caring responsibilities and that more is not expected of sole parents.

Impact on Youth

- 15.36 Benefit reform will also have an impact on youth. At this stage the Working Group has not examined youth income support but it has discussed the issue of the standardisation of the age of eligibility for benefits. The Working Group has suggested that a sub-group be set up to look at youth income support, training needs and the standardisation of the age of eligibility (refer Section 7). The group has noted the concerns raised by the Ministry of Youth Affairs about the disadvantaged position of youth in the benefit system generally.
- 15.37 Standardisation of the age of eligibility at 18 could affect about 5,882 young people who receive DPB, Sickness and Invalids Benefit and Training Benefit. The Working Group has looked at the future of the Training Benefit and has suggested that the benefit could be merged with the trainees parent benefit. This could impact on some young people who are not otherwise in the benefit system. Adequate alternatives would be needed for young people if the training benefit disappeared in its present form and if eligibility to other statutory benefits were removed.
- 15.38 There is some evidence in Australia that reduction in youth benefit levels has been associated with increases in youth poverty, homelessness and crime.

(See for example, Hartley R. Peoples Incomes and Living Costs, Youth Affairs Council of Victoria 1989, P.9).

- 15.39 Research in Australia and New Zealand indicates that all families are not able to provide support to younger family members (Hartley P.3) and indicates that a member of young people or benefits contribute to family income (Sultana R. "Breaking Them In? School Kids in the Twilight Economy, NZ Journal of Industrial Relations, No. 15, 1990 Hartley P.3).
- 15.40 Added financial stress in low income families who may no longer be able to afford to support their children, may compel some young people to live independently and thereby add to the incidence of youth homelessness, crime and gang formation.

Conclusion

- 15.41 The proposed benefit reforms will affect groups of people who are at a disadvantage in the current system. Consequently the implementation phase will need careful management and explanation. More training and education places able to be accessed by beneficiaries will be necessary. Adequate and appropriate support systems will be needed to facilitate moves into the paid workforce. The issue of the availability and affordability of childcare also needs close attention.

A relatively long phase in time is recommended for the proposed policy so that individuals who will be affected by employment tests for the first time have ample time to adjust to this expectation. Information and counselling should be readily available during this period.

This preliminary report has concentrated on the impact of the reforms on Maori people, Pacific Island people, women and on youth. There are other groups such as older people and the sick who will be affected. Some of these will be Maori, Pacific Island people or women; nevertheless further work should be done to identify the special needs of these groups. It would also be recommended that consultation be arranged to discuss the implementation phase with key communities, especially Maori and Pacific Island groups, so that a culturally appropriate strategy can be devised for marketing and delivery.

A group from the delivery departments could be established to include representation from Manatu Maori, Pacific Island Affairs, Women's Affairs, Youth Affairs and the Department of Social Welfare.

RECOMMENDATIONS FROM SECTION 15

It is recommended that the Prime Ministerial Committee:

- (a) note the social impact of the proposed changes which are outlined in Section 15 of the report;
- (b) note that the changes will be most likely to produce the desired results if recipients understand them, and if they are implemented taking account of the needs of the different client groups;
- (c) agree to establish a sub-group comprising the delivery departments and Manatu Maori, Pacific Island Affairs, Youth Affairs and Womens Affairs, within the implementation phase to develop plans for consultation on implementation with the key communities affected.

PART IV : IMPLEMENTATION AND OPERATIONAL ISSUES

Introduction

Section 16 Issues of Implementation and Ongoing Operations
for DSW

Section 17 Issues of Implementation and Ongoing Operations
for NZES

Section 18 Costings

Section 19 Possible Timeline for Implementation

PART IV

IMPLEMENTATION AND OPERATIONAL ISSUES

Introduction

In making an assessment of the implementation issues it is necessary to consider:

- (a) the order of the changes which are likely to be required;
- (b) the position of the agencies involved in delivering the changes;
- (c) whether the changes can be phased in through a number of stages,
- (d) the costs of implementation.

Decisions on whether transitional arrangements for particular groups will operate, and how they will work are also of relevance.

These factors are considered in this part of the report.

SECTION 16: ISSUES OF IMPLEMENTATION AND ON-GOING OPERATIONS FOR DSW

Magnitude of Changes for DSW

- 16.1 The major changes which are proposed in this report, arising from the requirements of Government, for the benefit system to be oriented to promote people being or becoming more self-supporting are:
- (a) applying an assessment of employment potential on a larger number of applicants for income support, and imposing an ongoing (full time or part time) employment test on more beneficiaries, particularly sole parents, spouses of applicants, "women alone", and those with some partial capacity (potentially testing an additional 91,000 people),
 - (b) reviewing the entitlements of some recipients more regularly or more rigorously (particularly where there is an assessed capacity for some employment)
 - (c) the introduction of new income tests (with more frequent declarations required of some, and the use of more than one standard income test)
 - (d) the reconfiguration of benefit categories, with new labels, and with the transfer of beneficiaries from one benefit type to another.
- 16.2 The successful management of these changes is vital if they are to deliver what Government requires.
- 16.3 When looked at together these changes are considerably larger in order than any other set of changes implemented for income tested social security benefits. On the Social Welfare side the most recent "package" of changes which altered significantly the structure of benefits, and which required changes to be made to all benefit entitlements was the 1986 package. The changes then were almost all undertaken within existing categories, and did not require the transfer of recipients from one entitlement to another.
- 16.4 Those changes were all implemented from 1 October 1986 (coinciding with a general increase to benefits, and the introduction of GST and major changes to the personal income tax regime). Decisions on the general shape of the changes were made in mid 1985, with announcements on 20 August 1985. Therefore there was 13 months between the announcement and the introduction. During that time there was micro policy developed, operational and systems development was undertaken, legislation was drafted and enacted, staff trained and recipients contacted and revised entitlements assessed.
- 16.5 The 1986 changes were significant but were not of the scale of the changes proposed in this report. While those changes were implemented from one date, it is unlikely that this would be either a feasible or appropriate approach to the current proposals.

16.6 It is clear that the following stages of development will be necessary once decisions on the proposals contained in this report before the benefit reform can be implemented:

- (a) further "macro" policy development in the areas of youth income support, and family assistance;
- (b) micro policy development in all of the areas of change, so that programme specifications can be developed. Much of this will require further consideration by Government;
- (c) systems development - including the design and production of EDP programmes and related systems;
- (d) human resource development - including staff training, and possible recruitment/ major reskilling;
- (e) completion of legislative requirements; and
- (f) "publicising" the changes to the public and beneficiaries, including advising beneficiaries of the actions required of them.

16.7 These steps will be required within the benefit system, with similar and associated changes within the Employment Service, referred to in the following section. It is not necessary that all changes proceed from decision to implementation concurrently, so for example it could be possible to have some changes implemented before the full development of other changes is completed.

Current Position of the Department

16.8 The implementation of the proposed benefit reform will involve considerable change for the Department of Social Welfare. It is therefore useful to consider briefly the position of the Department, in the light of other factors affecting its operations, and capacity to manage the changes in the next few years.

Computer Development

16.9 The Department of Social Welfare is currently implementing its new computer system (SWIFTT), which will result in all of the benefit programmes being delivered through a single, integrated system. The new system will provide enhanced capacity in terms of on-line processing, and will ultimately provide greater adaptability and flexibility. The existing main benefits will be delivered through the new computer system from November 1991.

16.10 As the development of the computer system is now well advanced for the November "go live" date, any changes required before that time would have the potential of delaying the implementation date of the new computer system. It is planned that the new computer system start delivering the Guaranteed Retirement Income programme later in 1992.

16.11 In addition, given the nature of the change involved in the transfer of programmes from the existing aged computer systems to the single new

system, major policy changes incorporated into the new system, and introduced at the same time would be risky. A period of stabilisation for the new EDP system is seen as critical to its successful implementation. This means that the capacity of the Department of Social Welfare to deliver major changes via its computer system before April 1992 is limited. However, at that time the Department will have enhanced capacity to deliver changes.

Other Changes

- 16.12 The Department will from 1 April 1992 take over the delivery of the Family Support and GMFI programmes from the Inland Revenue Department. Whilst policy development decisions, and an implementation plan have yet to be developed for this change, it must be seen as a priority, as it is an existing set of programmes which will cease to be delivered through the tax system.
- 16.13 From July 1992 the Department will cease to be managing the Liable Parent Contribution Scheme, with the transfer of that function to the Child Support Agency within the Inland Revenue Department. Whilst this is a reduction in DSW responsibilities, the change will involve this Department in a number of actions preliminary to Inland Revenue being able to deliver successfully.
- 16.14 It is likely that the Department will also be involved in the implementation of changes arising from other reviews currently underway, particularly in the area of retirement incomes, and changes arising from the work of the Change Team on Targeting, the Health reviews, the childcare reviews and the Accommodation Supplement review. A strategic approach to all of the changes which the Department will be involved in will enable the most successful delivery of the changes.

Nature of the Changes for DSW

- 16.15 The changes proposed will have a significant impact on the nature of the operations of the Department. Whilst still, by and large, continuing to deal with the same client groups that the Department currently delivers income support to the obligations on those people in respect of being assessed for employment capacity, and seeking jobs will change the nature of the contact with clients.
- 16.16 The largest changes relate to the application of job search requirements on a significant proportion of the current sole parent population of beneficiaries. Currently these recipients have significant contact with the Department when they apply for benefit. The changes will require ongoing and frequent contact with the Department, particularly with the 4 weekly return of income statements and job search statements. (Currently the income statements are required annually).
- 16.17 The Department will be required to administer the benefit provisions in a manner which achieves the outputs required by Government. Inherent in this is the requirement to take appropriate account of what is reasonable for each client, when applying the employment test. While the New Zealand Employment Service will be operating the job seeker enrolment and placement services, and related employment programmes, the Department of Social Welfare will be the agency which determines whether eligibility is maintained.

In this regard, the application of the proposed sanctions, and the determination of whether there has been "good and sufficient reason" for apparent non-compliance will be functions undertaken by Social Welfare staff.

Training

- 16.18 There will be a significant staff training exercise required to ensure a successful implementation of the reforms. The training costs for DSW have been tentatively estimated to be in the order of \$10m. When these costs are incurred will depend largely on the phase in strategy.

Information

- 16.19 In addition it will be incumbent on Social Welfare staff to give more information to clients as they enter the system. This will relate to the obligations which the applicants enter into when they receive a benefit. Given the various job search expectations, and the likely increased demand for information about related services (training opportunities, childcare etc) the initial entry into the system will take longer to action.
- 16.20 There will also be publicity costs, to advise the public and beneficiaries of the changes. A major media campaign could cost in the order of \$1.3m, with other publicity costs, including reprinting forms, costing a further \$1.35m.

EDP development

- 16.21 As noted, the Department is currently involved in major EDP development. The introduction of benefit reform changes will also require further EDP development.

Summary

- 16.22 In summary the changes make the system more complex - as there are more elements (eg the single income test is likely to be replaced by 3 different test). This and the change in obligations on applicants will mean that staff delivering the benefits will require a different balance of skills - with more weighting being required on giving information to recipients, on ensuring compliance, and on administering sanctions than exists in the current benefit system. A further element related to the increased complexity which is a feature of greater targeting is the likely increased error rate, and the subsequent corrective action required. While the new computer system will provide enhanced processing capacity for delivery staff, it will not remove the requirement to have a staff with a greater level of training.
- 16.23 A preliminary summary of operational costs and potential savings is included in Section 18.

RECOMMENDATIONS

It is recommended that the Prime Ministerial Committee:

- (a) note that the changes proposed in this report represent a major change in the programmes delivered by the Department of Social Welfare;
- (b) note that the Department is likely to be required to deliver other reforms arising

out of separate exercises, and that this will influence the Department's capacity to implement benefit reforms;

- (c) note that the Department will be involved much more intensively with beneficiaries, and that this will require a different balance of skills amongst staff;
- (d) note that the implementation costs are included in the recommendations relating to section 18

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SECTION 17: ISSUES OF IMPLEMENTATION AND ON-GOING OPERATIONS FOR NZES

Changing Size and Composition of Register

- 17.1 If all the proposed groups of beneficiaries who will become work-tested are required to register with the New Zealand Employment Service, there will be a substantial increase in the size of the NZES register. It is estimated that 71,700 beneficiaries would be required to enrol and there would be an additional flow of 38,000 per annum.
- 17.2 In addition, the composition of the register will change considerably. At present there is a considerable proportion of the register who are not beneficiaries, but who are unemployed and looking for work. These people tend to flow on and off the register at a greater rate than beneficiaries. The addition of new groups of beneficiaries will change the flows on and off the register. This is exacerbated by the fact that a large proportion of the new beneficiary enrolments will be DPBs who have a particularly long average duration on benefit - presently about 4 years.
- 17.3 It should also be noted that those people who will now face a work test will appear in the New Zealand Household Labour Force Survey as being "unemployed" because they will be seeking employment - even if it is part-time employment. This means an increase in the level of unemployment as measured by the survey.

Rate of Increase of NZES Register

- 17.4 NZES could not cope with a one-off increase to its register of 71,700. The phase in would have to be spread evenly over the transition period. NZES does not believe that it could realistically manage much more than about 2,500 additional enrolments per month.
- 17.5 NZES does not have any strong preference for the order of groups to be work tested. It would be easier if those clients that were to register with NZES first were from that group which was most similar to present clients. That is, the group of spouses of beneficiaries. However, NZES could cope with DPBs being introduced to the register first. This group, though, is considerably different than the present register - they would be subject to a part-time work test, and so are likely only to be looking for part time work.

Part Time Work

- 17.6 Part time work is a minor part of NZES activity at the moment. NZES will need to develop new strategies aimed at assisting job seekers into this kind of work, and at obtaining vacancies for these job seekers. There will, therefore, be implications for the placement side of NZES's operation whenever the DPB group is introduced.

The Placement Side of the Business

- 17.7 NZES's purpose is finding job vacancies for job seekers and placing job seekers into these jobs. If enrolment with NZES is to be of any use to new clients, NZES must be able to find relevant job vacancies and place these job seekers into them. Solely putting a work test on a new group of clients will have little effect in them getting into work and so off benefit. Correspondingly greater resources will be required for the service's business purpose. As well as employer contact and marketing activities, the business of placement includes register maintenance, matching of job seekers to jobs and referring.

Employment Assistance Programmes

- 17.8 A similar point needs to be made about the employment assistance measures offered by NZES. In many cases, these new clients will require more help into work than present clients of NZES. They will have been out of work for longer than most unemployed people, will often have less training and face greater obstacles to employment, and will have less of an attachment to the labour market. It follows that there will be a considerably increased demand for employment assistance - for Job Plus and Community Task Force. Funding levels for these programmes will, therefore, need review.

Systems Costs

- 17.9 In addition to those increased systems costs included in the costs of the increased enrolment and placement business, there will be a need for a mainframe upgrade if all the proposed classes of beneficiaries are required to register with NZES.

RECOMMENDATIONS

It is recommended that the Prime Ministerial Committee:

- (a) note that the introduction of employment testing for a larger population of beneficiaries will have major implications for the New Zealand Employment Service;
- (b) note that carrying out all of the proposed changes would see an increase of about 35% in the number of people registering with NZES;
- (c) note that an increase in the number of people work-tested would cause a significant increase in the number of people classified as unemployed by the Household Labour Force Survey;
- (d) note that NZES is not in a position to cope with a one-off increase in the register of this order, and that therefore the phase in would have to be spread over a period;
- (e) note that the changes will require NZES to develop new strategies aimed at assisting job seekers into part-time employment;

- (f) note that more resources will be to provide the same level of service placement into jobs;
- (g) note that the application of job search requirements on a larger population will lead to an increased demand for employment assistance programmes - especially for those with the greatest barriers to employment, and that funding for existing programmes will need to be reviewed;
- (h) note that the implementation costs are included in the recommendations relating to costings in Section 18.

SECTION 18: COSTINGS

Introduction

- 18.1 This section outlines the costs and savings associated with the reforms proposed in this report, to the extent that those costs and savings have been identified. The costs relate to increased operational expenditure incurred by delivery departments, while "savings" relate to reduced expenditure on benefits, associated with increased taxation revenue from people who have increased income from employment.

Background

- 18.2 The Benefit Reform Working Group was guided in its Terms of Reference, that its proposals should be developed in an environment where fiscal savings were required. However, the exercise has not been driven by a requirement to produce savings as such. Rather, emphasis has been given to developing a scheme consistent with the Government's objective of moving people into the labour force wherever possible.
- 18.3 As such, the greatest savings will be achieved by way of behavioural change. That is, if the reforms are successful in increasing labour-force participation by those otherwise dependent (in full or in part) on the State, this will reduce the burden on the State by reducing benefit payouts and will also increase revenue by way of income tax receipts.
- 18.4 The costings provided here should be regarded as indicative only. The actual costs/savings will depend very much on the time line for implementation, and decisions on micro policy. They will also depend on the underlying level of economic activity, and the level of unemployment.

Gross Savings

Reduced Benefit Expenditure

- 18.5 In making fiscal savings estimates, the Working Group has prepared a "base estimate" and a "low estimate". The former assesses what seems attainable at present. No "high" estimate has been prepared because this does not seem reasonable given present economic conditions. The estimates are derived by making a series of assumptions about:
- (i) the base beneficiary population (the information about the current population has been used in making this assumption)
 - (ii) the prevailing benefit rate
 - (iii) the extent to which beneficiaries will move into
 - (a) part time employment
 - (b) full time employment
 - (iv) wage rates attainable by those who do find employment, or who increase their level of employment
 - (v) the decisions taken in respect of the income test.

- 18.6 The two estimates (base and low) assume different levels of movement into employment.
- 18.7 Fuller details of the assumptions made indicating the number of people moving into employment are provided in the Appendices to this report.
- 18.8 A summary of the gross savings from reduced benefit expenditure for the various groups are as follows (note: these are full year savings once the full populations are phased into the new system);

<u>Group</u>	<u>Base Estimate</u>	<u>Low Estimate</u>
Sole Parents	\$46.4M	\$22.6M
Health Stream	\$7.1M	\$3.4M
Spouses of Beneficiaries	\$38.2M	\$19.2M
Women Alone (under 50)	\$1.0M	\$0.7M
Women Alone (over 50)	\$9.6M	\$4.8M
Older Unemployed	\$10.4M	\$2.6M

From the totals \$1M has been deducted to allow for higher net benefits (i.e. less abated benefits) being paid to some people who do not change their work behaviour.

- 18.9 It should be noted that the sole parent savings estimate assumes the income test option for those "employment ready 20 hours" which involves a reduction in benefit, a high exemption, and a supplement for those unable to find part-time employment.
- 18.10 To achieve the order of savings indicated in the base estimate it has been assumed that - if the proposals were fully implemented, and the beneficiary population was similar to the current population - about 6,900 beneficiaries would move into full time employment (allowing for some displacement), and about 16,700 would move into part time employment. The corresponding numbers used in the low estimate are 2,250 full time, and 11,650 part time.

Increased Tax Revenue

- 18.11 With more beneficiaries moving into paid full time or part time employment, more personal income tax will be paid by the beneficiary target groups. Calculations have been made of likely tax payments on assumptions of changes in net earnings. However, because - under present employment conditions - much of this employment will displace taxable income from employment by other workers, all estimates have been scaled down by a displacement factor. The displacement factors used have been:

(a)	Base estimate	50%
(b)	Low estimate	75%

- 18.12 A summary of the additional taxation revenue generated from increased employment, after displacement is taken into account, is as follows:

<u>Group</u>	<u>Base Estimate</u>	<u>Low Estimate</u>
Sole Parents	\$9.1M	\$2.3M
Health Stream	\$1.9M	\$0.5M
Spouses of Beneficiaries	\$5.8M	\$1.4M
Women Alone	\$1.7M	\$0.3M
Older Unemployed	\$3.4M	\$0.9M

Total Fiscal Savings

18.13 The total fiscal savings from adding expenditure savings (before taking account of operational costs) and increased income tax revenue for the "fully operational" system is as follows:

	<u>Base</u>	<u>Low</u>
(a) Benefit savings	\$111.7M	\$52.3M
(b) Extra Tax	\$21.9M	\$5.4M
Total	\$133.6M	\$57.7M

18.14 These savings figures are presented in 1991 dollars - the actual savings will depend on which parts of the reforms proceed, and when. This is discussed further below.

Operational Costs

18.15 The Working Group has identified as far as possible in the time available the operational costs which are associated with the proposals. As the costings are not comprehensive, the items not built into the figures presented below are also identified. As discussed in various places in the report, the reforms will lead to a more intensively targeted system (both in terms of income and employment capacity) and will require increased contact with beneficiaries. This is reflected in the operational costs.

Costs for DSW

18.16 The operational costs for the Department of Social Welfare come from greater interaction with beneficiaries, with

- (i) employment capacity assessments
- (ii) employment assessments of spouses
- (iii) operating several (rather than one) income tests
- (iv) more regular assessments of income
- (v) more regular reassessments of eligibility for some

18.17 Costs have been broken into:

- (i) ongoing operating costs
- (ii) start-up costs
- (iii) capital costs

Start-up costs relate to those "one-off" costs incurred in making changes to the benefit system. There can be relatively small, if the change is minor - or requires no change to the entitlements of existing clients. Or they can be substantial if all existing entitlements have to be reviewed early, current staff retrained, and existing computers redeveloped.

18.18 A summary of the additional costs identified for DSW is as follows:

	<u>Group</u>	<u>Ongoing Operational</u>	<u>Start-Up Costs</u>	<u>Capital Costs</u>
(i)	Sole Parents	\$17.1M pa	\$2.2M	\$1.2M
(ii)	Health Stream	\$7.6M pa	\$1.6M	\$1.0M
(iii)	Spouses of Beneficiaries	\$7.2M pa	\$2.5M	\$1.3M
(iv)	Women Alone	\$1.6M pa	\$0.8M	\$0.3M
(v)	Older Unemployed	\$0.9M pa	-	\$0.1M

18.19 There are some costs not included in these indicative figures. These are:

- (a) any additional or altered office accommodation
- (b) EDP development
- (c) overheads (management and support services)
- (d) staff training (perhaps up to \$10M startup costs)
- (e) publicity costs (a media campaign would cost about \$1.3M, with letters to clients costing about \$200,000)
- (f) new forms and pamphlets (up to \$1M)
- (g) depreciation

Allowing for these other costs, it is provisionally assumed that costs in DSW will aggregate to about \$39.5M at peak operation.

Costs for NZES

18.20 The operational costs for the New Zealand Employment Service of the Department of Labour arise from:

- (i) increased enrolments of job seekers
- (ii) increased work focus interviews and
- (iii) increased "Job Club" and related services to job seekers.
- (iv) increased "placement service" activities

18.21 These increases result from the application of assessments of employment potential, and resultant job search requirements on a larger group of beneficiaries, as a condition of entitlement.

18.22 Costs for NZES have been broken down to take account of the "flow" of new beneficiaries into the system, and the staged application of the new requirements for the existing beneficiary population. The mix of costs from new applicants and existing recipients depends on when the phase in begins and how long it will take for each group. Clearly for NZES costs of enrolment as a Job Seeker is an immediate cost, while work focus interviews are down stream 6 and 12 months. According to the time line discussed in the next section, indicative costs for the years 1991, 1992 and 1993 would be as follows:

	<u>Group</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>
(i)	Sole Parents	\$0.55M	\$3.38M	\$6.72M
(ii)	Spouses of Beneficiaries	-	\$0.52M	\$3.77M
(iii)	Women Alone (if work test those under 55)	-	\$0.54M	\$1.2M
(v)	Older Unemployed	-	\$0.38M	\$0.47M

18.23 In addition NZES would need to upgrade their EDP capacity to handle the additional transactions. The estimated cost would be \$1.2M capital (plus \$225,000 depreciation).

18.24 These costs do not include provision for expansion of employment assistance measures, aimed at helping reduce the barriers to employment faced by some job seekers (e.g. Job Plus, and Community Task Force). These programmes are likely to be under increased pressure.

Other Agencies and Services

18.25 Whilst DSW and NZES would be the key agencies involved in delivering the new benefit system and employment test, other agencies are likely to be involved in a minor role. For example, it is suggested that Workbridge would have a key role with the health related group. Other service agencies could be involved with particular groups (e.g. childcare services and funding, training services for job seekers). These would also have to be added into the costs.

Effect of Timing and Costs

18.26 The timing of introduction of the various changes critically influences the cost at which they can be implemented. If the time line proposed in Section 19 is adopted, the phasing of costs and savings for the first 3 years would be as follows:

	<u>Group</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>
	Sole Parents			
	Savings	4.8-2.1	29.3-13.1	54.5-26.1
	Admin costs	0.46	2.87	6.50
	Capital	1.38	1.71	0.23
	Spouses of Beneficiaries			
	Savings	-	7.1-3.3	40.1-18.5
	Admin costs	-	3.94	10.80
	Capital	-	0.98	1.07
	Women Alone (under 55)			
	Savings	0.9-0.6	7.15-3.56	9.25-4.5
	Admin costs	0.2	2.26	1.03
	Capital	0.02	0.08	0.18

Older Unemployed			
Savings	-	10.4-2.05	13.8-3.5
Admin costs	-	0.32	0.39
Capital	-	0.16	0.07

(Note these costings exclude the items noted in paragraphs 20, 23 and 24).

Summary of Costs/Savings

18.27 The estimates of savings and costs presented in this section should be taken as indicative only. As stated, they are not complete costs, and are very dependent on the timing of implementation, and on the actual increase in the level of employment activity which results. Clearly some parts of the scheme will return a greater return and sooner, than others. It is concluded that the health group would be the costliest relative to the short term savings (though there may be other grounds for moving on some changes for this group).

18.28 Overall, it is likely that ongoing costs of the region of \$52M would be incurred in delivering the new system (after the "start up" phase) with reduced expenditure and increased revenue in the range \$133M to \$57M.

RECOMMENDATIONS

18.29 It is recommended that the Prime Ministerial Committee:

- (a) note that the changes proposed have major operational cost implications, which need to be considered alongside of the potential for fiscal savings to Government in terms of Payments on Behalf of the Crown, and increased tax revenue;
- (b) note that the timing of costs and savings depends on the implementation scenario settled on;
- (c) note that it is possible to identify operational costs with some certainty, but more difficult to be certain about the potential savings;
- (d) note that the savings will depend very much on the state of the labour market (and economic activity generally) and on the extent to which people conform to the assumptions of behavioural change built into the costings base;
- (e) note that the preliminary estimates of savings from all changes (before operational costs) are in the range \$133m (base estimate) and \$57m (low estimate);
- (f) note that the preliminary estimates of operational costs are \$39.5m (DSW) and \$12.5m (NZES) per annum (these costings do not include all capital or start-up costs);
- (g) note that detailed costings are contained in section 18 of the main report.

SECTION 19: POSSIBLE TIMELINE FOR IMPLEMENTATION

19.1 The implementation timeframe is very much dependent on:

- (a) the priority Government wishes to put on benefit reform as against any of the other social policy reforms which will involve Social Welfare and the Employment Service;
- (b) the timing of decisions;
- (c) the passage of legislation; and
- (d) the likely savings and likely costs arising from the change.

This section considers the possible timetabling of the changes.

Possible Phasing In Options

19.2 Given the extent of the changes being proposed the Working Group has considered whether it is possible to implement those changes in a staged manner, rather than introducing them all at once. Staging the introduction could mean that some of the changes would be able to be introduced earlier than would be possible with a "one date" implementation. Indeed, it is unlikely that the changes could be implemented all at once. A staged approach could also concentrate on changes for those groups which are likely to be the most responsive - in the current employment environment.

19.3 From a policy perspective it is important that any staging of implementation be undertaken in a manner which provides clear and consistent signals throughout the implementation. To this end it is important that the changes to employment assessments and income tests be introduced in a sequence which does not undermine the eventual position. At the same time there could be advantages in moving on certain parts of the reform as soon as possible to reinforce the messages given by Government at the time of the 19 December 1990 Statement.

The Table on the next page provides a possible timeline for the introduction of the benefit reform proposals.

19.4 As well as noting these changes it also notes some of the other significant changes which the Department of Social Welfare will or may have to deal with over the implementation phase. These are:

- (a) **Certains**
 - (i) introduction of new computer system - November 1991
 - (ii) transfer of Family Support & GMFI from IRD on 1 April 1992
 - (iii) transfer of LPC/ Child Support to IRD from July 1992
- (b) **Possibles**
 - (i) measures outside of benefit reform arising from the 1991 Budget
 - (ii) April 1992 changes to GRI

- (iii) new roles in respect of
- Accommodation Supplement
 - Health services targeting
 - Childcare services targeting.

TABLE 19.1 Proposed Timeframe for Benefit Reform

YEAR	MONTH	ITEM
1991	July	Budget Announcements
	August *	a) Transfer existing DPB/WB with children 16+ to UB b) Close off on new entrants to DPB/WB "women alone" born after 1941 or 1936 c) Possible Budget measures implemented
	November	Existing benefits to new DSW computer
1992	February	Possible Health care & Childcare Targeting changes
	April *	a) Delivery of Family Support & GMFI through DSW b) GRI changes c) Possible youth changes [or July]
	July *	a) Employment test sole parents - Children 11 - 15 b) Accommodation Supplement c) Processing changes for benefit reform d) LPC/Child Support transfer to IRD
	October* * *	a) GRI payment through new DSW computer b) Transfer "women alone" ^{under} 50 or 55 to UB c) Transfer EUB ^{over} 55s to main UB
	December *	Close Training Benefit stream, transfer to sole parent & unemployment streams
1993	April *	Employment test UB spouses with children over 12, or no children
	July *	Employment test sole parents with children between 7 & 10
	October*	Employment test UB spouses with children between 7 & 11
1994	April *	Introduce new Health Related stream, replacing SB & IB
	July *	Employment test remaining "women alone"
	October *	Employment test other spouses (health stream & UB with children 1 - 6)

Note the changes arising from the proposals in this report are marked *

19.5 The criteria used for developing this proposed timeline are:

- (a) the balance of administrative cost with potential Crown payment savings
- (b) the employment prospects of the various groups
- (c) the administrative feasibility, particularly the numbers of new entrants onto the NZES register
- (d) possible other changes which agencies will be involved in
- (e) the amount of further work required for some groups before the changes could be finally accepted or implemented
- (g) the priorities identified by Government in our Terms of Reference.

19.6 From the analysis provided elsewhere in the report, it is evident that the greatest likely return for additional operational expenditure will be in the area of employment testing sole parents with children age over 7, and from extending the employment test to spouses of unemployment beneficiaries.

19.7 The most problematic group are the health related, where the initial proposal developed would be likely to cost more in administration than it would return in reduced benefit payments. For this reason an alternative proposal which involves some tightening up in the Invalids/Sickness benefits has been foreshadowed. The above timeline assumes the former proposal, but it is possible that the less ambitious changes could be introduced considerably sooner.

19.8 Operationally the Department of Social Welfare has advised that the changes which would be the most problematic to implement would be:

- (a) the spousal employment testing - particularly in regard to those currently on Sickness or Invalids Benefits;
- (b) introducing a complex income test; and
- (c) moving all beneficiaries to employment focus type benefits.

19.9 The least problematic changes operationally would be introducing a job search requirement for sole parents, and introducing a simple income test (where the exemption level was not lowered).

19.10 In terms of adjusting social expectations, where employment testing is proposed, but required for operational reasons to be phased in for a group, it is proposed to phase in the test in for those with older children first, and subsequently for those with younger children. This will also give more time for the further development of policy advice and programme implementation in the childcare and out-of-school care sectors.

- 19.11 The timeline assumes that the current employment situation will not improve significantly in the new 3 years. This assumption has been also used in order to reduce the risk in the costings. Clearly, if there were to be a marked economic upturn which lead to a growth in employment opportunities in a shorter time period the balance of costs verse savings would alter. It would also mean that there would be a smaller flow of people into the benefit system and onto the NZES register, which could give more capacity for the agencies to deal with the "stock" of existing people.

Legislation

- 19.12 The reforms proposed in this report will require substantial amendments to be made to the existing social security legislation. At the same time the Minister of Social Welfare has indicated her strong desire to proceed with a major re-write of the social security statutes. The current statutes were last revised by Parliament in 1964. Since then there have been amendments each year (sometimes 2 or 3), making the Social Security Act 1964 exceedingly difficult to administer. The previous Government initiated a statutes revision exercise, however the resulting Bill (the Social Welfare Bill (1990) No 2), which was introduced to the House of Representatives in September 1990 has not proceeded because it was built around the Universal Benefit system of that Government.
- 19.13 A major statutes revision would require a substantial lead time. If such a revision were to be used as the vehicle for the total benefit reform it would be necessary to have detailed decisions made to enable drafting. This would require considerably more work to be completed on micro policy, and it would be unlikely that a draft Bill would be ready for introduction before November. It should be noted that it is usual for Government and Departments to use major statutes revisions as an opportunity to review the total range of provisions of the relevant legislation. In this instance this would include issues which are not a part of this exercise.
- 19.14 If a staged approach to implementation is accepted, it would be more feasible to make amendments to the existing Act for the initial stages, and include the later stages in a statutes revision. While this would require at least two Bills instead of one, it would give the advantage of providing more time to complete a comprehensive legislative re-write exercise, without holding up some stages of the benefit reform.
- 19.15 The legislative approach will depend on the eventual decisions on the component parts of the reform, and it is suggested that officials be asked to report specifically on a strategy for legislating the changes and undertaking a comprehensive statutes revision subsequent to the Government's consideration of this report.

Information On Changes

- 19.16 The major gains from making the recommended changes to the benefit system relate to attitudinal and behavioural changes, with people becoming more reliant on their own resources, and looking at ways to move out of the benefit system where this is possible, rather than ways of living on it. A key part of the

successful implementation of the changes will relate to how people perceive and understand the changes. The administering agencies will be important in providing the necessary information. On top of this though it will be necessary to provide good information to beneficiaries and the public so that they understand what changes are being introduced, when and why. The need for good communication, including the provision of appropriate information, will also be an on-going requirement of the new benefit system. If people do not have the right information, or do not understand the information they have, they are less likely to make the choices which Government wants them to make. The Working Group stresses the need for good communication during the implementation stages of the benefit reform, and following.

RECOMMENDATIONS

It is recommended that the Prime Ministerial Committee:

- (a) agree in principle that the benefit reform changes be phased in over a period;
- (b) note that the phasing in of benefit reform changes needs to be considered alongside other changes being contemplated in the social policy area;
- (c) note that other factors to be taken into account when setting the timeline include:
 - (i) the costs and benefits of each stage;
 - (ii) administrative feasibility
 - (iii) employment prospects
 - (iv) Government's priorities
 - (v) the amount of further developmental work required
- (d) note that the changes will require considerable amendment to the Social Security Act 1964;
- (e) agree that the Department of Social Welfare report further, through the Minister of Social Welfare, on the appropriate approach to legislation, including considerations of a major statutes revision;
- (f) note that the provision of appropriate information will be critical to the success of the changes in influencing behaviour, so that people maximise their efforts to be self supporting.

PART V: CONCLUDING COMMENTS

- Assessment of Proposals Against Key Criteria
- Risk Assessment
- Further Work

SECTION 20: CONCLUDING COMMENTS

- 20.1 The Working Group has developed proposals based on the Terms of Reference and analysis undertaken, which it considers will deliver to Government a benefit system better focused on moving people towards self reliance to the extent that is possible.
- 20.2 In building up the proposals in this report, the Working Group has applied a number of key criteria. These include:
- (a) Ease of understanding and access
 - (b) Incentives to comply
 - (c) Efficient Targeting
 - (d) Administrative Efficiency and Feasibility
 - (e) Likely Cost Savings
 - (f) Equitable treatment and Safeguards

Access

- 20.3 The Working Group has laid significant stress on developing a system which, although necessarily more complex than the current system, can be explained to people. This will facilitate benefit access for cases of genuine need. It should also make clear to people their own obligations to become self supporting where this is feasible. The provision of adequate, full and comprehensible information to recipients is essential if they are to understand their obligations.
- 20.4 It should be noted that there is a tension between a simpler system and a more targeted system.

Incentives

- 20.5 Also important to the Working Group is the compatibility of the positive and negative incentives in the benefit system with the policy objectives of government. This is not always the case with the current benefit system, which tends to encourage benefit dependence by many people.
- 20.6 Key incentives in the system are:

- (a) Income tests; and their compatibility with employment test obligations.
- (b) The work tests themselves, and the associated sanctions for non compliance.

- 20.7 The Working Group considers that the framework developed provides consistent messages to people.

Targeting

- 20.8 In developing benefit categorisation and employment streaming proposals the Working Group has sought to follow the principle of efficient targeting. This means that access to the benefit system and the conditions imposed on beneficiaries are appropriate to their situation, and give them a realistic set of options.

Administrative Feasibility

- 20.9 For the same reasons the Group has sought to make the proposals administratively feasible and with the lowest realistic cost consequences. Further development of these proposals will also require a realistic time frame for implementation by Departments. Without realism in the time frame, and realistic resourcing, including having the Department of Social Welfare computer system available on stream, most of the proposals will not work, and government would forego the prospect of significant savings on benefit costs.

Administrative Costs

- 20.10 A preliminary indicative estimate of ongoing costs for implementing all of the proposals developed by officials based on Option B for the 20 hour work stream is as follows. Figures exclude initial capital and development costs, and are in millions of dollars:

<u>DSW</u>	<u>Employment Service</u>	<u>Total</u>
39.5	12.5	52.0

- 20.11 Because of the high costs involved the Working Group proposes a staged implementation concentrating initially on the groups where the cost/benefit ratio is most favourable; or the largest net fiscal savings are attainable. This leads to a phasing spread over several years as the preferred strategy. This also eases administrative peaks, and recognises the reality of the employment situation. It also reflects the fact that DSW administrative resources may be required for other fiscal measures which have a higher immediate priority.

- 20.12 In the case of some of the Health proposals the short term cost benefit ratio is unfavourable, and implementation should be deferred until employment prospects improve.

Fiscal Savings

- 20.13 Fiscal cost savings are expected to come mainly from behaviour changes on the part of clients. Overall, the main fiscal gains expected from the change include:

- (a) People moving off benefit entirely and into the full time work force.
- (b) Lower average benefits paid to some beneficiaries, either from benefit abatement or transfer to lower rate categories.
- (c) Extra tax receipts generated by increased part time and full time work by current beneficiaries.

- 20.14 In preparing estimates of fiscal savings the Working Group has taken two alternative assumptions

- (a) A base estimate, which reflects what seems feasible in current employment circumstances.
- (b) A low estimate which assumes an even deeper employment recession and even greater difficulty in finding jobs for hard to place beneficiaries.

- 20.15 Estimates shown below assume 50 per cent displacement effects in the base estimate, and 75 per cent in the low estimate. On this basis and assuming Option B for the 20 hour work stream the projected savings are:

	Net Benefit Savings \$M	Extra Tax \$M	Fiscal Gains \$M
Base Estimate	112	22	134
Low Estimate	52	5	57

These savings need to be set against the extra administrative costs.

Equity and Safeguards

- 20.16 The Working Group is also concerned that the system should be fair and equitable. This involves both reasonable rules and adequate appeal rights for people subject to new work test requirements. Further work is required on these matters.

RISKS

- 20.17 In any new system there is a risk that planned objectives will not be reached. The "risks" need to be assessed in reaching a final decision.
- 20.18 The Benefit Reform Working Group identifies the following "risks" to the success of its proposals.

(a) **High and rising unemployment**

The long term success of the strategy in reversing growth in benefit dependence will depend on the return of some employment growth to the economic system.

(b) **Training Failure and non availability Childcare**

The lack of training places or real training options for real jobs could also limit long term placement success. Similarly, the non availability of affordable childcare and out-of-school care will reduce the ability of some parents to re-enter employment.

(c) **Administrative Failure**

A risk of administrative procedures failing to adequately back up the policy intentions of government. This risk could be significant if the administration process was poorly prepared, under-resourced, or implementation was attempted on too rushed or ambitious a time scale. This would suggest that if significant reform is wanted, it should be properly planned with a realistic implementation time scale.

The proposals should be considered in terms of immediate impact, but also, more importantly, in terms of the long term effects in expenditure

and employment.

(d) Clients Not Reacting

A risk of beneficiary clients simply failing to react to the degree expected, and short and longer term benefit savings are not as large as anticipated. Such a reaction could imply misunderstanding of the actual social realities faced by the client groups.

20.19 Against these risks should be set the alternative hypothesis that the reforms will be much more successful than the relatively conservative "base" and "low" estimates made by officials; and that a benefit structure with more realistic social and economic assumptions, and better incentives could help turn around the previous high growth trends in many types of benefit dependence.

20.20 It should also be stressed that the proposed change to a new Health Benefit has the least favourable cost benefit outcome, and should in reality be regarded as a change to be introduced when employment conditions are more favourable.

20.21 More information on Government priority and likely timing of other reforms will be needed before a revised time pattern of costs and fiscal benefits can be developed.

Further Work

20.22 The Working Group has identified in the report areas which require further development. Briefly these are:

- (a) youth income support (including the age of eligibility and the interface with the Student Allowance);
- (b) family assistance and GMFI policy;
- (c) definitions of "good and sufficient reason" and the application of this and any special exemptions from job search requirements for sole parents;
- (d) childcare and out of school care support for beneficiaries;
- (e) assets testing for beneficiaries (in light of analysis done in respect of targeting generally);
- (f) assistance to carers of sick or infirm; and
- (g) more immediate changes for the health related group.

20.23 In addition considerable work will be required to develop programme specifications and operating rules for implementation of the proposals so far developed. An important part of this implementation will be consultation with key groups who can assist in ensuring beneficiaries understand the changes, and new obligations they will face.

RECOMMENDATIONS

20.24 It is recommended that the Prime Ministerial Committee;

- (a) note that the areas of risk associated with these proposals relate to
 - (i) the continuance of high and rising unemployment
 - (ii) lack of appropriate support services, such as training places
 - (iii) administrative failure
 - (vi) clients not reacting
- (b) endorse in principle the benefit reform proposals presented in the preceding recommendations, and:
 - (i) indicate Government's priorities for benefit reform, in the context of priorities for other social policy reforms;
 - (ii) direct officials to report further on the timing (with costings) of changes, in the light of those priorities, and decisions taken in respect of the proposals.



CABINET

BUDGET : SECRET

CAB (91) M 13/10

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Prime Minister

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Minister of Education
Minister of Employment
Minister of Maori Affairs
Minister of Youth Affairs
Secretary, Prime Ministerial Committee on Reform
of Social Assistance

PHILOSOPHY OF THE PROPOSED BENEFIT SYSTEM

Reference: CAB (91) 204

At the meeting on 8 April 1991 Cabinet:

- a noted the Benefit Team's report "Philosophy of a New Benefit System";
- b agreed that the philosophical underpinning of the benefit system is:
 - i the core family (unit of assessment agreed in PMR (91) M 6/5) has primary responsibility for meeting its own welfare needs; and
 - ii the State has a secondary responsibility for meeting the basic welfare needs of those unable to do so through their own resources, recognising that this inability may be full or partial, and of short or long term duration;
- c agreed that the principal avenue for achieving full participation in New Zealand society today is through resources obtained through the paid employment of at least one member of the core family and that:

- i the State therefore has a role in facilitating better labour market outcomes for welfare recipients; and
 - ii with the exception of those receiving permanent income support, recipients have an obligation to become self-supporting through paid employment as quickly as reasonably possible;
- d agreed that the rationale for the proposed reform of the benefit system comprises the following elements:
- i the need to facilitate, and enhance incentives for, greater self-reliance through paid employment;
 - ii the need for benefit system expectations of self-reliance to reflect the concept of self-support based on capacity to work, taking account of the degree of care responsibilities for children and dependants with special needs;
 - iii the need to ensure the sustainability of income support in changing fiscal, economic and demographic circumstances;
 - iv the need to ensure an adequate margin between wages currently available in the paid work force and income while on benefit in order to maintain financial incentives for those expected to seek paid employment;
- e directed the Benefit Review Team to give particular emphasis to:
- i the interface between the benefit system and the labour market and the need to improve labour market participation and outcomes for beneficiaries;
 - ii the interface of the benefit system with the education and training systems;
 - iii designing a categorical system of benefits which identifies the labour force potential of beneficiaries, as well as the cause of their entry into the benefit system; and
 - iv the impact of benefit structures, supplementary assistance and abatement rates on incentives for beneficiaries to take up paid employment;
- f agreed that the work programme of the Benefit Review Team should exclude further work on adequacy of current benefit levels (within current categories) at this stage; and
- g directed convenors of the reviews on employment measures and work testing (chair), benefits and education, in consultation with the Department of the Prime Minister and Cabinet, to report back to the Prime Ministerial Committee by 24 April 1991 on the process by which the exercises could be coordinated, as well as the implications of each review for the work of the others, identifying any areas of potential conflict or inconsistency.


Secretary of the Cabinet

APPENDIX 2

CURRENT ELIGIBILITY CRITERIA

Invalids Benefit

Invalids benefit is payable to people aged 15 years or over who are either totally blind, or are permanently and severely restricted in their capacity for work as the result of an accident.

Sickness Benefit

Sickness benefit is payable to persons over the age of 15 who are temporarily incapacitated for work through sickness or accident, and as a result suffer a loss of earnings.

Widows Benefit

Widows benefit is payable to widows with dependent children (including defacto), and to some older widows without children having regard to their age, previous family responsibilities and length of marriage. More specifically there are three groups of widow -

- (a) is a widow with a dependent child or children;
- (b) is a widow who has had one or more children but has none dependent and;
- (c) is a widow who has never had a child or a widow who has a child but does not qualify in (b).

Applicants must be aged 16 or over.

Domestic Purposes Benefit

Applicants over the age of 16 years are eligible for the Domestic Purposes benefit on three grounds:

- i) they are a parent caring for a child or children without the support of a partner;
- ii) they are a person caring at home for someone who would otherwise be hospitalised;
- iii) they are an older woman alone

Unemployment Benefit

Payable to people who are unemployed, are capable and willing to undertake full-time work, and have taken reasonable steps to obtain employment.

Applicants must be aged 18 or over.

Independent Youth Benefit

Paid to people aged 16-17. The applicant must not be living with their parents and not be financially supported by their parents or any other persons, and cannot reasonably be expected to be financially dependent on their parents or any other person, because:

- i) there has been a breakdown in their relationship with their parents; or
- ii) their parents are absent or unable to financially support them; or
- iii) they have moved away from home to another area where there are better prospects of employment or training;
- iv) they have been employed for at least 6 months in the period immediately before applying and have not lived with or been financially supported by their parents during that period.

Training Benefit

Payable to people aged 16 years and over who are not full time students, but are engaged in approved full time employment related training programmes.

Job Search Allowance

Is available to 16 and 17 year olds who are unemployed (and meet the eligibility criteria for unemployment benefit) and have been employed, on a training programme or attending a tertiary education course for a continuous period of at least six months. The benefit is available for a maximum period of three months.

Emergency Benefits

An emergency benefit may be granted on grounds of hardship to any person who because of age, physical or mental disability, or any other reason is unable to earn a sufficient livelihood and is ineligible for any other monetary benefit.

SUPPLEMENTARY ASSISTANCE

Accommodation Benefit

Accommodation benefit is available to people whose income and cash assets are limited, and who have high accommodation costs. It is payable to both beneficiaries and low income earners, excluding Housing Corporation clients. The benefit can be used to pay rent, board or house ownership costs (low income earners are not eligible for assistance with mortgage payments).

Disability Allowance

Payable to people with disabilities who receive income tested benefits, or whose income would not preclude payment of such benefits, to assist with the additional costs associated with disability.

Handicapped Childs' Allowance

Payable to the parents of seriously physically or mentally handicapped children being cared for at home. The allowance is not income tested.

Special Benefit

Special benefit is payable to beneficiaries and non beneficiaries who face unavoidable financial hardship because of special costs. The benefit is subject to an income and assets test.

Special Needs Grant

This is a one off payment made in an emergency situation where there is financial hardship. It is available to beneficiaries and non-beneficiaries.

Training Incentive Allowance

This allowance is available to widows, invalids and domestic purposes beneficiaries to help met costs associated with attending approved training courses.

Child Care Subsidy

This programme provides financial assistance to families with childcare costs. Assistance is only available in respect of children who are under five years. The subsidy is subject to an income test, and is payable in respect of formal childcare arrangements.

APPENDIX 3

STATISTICAL PROFILE OF CLIENT GROUPS

1. SOLE PARENTS STREAM

The benefit figures quoted are as at 31.3.91, and include emergency benefits. Sole parents in current receipt of either DPB or WB were divided into those whose youngest child was aged under 7 years and those whose youngest child was aged 7 years or over. These two groups were broken down by DPB category as follows (with widows beneficiaries added to the "Spouse deceased" category):

<u>DPB Category</u>	<u>Youngest Under 7</u>	<u>Youngest Over 7</u>
Living apart from spouse or divorced	23,427 (38%)	22,465 (63%)
Living apart from de facto spouse	16,656 (27%)	5,841 (16%)
Spouse deceased	816 (1%)	3,658 (10%)
Unmarried	20,365 (33%)	3,747 (10%)
Spouse of MH patient or prisoner	310 (1%)	132 (0%)
TOTAL	61,574 (100%)	35,843 (100%)

The majority (63%) of sole parents on DPB or WB will be in the "work exempt" stream because they have a child under 7. The two groups shown above clearly have different compositions. The majority (60%) of those with a child under 7 are unmarried or separated from a de facto spouse, whereas a majority (73%) of those with older children are separated from a spouse, divorced or widowed.

It might seem more logical to group those separated from a de facto spouse together with those separated from a spouse or divorced. However, in terms of the age of the sole parent and the age of youngest child, those separated from a de facto spouse more closely resemble the unmarried group than they do those separated from a spouse.

Also, figures from the 1986 Census show that the majority of sole parents who were never legally married lived in rented dwellings, while the majority of sole parents who were formerly legally married lived in owner-occupied dwellings. Those separated from a de facto spouse may resemble the unmarried group in terms of their accommodation, therefore, so it may be worthwhile to regard them as a group with different characteristics from those separated from a spouse.

When considering the ethnicity of beneficiaries, the following definitions have been used: Maori means any person of Maori origin or descent, Pacific Islands means any person who is not Maori who is of Pacific Islands Polynesian origin or descent, and Pakeha means all other persons. Figures from the 1986 Census show that 11% of parents in two parent families were Maori, compared with 30% of sole parents on DPB. Maori are therefore considerably over-represented, although they have a younger age structure than Pakeha on DPB, so they form a particularly high proportion of younger sole parents, i.e., those with younger children. Of DPB recipients aged under 30, more than 40% are Maori, compared with 21% of those aged over 30. It is the latter group who are less likely to be in the work exempt stream, but even here the proportion who are Maori is about twice that of the general population. About 5% of the sole parents who will not be work exempt are estimated to be of Pacific Islands origin, about 20% are Maori, and about 75% are Pakeha.

Census data shows that Maori and Pacific Islands sole parents are less likely than Pakeha sole parents to be in owner-occupied homes, to have educational qualifications or to be in paid work (either part-time or full-time). Given that Maori and Pacific Islands sole parents face more barriers to paid work (such as being more likely to have young children and less likely to have educational qualifications) it is likely that a smaller proportion of them will move off benefit (assuming some sole parents do move off benefit as a result of the reforms). This would leave Maori and Pacific Islands sole parents as a greater proportion of those remaining on benefit. There is a danger of increased "marginalisation" of Maori and Pacific Islands families, with an increased gap in economic well-being between them and Pakeha families.

The impact of sole parent benefit reforms based on age of youngest child will be minimal on youth who are sole parents (those aged under 25) if they are generally put into the "employment exempt" stream. However, any raising of the age of eligibility for benefit above 16 years will clearly have an impact on youth and on Maori. It should be noted that 60% of DPB recipients aged 16-17 were Maori in 1986. The age distribution of DPB/WB sole parents is shown below:

Age (years)	Sole Parents on DPB or WB	% of DPB + WB Sole Parents
16	205	.2%
17	574	.6%
18	1,356	1.4%
19	2,130	2.2%
15-19 total	4,265	4.0%
20-24	17,722	18.0%
25-29	22,291	23.0%
30-39	35,806	37.0%
40-49	13,599	14.0%
50-59	3,096	3.0%
60 or over	635	1.0%
TOTAL	97,414	100%

The 3,510 sole parents on WB make up only 4% of the above group, but they are generally older than those on DPB (99% are aged 25 or over, 73% are aged 40 or over, 38% are aged 50 or over).

Since women make up 90% of sole parents on DPB and 100% of those on WB, it is stating the obvious to say that the impacts of any reforms will be mainly on women. It is well known that average wages for women are less than those for men. Sole mothers who move from benefit to paid employment will not necessarily avoid financial hardship, particularly those with no educational qualifications who can expect lower paid jobs. Some 68% of sole mothers not in paid work in 1986 had no educational qualifications.

The number of sole parents on DPB or WB by single years of age of youngest child is shown below:

Age of Youngest	DPBs	WBs	DPB+WBs	% of DPB+WBs
under 1 year	9,613	25	9,638	10
1	12,609	38	12,647	13%
2	10,851	62	10,913	11%
3	8,947	105	9,052	9%
4	7,474	93	7,567	8%
5	6,115	106	6,221	6%
6	5,413	124	5,537	6%
7	4,627	115	4,742	5%
8	4,148	158	4,306	4%
9	3,892	170	4,062	4%
10	3,598	207	3,805	4%
11	3,100	243	3,343	3%
12	3,023	305	3,328	3%
13	2,715	346	3,061	3%
14	2,640	436	3,076	3%
15	2,334	410	2,744	3%
16 or over	2,805	567	3,372	3%
Totals	93,904	3,510	97,414	100%

Having a youngest child aged 14 or over may be another criterion for streaming sole parents. From the above table, 9,192 sole parents on DPB or WB (9%) have a youngest aged 14 or over. Of these, 66% are divorced or separated from a spouse, and 18% are widowed. Sole parents on WB are particularly likely to have older children, since 84% have a youngest child aged 7 or over, while in 40% of such families the youngest is 14 or over.

If an age of youngest child of 5 were to become a criterion for some action (such as "employment preparation" status), it should be noted that 51% of sole parents on DPB or WB have a child aged under 5, while 12% (11,758) have a youngest child aged 5 or 6 years.

2. EMPLOYMENT READY STREAM

This stream would largely be made up of unemployment beneficiaries, of whom there were 146,140 as at 31.3.91. Of these, 97,407 (68%) have been on UB for 6 months or longer, and would be eligible for an "employment focus" interview. Some 71,220 (49%) have been on UB for 12 months or longer. The average duration of current UBs increases with age, ranging from 11 months for those aged 18-19 to 33 months for those aged 60 and over. As a result, those who have been on UB for 6 months or more have an older age structure, as shown below:

Age	On UB < 6 mths	On UB 6-12 mths	On UB 12 mths
18-24	23,035 (47%)	10,261 (39%)	24,079 (34%)
25-39	17,607 (36%)	10,216 (39%)	26,174 (37%)
40 +	8,085 (17%)	5,710 (22%)	20,967 (29%)
Total	48,727 (100%)	26,187 (100%)	71,220 (100%)

Youth (those aged 18-24) are more likely than older people to be unemployed and to receive UB. Figures from the Household Labour Force Survey (December 1990 quarter) show that the unemployment rate among 15-24 year olds in the labour force (15.7%) was nearly twice as high as the unemployment rate for the total labour force (8.7%). This may reflect the difficulty young people have after leaving school or tertiary training, entering a labour market where there are few spare places.

However, benefit statistics show that average duration of current UBs increases steadily with age. This suggests that, even though young people are more likely to be unemployed in the first place, for people who are unemployed, the difficulty of finding employment increases with each year of age. This is the case even in the younger half of the age range. For example, the average duration of UB for those aged 35-39 is 82 weeks, 23% longer than that for those aged 20-24 (66 weeks).

When considering duration statistics, the high turnover of UBs should also be considered. For example, in the year ended 30.6.90, 170,616 UBs ceased (excluding those aged under 18). In the three months ended 31.3.91, 37,006 UBs ceased (again excluding those aged under 18). While people of all ages left benefit in those three months, including 1,748 people aged 50 or over, young people (aged 18-24) formed a greater proportion of those leaving benefit (56%) than they did of those currently on benefit (39%). The higher turnover of younger people may in part be related to a cycle of benefit - temporary job - benefit being more likely for the young.

There were 41,128 women receiving UB as at 31.03.91, making up 28% of the total. Women on UB have a younger age distribution than men on UB. This means that women are a higher proportion of those in younger age groups. Of all those on UB, 43% of those aged 18-19, 36% of those aged 18-24 and 23% of those aged 25 or over are women. The average benefit duration for women on UB is less (at 71 weeks) than for men (78 weeks). This means that women on UB are slightly less likely than men to have been on the benefit for 6 months or more, and thus less likely to be subject to the proposed provisions for "employment focus" interviews.

Some 17,108 (12%) of those on UB are aged 50 or over. It is proposed that "women alone" on DPB and Widows beneficiaries with no dependent children would ultimately be placed in the "employment ready" stream, which would substantially increase the number of older female beneficiaries subject to employment expectations, as shown below:

Age	DPB, Women Alone	WB, No Children	UB	Total
50-55	799	1,909	6,988	9,696
55-59	1,822	3,945	7,869	13,636
60 or over	130	1,153	2,251	3,534
50 or over	2,751	7,007	17,108	26,866

Of those aged 50 and over on UB, 4,632 (27%) are women. However, with the addition of the above DPB and WB groups, 14,390 women make up 54% of the above combined total of 26,866.

Maori made up 29% of unemployment beneficiaries in 1986, and 17% of widows beneficiaries. The figures for Pacific Islands people were 6% and 3% respectively, which indicates over-representation for both ethnic groups.

There are 32,897 married persons receiving UB, and of these 9,245 have no dependent children, 10,832 have dependent children aged under 7 and 10,499 have a youngest child aged 7 or over (and of those 2,684 have a youngest child aged 14 or over). The remaining 2,321 married persons have dependent children whose age is unknown. Of the total who are married, 3,047 (9%) are aged under 25. Some 93% of married persons on UB are male, which means that 93% of the spouses of this group are women. These spouses may be subject to employment expectations if they do not have a child aged under 7, and an estimated 20,890 (64%) of them do not.

There are 4,515 sole parents on UB, and of these 2,494 (55%) have a youngest child aged 7 or over and 831 (19%) have a youngest child aged 14 or over. The total number of beneficiaries on UB with dependent children is 28,187, and of these about half have a youngest child aged 7 or over.

While 16 and 17 year-olds can no longer receive UB, 1,855 are on the Independent Youth Benefit and 411 are on the Job Search Allowance as at 31.3.91.

3. HEALTH-RELATED STREAM

A total of 49,170 people were on sickness or invalids benefit as at 31.3.91. This number has increased by 56% over the last 5 years, and this increase seems to be linked to rising unemployment. Women number 19,843, making up 40% of this group. Of the total group, 10,026 (20%) are married, but women make up only 18% of this married group. The age structure of the total group is shown below:

Age	Numbers on SB/IB	%
15	217	0.4
16	493	1.0
17	760	1.5
18	1,014	2.1
19	1,161	2.4
15-19 total	3,645	7.0
20-29	11,380	23.0
30-39	10,154	21.0
40-49	9,851	20.0
50-59	12,523	25.0
60 or over	1,617	3.0
Total	49,170	100%

Some 4,938 (10%) of these beneficiaries have dependent children, 1,053 are sole parents and 3,885 are parents in two parent families. In 67% of these 4,938 families, the youngest child is over 7, in 24% the youngest is over 14.

These percentages are little changed if the 515 sole parents on SB are excluded, so it can be assumed that they are similar for the 3,885 two parent families on SB or IB. In the 1986 Census, 19% of those who received SB or IB were Maori and 4% were Pacific Islands people.

A 1988 survey of long-term beneficiaries in three districts asked what the main barrier to full-time paid work was for them. Some 16% of those on DPB, 25% of those on WB and 28% of those on UB said it was health or medical-related problems. While these results are not representative of New Zealand as a whole, they do indicate that a not insignificant proportion of people on those three benefits may apply to transfer to the health-related stream if work expectations are increased in other streams.

It should be noted that this statistical profile of client groups in all three streams was restricted by a lack of information on DSW benefit databases in several areas. It is not known what educational qualifications or what specific work experience those in the client groups have. It is not known what their family or household situations are. For example, how many solo parents have caring responsibilities for other family members as well as their dependent children? How many in the client groups are involved in voluntary work in their communities, and will this voluntary work be curtailed by increased employment expectations?

It is not known how many in the client groups have access to a motor vehicle or what their access is to public transport. Other information gaps include housing tenure and geographic location. How many are in state rental accommodation? How many live in remote areas? How does the distribution of parents in the client groups compare with the distribution of childcare services? There are other unanswered questions like these which may require more in-depth investigation before the likely social impacts of the reforms can be fully assessed.

BENEFIT REFORM COSTINGS:
POSSIBLE BENEFIT PAYMENTS AND TAXATION REVENUE
EFFECTS

1. Introducing a new benefit system will create both fiscal costs and fiscal gains. The main costs to Government will be increased administrative costs of the Employment Service and the Department of Social Welfare. The main fiscal savings in the short run will be:
 - (a) Reduced benefit costs caused by some people moving entirely off benefit, and others being paid a reduced benefit.
 - (b) Increased tax payments from the increased paid employment of those formerly or still on benefit.

In making fiscal savings estimates officials have prepared a "base estimate" and "low estimate". The former assesses what seems attainable at present. The latter assumes an even deeper recession with worse job prospects. No "high" estimate has been prepared because this does not seem reasonable in present economic conditions.

Sole Parents

2. The following calculation is based on the following assumptions:
 - (a) 33,000 beneficiaries are classified as "work ready" for part time employment of 20 hours a week or more.
 - (b) There is a substantial increase in the net allowable earnings of those so classified.
 - (c) Base benefit rates are cut by \$50 per week for all those shifted into the new category (or benefits are abated by this average amount in the full benefit option).
 - (d) There is provision for payment of an "unemployment supplement" of up to \$50 a week for those beneficiaries who fail to find work. (This is the same as full benefit payment in the parallel option).
3. Because the behavioural effects of any change can only be surmised high and low estimates of the short term, full year effects of the changes are assumed to be as follows:

<u>Behaviour of Beneficiaries</u>	<u>Base Estimate %</u>	<u>Low Estimate %</u>
(a) Move into full time employment	5	1
(b) Find sufficient part time work not to need supplement	20	10
(c) Find some paid work, but need to be paid a partial supplement	30	25
(d) Fail to find work and need a full unemployment supplement	45	64
Total	100	100

4. Benefit payment reductions flowing from these changes would therefore be approximately as follows:

<u>Benefit Change</u>	<u>Per Week \$</u>	<u>Per Year \$</u>
(a) Group moving off benefit	190	9,880
(b) Group with full \$50 reduction	50	2,600
(c) Group with partial supplement	25	1,300
(d) Group not finding work	Nil	Nil

Displacement effects on benefit payments are ignored because of the small numbers moving into full time employment and because displacement in part time employment will impact mainly on second earners in households of non beneficiaries rather than on the benefit system.

5. The assumptions and calculations produce the following numbers and benefit cost savings:

	<u>Base Estimate No.</u>	<u>Saving \$M</u>	<u>Low Estimate No.</u>	<u>Saving \$M</u>
(a) Group moving off benefit	1,650	16.3	330	3.3
(b) Group with no supplement (\$50 abatement)	6,600	17.2	3,300	8.6
(c) Group with partial unemployment supplement (part abatement)	9,900	12.9	8,250	10.7
Totals	18,150	46.4	11,880	22.6

6. The potential benefit savings would seem to range from \$23million to \$46million.
7. However, there will also be certain offsetting benefit costs from people currently on an abated benefit who make no change in their workforce participation, but no longer face benefit abatement because of the more generous allowable earnings rulers. This group is assumed to include 5 per cent of the target group, and to achieve a net benefit gain of \$10 a week. On this basis the assumed 2,000 cases would cost about \$1 million per year.

Health Stream

8. It is assumed that 5,000 people in the health stream will be classified as required to work 20 hours a week, and that their employment outcomes will be similar to sole parents. On this basis benefit cost savings would be:

	<u>Base Estimate</u>		<u>Low Estimate</u>	
	<u>No.</u>	<u>Amt \$</u>	<u>No.</u>	<u>Amt \$</u>
(a) Move into full time employment	250	2.5	50	0.5
(b) Find sufficient part time work not to need supplement (or part benefit abated)	1,000	2.6	500	1.3
(c) Find some work but need to be paid partial supplement or benefit only part abated	1,500	2.0	1,250	1.6
Total	2,750	7.1	1,800	3.4

Spouses of Beneficiaries

9. It is assumed that 30,000 spouses of beneficiaries will be subject to a work test but that 70% will be deemed work exempt because of child care and other obligations. Of the others, projected employment outcomes are as follows:

	<u>Base Estimate</u>	<u>Low Estimate</u>
Find full time work	3,000	1,500
Find part time work	3,000	1,500
Remain fully employed	3,000	6,000
Totals	9,000	9,000

10. For these cases it is further assumed:

- (a) For those finding full time employment gross earnings are an average of \$250 above any existing supplementary earnings, while net benefit payment drops by an average of \$175.
- (b) For those finding part time employment average earnings rise by \$100, net benefit drops by \$70.

11. This produces the following outcomes in millions of dollars:

<u>Net Benefit Reduction</u>	<u>Base Estimate \$M</u>	<u>Low Estimate \$M</u>
Find full time employment	27.3	13.7
Part time employment	10.9	5.5
Totals	38.2	19.2

Widows and Women Alone

12. It is assumed that 12,000 cases will require reclassification. In time they will include two groups:

- (a) About 1,000 under 50 years of age;
- (b) About 11,000 aged 50 plus.

13. For the first group fiscal savings would be based on the following outcome:

	<u>Base Estimate</u>	<u>Low Estimate</u>
(a) Find full time employment	50	10
(b) Find part time employment	200	100
(c) Transfer to U.B.	750	890

14. The actual fiscal impact of each of these outcomes is assumed to be as follows:

- (a) The unemployed group will experience a net benefit reduction of \$5.81 a week.
- (b) The group which finds permanent part time work will experience a benefit cut of \$50 a week but raise gross earnings by \$140 a week. Tax paid will rise by \$21 a week.
- (c) The group moving with permanent full time employment will see their benefit fall by \$135.22 a week. Gross earnings will rise \$250 a week, and tax paid by \$47 a week.

15. On the basis the fiscal savings are as follows:

<u>Net Benefit Reduction</u>	<u>Base Estimate</u>	<u>Low Estimate</u>
Transfer to unemployment benefit	0.2	0.3
Obtain part time employment	0.5	0.3
Obtain full time employment	0.3	0.1
Total benefit reduction	1.0	0.7

16. For the other 11,000 cases assumed outcome is:

	<u>Base Estimate</u>	<u>Low Estimate</u>
Find full time employment	550	10
Part time employment	1,100	550
Transfer to U.B.	9,350	10,940
Totals	11,000	11,000

17. On this basis cost savings would be:

	<u>Base Estimate \$M</u>	<u>Low Estimate \$M</u>
Find full time employment	3.9	0.1
Part time employment	2.9	1.4
Transfer to U.B.	2.9	3.3
Totals	9.6	4.8

18. Total benefit cut savings in the women alone group are therefore \$5.5 to \$10.6 million.

Unemployment Beneficiaries aged 55 and over

20. It is assumed that 5,700 people aged 55 and over are shifted onto a work test for full time employment. On the base estimate half find jobs. On the low estimate only 25% find jobs. However, it is also assumed that:

(a) In the base case 50% of those finding jobs displace others into unemployment.

(b) In the low estimate 75% displace others into unemployment.

21. On this basis net job gains are only 1425 in the base case, and 356 in the low case. On this basis, assuming most are single, but some are married an average of \$140 a week benefit saving is assumed, or \$7,480 a year. This produces the following net benefit savings.

	<u>Base Estimate</u>	<u>Low Estimate</u>
Benefit Savings (\$m)	10.4	2.6

All Groups Combined

22. On this basis benefit savings from each of the groups are as follows:

	<u>Base Estimate \$M</u>	<u>Low Estimate \$M</u>
Sole Parents	46.4	22.6
Health Benefit	7.1	3.4
Spouses of beneficiary	38.2	19.2
Widows/Women Alone	10.6	5.5
Unemployment 55 plus	10.4	2.6
Total Benefit Reduction	112.7	53.3
Less additional benefits paid to non responding group	1.0	1.0
TOTALS	117.7	52.3

Extra Tax Paid by Beneficiaries

Sole Parents

23. With more beneficiaries moving into paid full or part time more tax will be paid by the beneficiary target groups. Calculation have been made of likely tax payments on assumptions of changes in net earnings. However, because under present employment conditions much of this employment will displace taxable employment by other workers, all estimates have been scaled down by a displacement factor. This is asumed to be:

- (a) Base estimate - 50% displacement
- (b) Low estimate - 75% displacement

24. On this basis the sole parent group was assessed as likely to pay the following increases in taxes.

	<u>Rise in Earnings</u>	<u>Annual Amount</u>	<u>Tax Paid</u>
(a) Group moving off benefit	250	1300	2405
(b) 20 hour group - no supplement	100	5200	1456
(c) Group with some extra earnings	30	1560	437

25. Tax paid on each estimate is therefore:

	<u>Base</u>	<u>Estimate</u>	<u>Low</u>	<u>Estimate</u>
	<u>No</u>	<u>Tax \$M</u>	<u>No</u>	<u>Tax \$M</u>
(a) Group Moving off benefit	1650	4.0	330	0.8
(b) 20 hour group	6600	9.6	3300	4.8
(c) Other	9900	4.3	8250	3.6
Total	18,150	18.2	11,800	9.2
Less Displacement Factor		9.1		6.9
Net Extra Tax		9.1		2.3

Health Stream

26. For the Health Stream similar assumptions about net increases in earnings and tax are made. This produces the following result.

	<u>Base</u>	<u>Estimate</u>	<u>Low</u>	<u>Estimate</u>
	<u>No</u>	<u>Tax \$M</u>	<u>No</u>	<u>Tax \$M</u>
(a) Group Moving off benefit	250	0.6	50	0.1
(b) 20 hour group	1000	2.4	500	1.2
(c) Part Earnings Group	1500	0.7	1250	0.5
Total	2,750	3.7	1,800	9.2
Less Displacement Factor		1.8		1.3
Net Extra Tax		1.9		0.5

27. Spouses of Beneficiaries

Similar assumptions about net increases in earnings are made for the spouses of beneficiaries. for this group the outcomes are therefore as follows:

	<u>Base</u>	<u>Estimate</u>	<u>Low</u>	<u>Estimate</u>
	<u>No</u>	<u>Tax \$M</u>	<u>No</u>	<u>Tax \$M</u>
(a) Full time work	3,000	7.2	1,500	3.6
(b) Part time work	3,000	4.4	1,500	2.2
Total	6,000	11.6	3,000	5.8
Less Displacement Factor		5.8		4.4
Net Extra Tax		5.8		1.4

28. Women Alone

Similar calculations for the "Women alone" groups are as follows:

	<u>Base</u>	<u>Estimate</u>	<u>Low</u>	<u>Estimate</u>
	<u>No</u>	<u>Tax \$M</u>	<u>No</u>	<u>Tax \$M</u>
(a) Full time work	600	1.4	20	0.1
(b) Part time work	1,300	1.9	650	0.9
Total	1,900	3.3	670	1.0
Less Displacement Factor		1.6		0.7
Net Extra Tax		1.7		0.3

29. Unemployed 55 plus

On a similar basis, tax collected from the group aged 55 plus would be as follows:

	<u>Base Estimate</u>	<u>Low Estimate</u>
	<u>No</u> <u>Tax(\$M)</u>	<u>No</u> <u>Tax (\$M)</u>
Moving off Benefit	1425 3.4	356 0.9

A separate displacement factor is not used here as it has already been used in calculating the numbers affected.

30. **All Groups**

Adding together estimates of net extra tax after allowing for displacement effects gives the following outcomes.

	<u>Base Estimate \$M</u>	<u>Low Estimate \$M</u>
(a) Sole Parents	9.1	2.3
(b) Health Stream	1.9	0.5
(c) Spouses of beneficiaries	5.8	1.4
(d) Women alone	1.7	0.3
(e) Unemployed 55 plus	3.4	0.9
Totals	21.9	5.4

29. **Total Fiscal Savings**

Adding together net reductions in benefit savings, and net increases in taxes after allowing for displacement effects produced the following estimates of fiscal savings before allowing for extra administrative costs.

	<u>Base Estimate \$M</u>	<u>Low Estimate \$M</u>
(a) Benefit Savings	111.7	52.3
(b) Net Extra Tax	21.9	5.4
Net Savings	133.6	57.7

30. In round figures this produces savings of \$134 million in the base case and \$58 million in the low estimate case. This makes no allowance for cumulative further savings because of change in beneficiary behaviour.

Appendix 5: Table 1

CURRENT BENEFIT SYSTEM

	Unemployment Benefit	Sickness Benefit	Invalid's Benefit	Widow's Benefit	Domestic Purposes Benefit for dependent children	Domestic Purposes Benefit for woman alone
Age Entry	18	15	15	16	16	50
Youth Rates	18 - 24 yr \$108.17	15 - 17 yr \$108.17	15 - 17 yr \$131.30	No youth rate	No youth rate	-
Residence Requirement	12 months residence anytime	12 months residence anytime	10 years prior to application	None if child born in New Zealand; otherwise both parents 3 years residence prior to application, or 1 parent 5 years continuous at anytime, or applicant has 10 years residence anytime.	applicant and husband 3 years residence prior to application or applicant 5 years continuous residence anytime.	
Income Test		\$50 a week income exemption (\$60 with children) abatement 30c in \$ up to \$80, 70c in \$ thereafter.				
Period of Assessment	Weekly	Weekly	Annual	Annual	Annual	Annual
Special Exemptions		\$2 a week friendly society payment	\$20 personal earnings for invalids; other special exemptions for blind and severely disabled	\$20 child care costs exemption	\$20 child care costs exemption	-
Paying Arrangements	Weekly	Weekly	Fortnightly	Fortnightly	Fortnightly	Fortnightly
Commencement Date		Two week standdown, one week if serious hardship for all benefits				
Retrospective Payments	None	28 days	28 days	28 days	28 days	28 days
Access to Supplements	All, unless stood down, then ineligible for Accommodation Benefit, Special Benefit	All	All	All	All	All
Other Criteria	High income, redundancy voluntary unemployment misconduct standdowns; holiday pay seen as earnings.	None	None	None	None	None
Sanctions	26 weeks standdown if refuse two job offers or two job interviews.	None	None	None	None	None

BENEFIT RATES FROM 1 APRIL 1991

BENEFIT TYPE	PREVIOUS RATES		CURRENT RATES	
	BASIC BENEFIT	WITH FAMILY ASSISTANCE	BASIC BENEFIT	WITH FAMILY SUPPORT
TRAINING				
without children:				
single 16-17 years	\$86.14		\$86.14	
single 18-19 years	\$114.86		\$108.17	
single 20-24 years	\$143.57		\$108.17	
single 25 years and over	\$143.57		\$129.81	
married couple	\$223.22		\$216.34	
with children:				
single (1 child)	\$213.14	\$255.14	\$185.93	\$227.93
single (2 children)	\$228.87	\$292.87	\$202.83	\$266.83
married couple (1 child)	\$255.08	\$297.08	\$229.88	\$271.88
married couple (2 children)	\$255.08	\$319.08	\$229.88	\$293.88
INDEPENDENT YOUTH				
single 16-17 years	\$114.86		\$108.17	
JOB SEARCH ALLOWANCE				
single 16-17 years	\$86.14		\$86.14	
SICKNESS				
without children:				
single 15-17 years	\$131.30		\$108.17	
single 18-24 years	\$162.26		\$129.81	
single 25 years and over	\$162.26		\$135.22	
married couple	\$270.44		\$245.86	
with children:				
single (1 child)	\$213.14	\$255.14	\$185.93	\$227.93
single (2 children)	\$228.87	\$292.87	\$202.83	\$266.83
married couple (1 child)	\$255.08	\$297.08	\$245.86	\$287.86
married couple (2 children)	\$255.08	\$319.08	\$245.86	\$309.86
WIDOWS & DOMESTIC PURPOSES				
Women Alone single adult	\$162.26		\$135.22	
sole (1 child)	\$213.14	\$255.14	\$185.93	\$227.93
parent(2 children)	\$228.87	\$292.87	\$202.83	\$266.83
<u>Domiciliary Care</u>				
single 16-17 years	\$131.30		\$131.30	
single 18 years and over	\$162.26		\$162.26	
sole parent (1 child)	\$213.14	\$255.14	\$213.14	\$255.14
sole parent (2 children)	\$228.87	\$292.87	\$228.87	\$292.87
half married rate	\$135.22		\$135.22	
INVALIDS				
without children:				
single 15-17 years	\$131.30		\$131.30	
single 18 years and over	\$162.26		\$162.26	
married couple	\$270.44		\$270.44	
with children:				
single (1 child)	\$213.14	\$255.14	\$213.14	\$255.14
single (2 children)	\$228.87	\$292.87	\$228.87	\$292.87
married couple (1 child)	\$255.08	\$297.08	\$270.44	\$312.44
married couple (2 children)	\$255.08	\$319.08	\$270.44	\$334.44
UNEMPLOYMENT BENEFIT				
without children:				
single 18-19 years:	\$114.86		\$108.17	
single 20-24 years:	\$143.57		\$108.17	
single 25 years and over	\$143.57		\$129.81	
married couple	\$223.22		\$216.34	
with children:				
single (1 child)	\$213.14	\$255.14	\$185.93	\$227.93
single (2 children)	\$228.87	\$292.87	\$202.83	\$266.83
married couple (1 child)	\$255.08	\$297.08	\$229.88	\$271.88
married couple (2 children)	\$255.08	\$319.08	\$229.88	\$293.88
GUARANTEED RETIREMENT INCOME/VETERANS PENSION				
single living alone	\$187.26		\$187.26	
single sharing	\$172.86		\$172.86	
married couple	\$288.10		\$288.10	

Appendix 5: Table 3 : BENEFIT NUMBERS AND EXPENDITURE

The following Table provides a summary of the number of benefits in force under the existing benefit structure, and the estimated annual expenditure on those benefits.

<u>Benefit Type</u>	<u>Number in force as at 30 April 1991</u>	<u>Estimated Expenditure for 1990/1991 year</u>
Unemployment	144,956	\$1,400.1m
Training	11,307	\$ 83.3m
Sickness	19,588	\$ 252.7m
Invalids	29,489	\$ 285.2m
Domestic Purposes	97,141	\$1,216.2m
Widows	11,431	\$ 105.4m
<u>TOTAL</u>	<u>313,912</u>	<u>\$3,342.9m</u>