

# Regulatory Impact Statement

## Future Focus changes to the welfare system

### *Agency Disclosure Statement*

- 1 This Regulatory Impact Statement has been prepared by the Ministry of Social Development.
- 2 It provides an analysis of options to make specific policy changes to the rules, obligations and incentives provided to welfare recipients to help more people move into work.
- 3 The key assumption underpinning this analysis is that work will become available for people as the economy recovers and that the implementation of the work-test can be matched to the employment capacity in local labour markets.
- 4 There is no research currently available which accurately quantifies the size of the behavioural response from these changes in policies. This prevents estimates, with the degree of accuracy required, from being made of the number of people who will move from benefit to work over a year, as a result of the proposed changes. The inability to determine firm numbers of people shifting from benefit to work as a result of these changes is due to the difficulty of separating out the effect of the policy changes from the effect of changes in other influences such as economic and labour market settings (e.g. employment growth, minimum wage increases). Some broad estimates of magnitude can be made based on previous experiences of similar policy changes. The Ministry of Social Development will also monitor and evaluate the package of changes to determine, to the extent possible, the impact of these changes.
- 5 The options have been developed under an assumption that the overall package of changes must be affordable within current budget constraints.
- 6 The policy options being considered are not likely to have direct effects on imposing costs on businesses, impairing private property rights or market competition that the government has said would require a particularly strong case before regulations are considered. There may be small indirect impacts on some businesses where the changes impose a cost on an individual e.g. removing childcare subsidies from some high income families or requiring an additional medical certificate for Sickness beneficiaries.

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Date:

## Status quo and problem definition

### *The welfare system*

- 7 The Social Security Act 1964 (the Act) sets out criteria for the payment of benefits and the associated obligations. There are several main benefit payments with differing eligibility requirements. These are:
  - Unemployment Benefit (UB) for people aged 18 years or more who are out of work and available for full-time work;
  - Domestic Purposes Benefit for:
    - sole parents with dependent children (DPB-SP);
    - single women who meet age and family criteria who are out of work (DPB-WA);
    - people who are caring full-time for people who are sick or disabled (DPB-CSI);
  - Sickness Benefit (SB) for people who are unable to work full-time due to ill health or disability;
  - Invalid's Benefit (IB) for people who have a severe and permanent incapacity that is expected to last longer than two years;
  - Widow's Benefit (WB) for women who are no longer in a relationship due to the death of their partner;
  - Independent Youth Benefit (IYB) for 16 and 17 year olds who are out of work and unable to rely on financial support from their parents.
- 8 The Act currently requires work-testing for people receiving UB and some work-ready partners of people on other benefits. These work-test obligations are backed up with a sanctions regime. UB beneficiaries are required to negotiate a Job Seeker Agreement setting out their agreed work test activities.
- 9 For DPB, WB, SB and IB there are provisions that may require these groups to plan for personal development and future employment, backed up by a separate sanctions regime. The agreed activities are set out in a Personal Development and Employment Plan, which may also include work-related activities required by Work and Income.
- 10 IYB beneficiaries are required to meet a youth activity test that covers education and/or work. The agreed activities are set out in a Youth Activity Plan.
- 11 Exemptions from work-tests, planning and activity tests apply in specified circumstances.
- 12 If a beneficiary receives other income, such as from wages, then the rate of benefit is reduced according to the abatement rules in legislation. An abatement-free threshold is set at \$80 a week for all benefits. People receiving UB, SB, IYB and non-qualifying rate of New Zealand Superannuation (NZS) have their net benefit payment abated at 70 cents for every additional dollar of other income. People receiving DPB, WB, and IB have their net benefit payment abated at 30 cents for every dollar of other income between \$80 and \$180 a week. For income over \$180 a week, the net benefit payment is abated at 70 cents per dollar earned. These thresholds have not been adjusted for some time while minimum and average hourly wage rates have increased, meaning they are now considerably lower in real terms than when they were set.

- 13 Various forms of one-off hardship assistance are provided with authority, rules and obligations set out in the Social Security Act 1964, Ministerial Welfare programmes established under the Act, and Ministerial Direction. Assistance is provided in accordance with broad guidelines for case managers to follow. An immediate and essential need must be established before a payment is made. Where a one-off hardship payment is recoverable, the recipient is required to repay the amount over time otherwise there are no specified requirements for people receiving payments. The total spending on one-off hardship assistance has increased significantly as a result of policy changes to food grants, the increase in benefit numbers and the 2008-2009 economic recession.
- 14 The rates of NZS and Veteran's Pension (VP) are required to be amended by the Consumers Price Index (CPI) by provisions in legislation. Other main benefit rates have been adjusted by CPI by Cabinet convention and are not required to be adjusted by legislation. The income thresholds of Childcare Assistance (CCA) are adjusted by CPI in legislation and the rates of CCA by CPI by convention.

### ***Number of people dependent on welfare***

- 15 The numbers of people on SB, IB and DPB as a percentage of the working age population are forecast to increase and impose a significant cost on future generations. Numbers on SB and IB, as a proportion of the working-age population, rose from around 1% in the mid 1970s to almost 5% today. While the numbers of people on UB fell to record lows over the period from 2002 to 2007 when the economy experienced growth and labour shortages were recorded, the numbers on DPB and SB did not fall as much and numbers on IB continued to increase. A significant proportion of the fall in DPB numbers can also be attributed to financial incentives to work for sole parents through the Working for Families tax credits. If long-term trends in SB and IB continue they may reach around 7% of the working-age population by 2025.
- 16 The 2008 economic recession has seen the numbers of working-age people on UB, SB and DPB increase again. Comparing numbers from the end of December 2007 to December 2009, UB numbers increased from 22,748 to 66,328, DPB numbers increased from 98,154 to 109,289 and SB numbers increased from 49,093 to 59,158. Work and Income work actively with people to ensure that people return to work as soon as possible. The work that they do consistently results in a larger reduction in benefit numbers than is forecast through the economic and fiscal updates. The service model that they have initiated is recognised internationally as very effective in assisting people into employment.
- 17 Apart from the rising fiscal costs on taxpayers, there are high social costs as long-term welfare dependency has negative impacts on individuals and their families. Beneficiaries are highly represented in measures of poverty, hardship and poor health.

### ***Labour market conditions***

- 18 The labour market was strongly affected by the five quarters of economic recession with increases in the unemployment rate and the numbers of people on benefit. Since December 2007, employment has fallen and the unemployment rate has risen to a seasonally-adjusted ten year high of 7.3% from its historical low of 3.5% in late 2007.
- 19 Youth, Maori and Pacific peoples have been particularly affected by the rise in unemployment. The unemployment rate for Maori is 15.4% for the year to December 2009 and the unemployment rate for Pacific people is 14%. The unemployment rate for 15-24 year olds is 18.4% for the year to December 2009. Recent business confidence surveys are

showing improvements, and economic growth is expected to be positive if relatively subdued over the next two years.

- 20 A recovery in the labour market has traditionally lagged behind a recovery in the economy. This may again be the situation as some employers have reported retaining staff over the recession period in anticipation of a recovery and plan to use the excess staff capacity to meet the initial increase in business demand.

## **Government objectives**

- 21 The Government's main aim for the changes is to reinforce the expectation that people who can work should work. People on benefits should have the expectation and the opportunity to receive the financial and social advantages of participating in the workforce, including people with health problems or disabilities.
- 22 The package of changes seeks to reinforce the importance of reciprocal obligations for people receiving welfare support, such as finding work, undertaking education or training, planning or budgeting. The Government's objective is a welfare system that is fair for everyone, for those receiving the assistance as well as to taxpayers who are providing the assistance. Overall, it seeks to create a welfare system that does not encourage people to remain on welfare longer than they have to but to find and take up work, and that continues to provide support to people in genuine need.
- 23 In changing the welfare system to achieve the desired outcomes, the options have been developed to be affordable within current budget constraints.

## **Regulatory impact analysis**

- 24 The manifesto package aims to reinforce the focus on work and help move people from benefit dependency to paid work. The package includes the following areas of policy changes:

### **Obligations and sanctions**

- a part-time work test for DPB-SP with a youngest child aged six or older and, at a later date, for those on SB who are able to work part-time;
- a new graduated sanctions regime that increases in severity for each failure, with safeguards that protect beneficiaries' dependant children;
- reinforced job seeking obligations for those on UB, with the ability to negotiate a Job Seeker Agreement removed. Education will become the priority for young people receiving IYB, who will not be able to negotiate the preferred activity;

### **Tightening access and active assessment**

- beneficiaries who have been on UB for 12 months will need to reapply and complete a comprehensive work assessment;
- DPB-WA benefit will be phased out and new applicants who would otherwise qualify will need to apply for other benefits such as UB;
- eligibility criteria for receiving IB will be more strictly applied to ensure that people on this benefit genuinely require it;
- improved management of SB through a second four-week medical assessment period for SB and a review after 12 months on SB;

- improved management of hardship expenditure by increasing expectations of the more frequent applicants, including undertaking budgeting activities;

### **Incentives, support and training**

- an increase in the abatement thresholds for DPB, WB, IB, income-tested non-qualifying spouse and partners of New Zealand Superannuation (NZS) and Veteran's Pension (VP) and people under the age of 65 receiving VP, will reward those who work part-time;
- training and support for DPB-SP to get back to work including new scholarships and loans to gain qualifications in the health and community sector;
- removing some of the barriers to the provision of out of school care, to assist DPB-SP parents subject to the work test;

### **Other Changes**

- reducing Childcare Assistance income thresholds back to 2008 levels and removing indexation of the income thresholds going forward;
- introducing legislation to provide certainty that the main benefit rates and Student Allowance rates will be increased by Consumers Price Index (CPI) each year;

25 Options were considered where appropriate. In particular:

#### *Obligations and Sanctions*

- The application of graduated sanctions:
  - *Status quo*: The status quo option of suspension, then cancellation, provides insufficient warning and because of that Work and Income staff have been loath to use it. For this reason, the current sanction regime is less effective than it should be.
  - *Graduated sanctions only for part-time work obligations*. There is no particular reason why the new regime should not equally apply to full-time work tested beneficiaries, further this option would still leave staff loath to utilise sanction in respect to full-time work-tested beneficiaries. This option is more complex and harder to understand.
  - *Graduated sanctions for all work obligations*. This option provides a clear message that all obligations are serious. It is also viewed as more equitable, as well as providing a more effective response. For sanctions to be effective they need to be understood. For the above reasons, this option was favoured.
- In relation to penalties for failing a work test under the graduated sanctions regime:
  - *1st failure 20% sanction, 2nd failure 50% sanction, 3rd failure benefit suspension*. The 20% first failure sanction was seen as too weak a deterrent. Also multiple reductions add complexity and was therefore seen as likely to be less effective.
  - *1st failure 20% sanction, 2nd failure benefit suspension, 3rd benefit cancelled (for 13 weeks)*. The 20% first failure sanction was seen as too weak a deterrent. Also multiple reductions add complexity and was therefore seen as likely to be less effective.
  - *1st failure 50% sanction, 2nd failure benefit suspension, 3rd failure benefit cancelled (for 13 weeks)*. This option was favoured as being consistent with overseas research showing the most effective sanctions were simple and provided the clearest signal to beneficiaries.

### *Tightening access and active assessment*

- Phasing out of no longer appropriate benefits to make provisions consistent for men and woman (and the BORA):
  - *Remove DPB-WA and WB.* Phasing out DPB-WA would provide consistency in the treatment of men and women in similar situations of having completed caring for children or elderly relatives and remove a relatively recent potential form of discrimination in the welfare system. Phasing out WB would be a significant change of a long-standing part of the welfare system. It would require consideration of what, if any, obligations should apply in a period after the death of a partner. If this is to be reviewed, it is considered that public consultation would be needed. However, meaningful public consultation could not be completed before the required legislative changes are introduced.
  - *Remove DPB-WA benefit only.* This option is favoured as it makes progress in respect to BORA issues and reinforces the expectation that people who should work, are required to work.
- Tightening access to Invalid's Benefits:
  - *Tightening eligibility criteria in legislation to exclude treatable conditions.* The disadvantage of this approach is that it would need a clear definition of what is and/or what isn't treatable. Such a definition is not deemed possible as less tangible factors are important in overcoming many conditions. This option would also increase pressure to access services already in short supply, such as drug, alcohol rehabilitation, and mental health services.
  - *Tightening the definition of a permanent condition to more than two years.* There is no other obvious time limit that could be used to replace the two year time limit.
  - *Tightening eligibility by applying existing criteria more strictly.* This option is seen as a workable and effective way to tighten IB eligibility, while still ensuring those who need IB assistance get it.
- Tightening access to Sickness Benefits:
  - *Applying the second four-week medical assessment on a discretionary basis only.* This option would enable the exclusion of pregnant women, which would be a more efficient use of medical assessments. However, such discretion would likely result in inconsistent implementation.
  - *Applying the second four-week medical assessment to all SBs.* This option is slightly inefficient, in that it will require pregnant woman to get a second medical assessment (when that would not normally be necessary). However, it does tighten eligibility and has the advantage of assuring a consistent approach. Evidence shows that early reassessment can help return to work (which in turn is shown to have positive effects on health and wellbeing).
- Reviewing long-term eligibility to Sickness Benefits:
  - *Getting a second opinion for all Sickness Beneficiaries at 12 months.* This option is seen as inefficient and costly. It would currently be extremely difficult to resource because of an insufficient number of designated doctors. Long-term sickness beneficiaries are likely to have other barriers to employment, e.g. low qualifications, low motivation or confidence. Other activities are likely to be more effective at reducing such barriers.

- *Applying a comprehensive review after 12 months.* This option provides an opportunity to gain a second opinion through a designated doctor after 12 months on benefit, where this is appropriate. It recognises the additional cost of getting a second opinion and provides case managers with a range of options for addressing the issues of sickness beneficiaries. It recognises the advantage of getting people off sickness benefit as soon as possible.
- Increasing expectations of frequent hardship applicants:
  - *Compulsory referral to budgeting advice for all clients after three grants.* This option was not favoured as it would overwhelm budgeting services and would not be an efficient use of resources – people could be referred to face-to-face services when they do not need this level of support to improve budgeting skills.
  - *Voluntary budgetary advice, with compulsion as a last resort.* This option would result in a lower take-up of budgeting services (reducing strain on budget services) but would not have provided a sufficiently strong message about the need for clients to improve their budgeting skills when they have received a certain number of grants.
  - *Compulsory referral to a budgeting activity for all clients after three grants.* This approach has the strong messaging associated with compulsion while allowing clients to undertake budgeting activities that are appropriate to them (e.g. completing their own budget, attending budgeting seminars, face-to-face advice). This option does not allow discretion to exempt people from a budgeting activity requirement in exceptional circumstances (e.g. when they are in hospital, or managing their finances well and have experienced a misfortune like a house fire).
  - *Compulsory referral to a budgeting activity for all clients with discretion to exempt clients in exceptional circumstances.* This approach has the strong messaging associated with a compulsory requirement while allowing clients to undertake budgeting activities that are appropriate to them (e.g. completing their own budget, attending budgeting seminars, face-to-face advice). Moreover, this option allows discretion to exempt people from a budgeting activity requirement in exceptional circumstances (e.g. when they are in hospital, or managing their finances well and have experienced a misfortune like a house fire). This option is favoured as it provides a range of effective interventions, an element of compulsion to provide strong messaging, while allowing for discretion in exceptional circumstances.

### *Incentives, Support and Training*

- Improving work incentives by reducing abatement:
  - *Increasing the \$80 abatement-free threshold for all benefit types.* This option has a significant associated cost. This option would have reduced the incentive for people receiving UB and SB to move into full time work – the preferred outcome for these clients.
  - *Including different abatement-free thresholds for couples and singles.* This option would address potential issues of discrimination. However, this option was found to have substantial additional costs.
  - *Increasing \$80 abatement-free threshold for DPB, WB, IB, NZS/VP only.* This option has lower associated costs and increases the incentive for those able to undertake part-time work to do so, while not lessening the incentive for UBs and SBs to move into full-time work.

- *Increasing the \$180 part-time abatement threshold for DPB, WB and IB to \$200.* This option has relatively low costs and further increases the incentive for people on these benefits who can work part-time to do so. For these reasons, this option was favoured, in addition to the option above.
- Legislation to provide certainty in respect to the annual CPI indexation of main benefits:
  - *Legislating only in respect of main benefits (consistent with National's manifesto commitment).* This option had slightly lower associated cost but does not provide certainty for all those relying on social assistance as their primary source of income.
  - *Legislating in respect of main benefit, Student Allowances, Unsupported Child Benefit and Orphans Benefit and Foster Care Allowance.* This has a slightly higher associated cost, but provides certainty for all those relying on social assistance, as their primary source of income.

## Consultation

26 Treasury, Te Puni Kokiri, the Ministry of Pacific Island Affairs, the Ministry of Women's Affairs, the Ministry of Health, the Department of Labour, the Accident Compensation Corporation, the Ministry of Education, the Tertiary Education Commission, the Ministry of Justice and Inland Revenue have been consulted on an earlier version of the suite of Cabinet papers. The Department of Prime Minister and Cabinet has been informed.

27 Most departments are broadly supportive of the package.

- The Ministry of Education requested that analysis be undertaken on the impacts of the Childcare Assistance changes on Early Childhood Education providers.
- Treasury raised concerns over the introduction of a part-time work-test for people on Sickness Benefit and the proposed scholarships.
- The Ministry of Women's Affairs raised concerns over the removal of DPB for women alone, especially the removal of the grandparenting provision after five years.
- The Ministry of Pacific Island Affairs and Te Puni Kokiri raised concerns over the impact on low income Pacific and Maori families from some of the changes.
- The Ministry of Health raised concerns over the workload pressure on GPs from the increase in numbers of SB assessments and the subsequent impact on Vote Health funding.
- The Office for Disability Issues has highlighted the need to provide support for disabled people to take up and remain in work.
- Several departments commented on the need for training and skills development to enable beneficiaries to find well paying sustainable work.

28 The majority of the proposals were in the National Party's manifesto, made public prior to the 2008 election. Formal consultation has not been undertaken with non-government agencies or beneficiary groups. Beneficiaries, individuals and organisations with an interest in the welfare system will have the opportunity to provide submissions to the relevant Select Committee on the proposals when the amending legislation is considered by Parliament.

## Conclusions and Recommendations

29 The current welfare system is not ensuring that beneficiaries who can work are encouraged to find and obtain work, particularly those on longer-term benefits. A range of changes are



required to help people to move from welfare into work and to ensure that the welfare system is fair to everyone. The options need to take account of the likely behavioural responses from people and avoid unintended consequences such as encouraging people to switch benefits within the welfare system to avoid obligations. The changes need to be affordable within the current budget constraints.

## Implementation

- 30 There is traditionally a lag between when the economy recovers and when the number of jobs increases. To manage the timing of implementation and the labour market recovery, Work and Income (a service delivery arm of the Ministry of Social Development) will implement the changes using a staged approach, targeting the most work-ready groups first. The focus will first be on the part-time work-test for DPB-SP and at a later date will be expanded to include people on SB who are assessed as able to work part time. Case managers in Work and Income will work with a mix of work-ready DPB-SP clients and those with more complex needs. Initially, the majority of clients will be work-ready with this mix shifting over time.
- 31 Work and Income will actively work with DPB and SB groups in advance of the work test using existing legislative powers for planning for a return to work. As the new work test provisions are applied, lessons from early experience will be captured and resources shifted as the economy recovers.
- 32 Amending legislation is planned to be introduced in March 2010 with an indicative implementation date from 4 October 2010. The phasing of the changes are set out in the table below.

Proposed Dates	Action
25 March 2010	Legislation paper considered
29 March 2010	Bill introduced
July 2010	Work and Income actively working with DPB and SB groups in advance of work test
August 2010	Bill passed
4 October 2010	DPB for sole parents part time work test begins
	Job Seeker Agreement, IYB agreement changes in effect
	Abatement changes in effect
	Graduated sanctions in effect
	Hardship model begins to be phased in
	UB reapplications at 12 months in effect
	DPB for women alone closed to new applicants and entitlement removed in five years time for existing recipients
	CCA income thresholds reduced and indexation removed with grandparenting for three years
	IB stricter eligibility criteria applied
2 May 2011	SB part time work test in effect
	SB reassessment of beneficiaries at 8 weeks and 12 months in effect

## Monitoring, evaluation and review

- 33 The Ministry of Social Development will closely monitor and evaluate the impact of the Future Focus changes against the package's primary objective of getting people into work.

### *Monitoring*

- 34 MSD will collect data on a range of indicators that will be affected by Future Focus changes before the implementation of the package. This information will be used to establish a baseline that will be used to measure changes in indicators as Future Focus is implemented.
- 35 Monitoring of these indicators will provide information about how beneficiaries are responding to Future Focus, e.g. how many people are moving into work, how much time people are spending on benefit and how many people are receiving different benefits.
- 36 MSD will provide regular reports on a range of indicators to the Minister for Social Development and Employment and other interested Ministers. These reports will include relevant information from other agencies where this is available, e.g. labour market information from Statistics New Zealand, information on movement into work from Inland Revenue, and data on training participation from the Ministry of Education.
- 37 The indicators that will be monitored and reported include:

#### *Part time work test, abatement changes and planning for work*

- number of beneficiaries declaring income, and changes to their earnings
- exits from benefit for work
- number of part-time work tested beneficiaries who have had an employment engagement with a case manager, and the outcome
- number of beneficiaries who have developed an Employment Plan (for those with a child under six)
- number of beneficiaries who have been exempted from work testing, and the reasons

#### *Reapplication process for long term unemployed*

- number of beneficiaries who have received Unemployment Benefit for more than 12 months and were required to undertake the reapplication process
- outcome of re-applications and number of clients who have exited benefit after the re-application process

#### *Tightening the assessment of Invalid's and Sickness Benefit*

- numbers of grants and declines for IB and SB, total numbers receiving IB and SB, and flows between these and other benefits

#### *Sickness Benefit reassessment*

- number of clients who have had a new medical certificate
- SB drop off rates and flows between SB and other benefits

### *Training*

- numbers of scholarships granted, number of interest free loans granted, and outcomes for recipients, e.g. moving into employment

### *Graduated sanctions*

- numbers and details of sanctions

### *Graduated hardship model*

- numbers of clients referred to different types of budgeting activities
- numbers and details of hardship grants (e.g. the Work and Income Payment Card).

38 Information from indicators will also be used internally by the Ministry of Social Development to inform and improve the implementation of the Future Focus package. As the package is implemented indicators may be added or modified to improve the usefulness of the information.

### ***Evaluation***

39 Evaluation will focus on the impacts of the two changes that are expected to have the most significant impact on moving clients into work - the new part-time work test (for clients receiving DPB for sole parents and people on SB) and the re-application process for people who receive UB for a year or longer.

40 The evaluation of Future Focus changes will occur in two phases:

- phase one will focus on evaluating the way the package is implemented to ensure that each component is being implemented effectively
- phase two will focus on evaluating longer-term outcomes including the effectiveness of different parts of the package at getting people into work.

41 As far as possible the evaluation will use methods that take into account changing economic conditions.