

Reducing Long-Term Benefit Dependency

The Options

“Anei tātou nā ko te po: ana tātou nā he rā ki tua”
Here we are in the night, and the day is yet to come.

Acknowledgements

The Welfare Working Group acknowledges all the contributions that members of the public, non-government organisations, and government organisations have made to this process to date.



We would like to thank the School of Government at Victoria University of Wellington and the Institute of Policy Studies for hosting the Welfare Working Group Secretariat.

Preface

Tēnei te maioha ake nei kia koutou ngā Iwi Morehu o ngā hau e whā. Te Hunga aitua, kua wairuatia kua heke iho ki te rua tapu o Hinenuitepo, te kaitiaki o Te Ao Wairua. Tātau ngā kanohi ora o ngā mātua tupuna, e mihi ana kia rātou, nō reira, tēnā koutou, tēnā koutou, tēnā koutou katoa.

The Welfare Working Group is entering the next stage of its review of New Zealand's benefit system, with the release of this discussion paper on the options for reducing long-term benefit dependency.

The Working Group was established in April 2010 to develop practical recommendations on how to improve economic and social outcomes for people on a benefit and New Zealanders as a whole.

New Zealanders continue to contribute generously to our review and this has been an important underpinning of our work to date. I would like to thank everyone who has made formal submissions and informal written comments on the Issues Paper we released in August, and acknowledge the valuable input of the many individuals and groups that have met with us across New Zealand.

In the Issues Paper we expressed our concern at the large number of working age New Zealanders relying on benefit income for long periods – around 170,000 have been on a benefit for at least five of the last 10 years. Long-term reliance on benefits has contributed to many adverse impacts, such as poverty, poor physical and mental health and deep deprivation where intergenerational dependency has taken hold.

The feedback generally confirmed our concerns about the issues arising from long-term benefit dependency and the importance of paid work to well-being. Not surprisingly, there are many different views on what needs to change. This feedback is reflected in the broad range of options we are now putting on the table for the public to debate. The potential options cover a spectrum from relatively minor amendments to the status quo, to a fundamental paradigm shift.

We also consider it is important to look at options for all those involved – the Government, community, employers, health professionals, and those people receiving benefits. Each has an important role to play in finding sustainable solutions to long-term benefit dependency.

We are now seeking feedback from New Zealanders on how the various options presented here are likely to deliver improved outcomes for beneficiaries, their families and communities, and the taxpayer. Fundamentally, we are asking New Zealanders to consider whether it is time for major change in the way we think about and deliver welfare.

Following consultation on this document, the Working Group will present its recommendations to Government.

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Executive Summary

Introduction

This paper presents a range of options to reduce long-term benefit dependency

The Welfare Working Group has been asked by Government to develop practical options that:

- reduce long-term benefit dependence and get better work outcomes;
- promote opportunities and independence from benefit for disabled people and people with ill health;
- consider how welfare should be funded, and whether there are things that can be learned from the insurance industry and ACC in terms of managing the Government's future liability for the welfare system; and
- consider the structure of the benefit system and hardship assistance, and its contribution to long-term benefit dependency.

In August 2010 we published an analysis and sought feedback on the performance of the current benefit system in our Issues Paper. Our assessment was that the current system was insufficiently focused on helping people into paid work and was failing to deliver the economic and social outcomes that the community and taxpayers expect.

In June 2009 there were over 170,000 people who had spent more than five years out of the past ten years on a benefit. Most of these beneficiaries were receiving benefits that did not have a focus on paid work. This long-term benefit dependence has led to intolerable social costs for the individuals themselves, their children, the broader community, employers and taxpayers. The resulting unintended consequences have been intergenerational benefit receipt, high rates of poverty, poor child outcomes and poor physical and mental health.

Paid work is increasingly the norm for all people of working age with work capacity, including mothers and disabled and sick people. Yet current policy ignores the importance of paid work to the health, social and financial wellbeing of many people receiving benefits. Policy settings are not focused on intervening early to avoid the cost of long-term benefit dependency, including intervening before people enter the benefit system. In addition, they have not kept pace with the changing nature of families, work and career patterns and this has contributed to the poor outcomes.

In this paper we present options for change based on the topics raised in the Issues Paper. We put forward a wide menu of options to address these issues and seek public submissions on these options. No judgement or decision has yet been made as to which may be preferable or most practicable.

The feedback on the Issues Paper confirmed that the benefit system is leading to poor social and economic outcomes

Feedback on the Issues Paper highlighted that New Zealanders are compassionate, are concerned about looking after people who need support, and want to ensure the system is fair. The feedback was that there needs to be a strong safety net for people in times of crisis or hardship, and that people with no capacity to work should receive strong permanent support. Feedback also confirmed that there should be clear work

expectations of beneficiaries, as well as recognition that Government, health professionals and employers all have a role to play in supporting beneficiaries into paid work.

“Long-term benefit dependency for the able-bodied is very destructive at every level: it destroys initiative and drive, cripples the future opportunities of children, encourages family breakdown, fuels intergenerational dependency and the growth of the underclass, and is an enormous cost burden on society that the country cannot afford.”

On-line submission on the Welfare Working Group Issues Paper

Many submissions confirmed the Welfare Working Group’s view that the benefit system is frequently disabling rather than enabling. They noted that the benefit system should actively help more people back into paid work, rather than simply make a basic payment of income. Some noted that there do not seem to be co-ordinated effective processes in place to support many people back into paid work. It is clear from the submissions that more can be expected from policy settings and delivery agencies.

We have heard from submissions and in workshops about the low levels of engagement and confidence of some beneficiaries. Long periods on a benefit in families, communities and locations with high benefit rates can normalise the receipt of benefit and can lead to disengagement with paid work. Some submissions noted the emergence of inter-generational benefit receipt leading to long-term deprivation for beneficiaries and their families and that long-term benefit dependence is a significant lost opportunity. The importance of re-establishing a culture where paid work is the norm and where benefits are a temporary support in times of crisis or hardship was discussed.

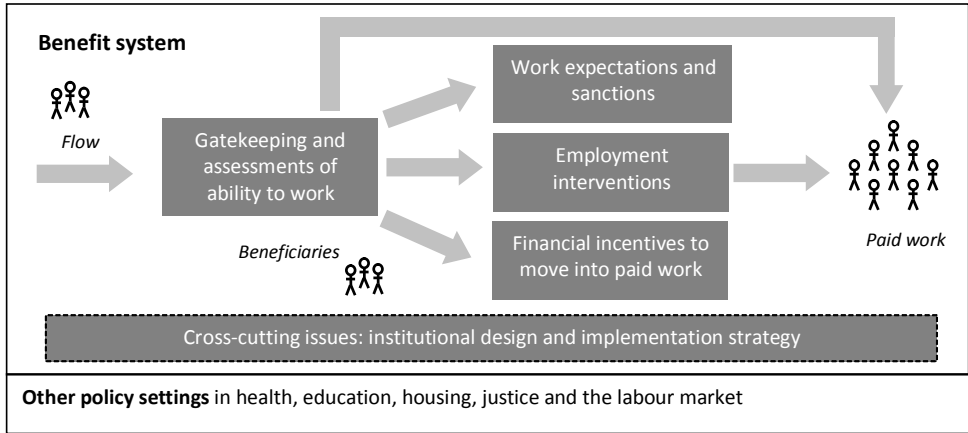
Many submissions, while acknowledging the importance of paid work, expressed anxiety about the availability of jobs for people looking for paid work. On the other hand, many employers have told us of the difficulties they have had in recruiting people into entry-level jobs. While this problem was less pronounced during the recession, they indicate it is once again emerging. Many employers have told us that they have employed beneficiaries who have become valued long-term staff members. However, some employers have noted that employing beneficiaries who have spent long periods on a benefit can sometimes be difficult as some have become unaccustomed to the routines, work ethic and requirements of modern workplaces. It is clear that more can be done to work with employers.

Many submitters noted that the benefit system is resulting in poor social and economic outcomes and long-term benefit dependence. Incremental changes to the system have resulted in a complex and unwieldy system. Some queried whether it is time for a fundamental paradigm shift in the way we think about and provide welfare in New Zealand.

Our review of the evidence highlights features of a well-performing benefit system

Figure 1.1 shows the key elements of the benefit system. It highlights the major areas inside the benefit system that influence the extent to which people both use benefits, and move from benefits into paid employment.

Figure 1.1: Policy levers and the benefit system



We have reviewed the evidence about the key features of well-performing benefit systems that best reduce long-term benefit dependence and poverty, and increase employment.

The evidence suggests that early and effective interventions that actively focus on those people with the highest risk of long-term benefit receipt have the potential to result in significant long-term savings. The life-time costs of benefit receipt, not only the costs in the current year, need to be considered. For someone currently on a benefit, it is estimated that the total cost of all future benefit payments will be \$192,000 for a person on the Invalid’s Benefit and \$161,000 for someone on the Domestic Purposes Benefit, compared to \$65,000 for a person on the Unemployment Benefit.

More specifically, the evidence suggests that the key components of a strong benefit system are:

- economic, labour market, health and education settings aligned to reduce long-term benefit dependency;
- an approach that intervenes early to reduce the costs associated with long-term benefit dependency, including intervening before entry to the benefit system;
- a focus on paid work, which is complemented with active support and clearly communicated reciprocal obligations – with greater focus on personal responsibility – so that people take opportunities as they emerge;
- early intervention points that are focused on paid work, including programmes to reduce the numbers of people entering the benefit system;
- well designed and robust gateways onto benefits;
- clear and comprehensive expectations to look for and accept reasonable offers of paid work, and address barriers to paid work, backed up by sanctions, and community expectations about participation in paid work;
- responsive and affordable childcare for children of beneficiaries who are transitioning into work;
- personalised support to address barriers to obtaining jobs for those at-risk of long-term dependency. These include, but are not limited to, job search, wage subsidies for people most at risk, vocational rehabilitation, and alcohol and drug rehabilitation;

- benefit and tax systems that have financial incentives for people to enter and remain in paid work; and
- service delivery that has a strong focus on outcomes, innovation and transparent accountability arrangements.

Throughout this paper we present a broad range of questions and options for reform

The Welfare Working Group has been asked to make practical recommendations to Government about how to reduce long-term benefit dependency. Based on the submissions and feedback from workshops, we consider that the benefit system should provide temporary help to people in times of unemployment and adverse life events when they have no other means of support, aimed at assisting them back into work; and permanent support for those who have no means of caring for themselves.

In looking at possible options we are guided by our principles for reform:

- recognise the value and importance of paid work to wellbeing;
- foster strong social outcomes, including improved physical and mental health outcomes and low child poverty;
- respect the dignity of people;
- promote personal responsibility, accountability and reciprocal obligations;
- be efficient and free from misuse;
- be affordable and sustainable;
- provide financial help when not in employment and when no other appropriate resources are available; and
- be practical, able to be implemented and have a low risk of adverse unintended consequences.

In this paper we discuss major issues that are driving long-term benefit dependency and options to address these. The options need to be assessed against the status quo. In many cases more than one of the options could be implemented to address the issues.

We comment on the implications of the various options, but we will not provide a full assessment, costings or recommendations until our Final Report. We pose questions for which we are seeking feedback. We ask people to consider whether there are any significant options that are not presented, provide comment on which options are most likely to reduce long-term benefit dependence in a cost effective way, and which options are most likely to carry significant risks for the community and taxpayers, beneficiaries and employers.

Structuring welfare differently may contribute to reducing long-term benefit dependency

At a high level, the way the benefit system is structured drives the way both beneficiaries and those administering the system make decisions. The structure may provide incentives or disincentives for various actions.

In the introduction to Chapter 1 we present high-level options for reform based on insurance principles. One of the key principles of insurance is that it is structured around helping people with high risk of long-term benefit dependency into paid work. Policy and delivery decisions are made with respect to the expected life-time costs.

These options include an enhanced status quo, a social insurance model in full or in part (including the use of levies), or incorporating some insurance-based investment strategies into New Zealand's benefit system.

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?		
(i) Focus on early intervention	Option 1: Enhanced status quo	<i>Increase work expectations within current benefit categories and target interventions for those people who are most likely to stay for long periods.</i>
	Option 2: Social insurance in full or in part	<i>A system with an actuarial assessment of risk and its future cost; in return for a premium, the management of risk is shared by the insured and the insurer. If the risk eventuates, the insurer provides benefits.</i>
	Option 3: Incorporating some insurance based investment strategies into New Zealand's benefit system	<i>A benefit system structured around helping people with high risk of long-term benefit dependency into paid work. Policy and delivery decisions being made with respect to the expected life-time costs.</i>

In the second half of Chapter 1 we consider options around how a greater focus on paid work could be introduced. It is vital that the importance of paid work for people of working age is placed at the centre of the benefit system.

At one end of the spectrum is the Guaranteed Minimum Income that is an unconditional tax credit with a uniform tax rate that would replace all benefits and supplements. At the other end of the spectrum the Unemployment Benefit could be expanded to include all people with current or future work capacity. In between is an option to develop a new benefit structure focused on paid work for people with current or future work capacity.

2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?		
(i) Promoting a greater focus on paid work	Option 1: Guaranteed Minimum Income	<i>An unconditional tax credit with a uniform tax rate that would replace all benefits and supplements.</i>
	Option 2: Enhanced status quo	<i>Maintain categories of benefit, but increase the work expectations within those categories.</i>
	Option 3: Expansion of the Unemployment Benefit	<i>A benefit system that includes one benefit for all people who have current or future work capacity (and no means to support themselves) and one for people who have no work capacity over the long term.</i>
	Option 4: A work-focused benefit system	<i>New Zealand's benefit system would be structured around:</i> <ul style="list-style-type: none"> • <i>a focus on paid work for people with current or future work capacity;</i> • <i>clearly communicated reciprocal obligations on the Government, the delivery agent, and the beneficiary with an expectation of temporary benefit use backed up by sanctions for most;</i> • <i>stepping up work expectations and obligations of beneficiaries as their time on benefit increases.</i>

People on an Unemployment Benefit

In Chapter 2 we discuss the reforms that have been made to the Unemployment Benefit over the past 20 years to make it a more active payment and to promote a greater focus on paid work. While reforms to the Unemployment Benefit have underpinned a significant movement of people into paid work, there remain 12,000 people aged 28-64 years on the Unemployment Benefit who have spent more than 5 years out of the past 10 years on a benefit (as at June 2009). As noted earlier, some employers have told us that despite this, they experienced skills and labour shortages when the economy was growing up until early 2008.

3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?		
(i) Interventions	Option 1: Improved diversion and triage strategies	<i>Improved diversion strategies so that more resources are invested in helping people to secure paid employment before applying for a benefit; and better triage for those entering the system.</i>
	Option 2: Future liability and investment model	<i>Reduce the life-time costs of benefit receipt by better targeting and designing active employment interventions.</i>
	Option 3: Six month threshold	<i>A threshold, for example, six months, at which point a person identified as at risk of long-term receipt would be placed in either paid or unpaid work (including voluntary work) to enhance chances of entering paid work.</i>
(ii) Expectations	Option 1: Clearer expectations	<i>Clearer and more immediate communication of the expectations to look for and accept paid work.</i>
	Option 2: More effective sanctions	<i>A more effective sanctions regime that is proportionate, credible, and enforceable. A minimum sanction period could also be considered.</i>
(iii) Offenders	Option 1: Services for offenders	<i>Supporting a cross-government approach to offenders, with a focus on paid work, removing barriers and addressing successful reintegration, increased outcomes-based funding of employment programmes for people leaving prison or serving community sentences.</i>
(iv) Drugs and alcohol	Option 1: Alcohol and drug treatment	<i>Increased funding and expanded access to alcohol and drug treatment for beneficiaries.</i>
	Option 2: Obligations	<i>Clearer obligations regarding drug testing and sanctions relating to drug use, combined with treatment services.</i>
(v) Regions	Option 1: Local development	<i>Work and Income engaging more intensively in supporting regional economic and social results. Development of local model with specific funding and engagement with key agencies and people.</i>
	Option 2: Strengthening limited-employment location provisions	<i>Stricter enforcement of current provisions about moving to limited-employment locations. More active management of people in these locations to encourage them to locate paid work in other locations. This could also include help for transport.</i>
(vi) Gatekeeping	Option 1: Strengthen rules and processes	<i>Reduce the incentives for delivery agencies and beneficiaries to move beneficiaries to less active payments. Strengthen rules and processes to create more robust work capacity assessments to ensure people with work capacity are on the Unemployment Benefit.</i>

An important challenge is to reduce the numbers of people who are on the Unemployment Benefit long term. A greater employment focus to the benefit system makes it even more important that expectations and obligations are clear, that support is appropriate, and that there are consequences when people fail to meet their personal obligations. There is a range of options discussed in Chapter 2 to improve the effectiveness of expenditure and expectations focused on people on the Unemployment Benefit.

Three other specific issues that we have heard in our workshops and submissions relating to improving the outcomes for people looking for work have been the limited availability of paid work in some regions; that many employers are concerned about high rates of drug and alcohol use and dependence as a problem among beneficiaries looking for work; and the specific needs of ex-offenders.

In the Issues Paper we discussed how in the current system many people who have work capacity and are out of work are not classified as unemployed. The benefit system is designed such that there are financial and non-financial incentives for beneficiaries to be placed on benefits with a weaker work focus. In the table above we present an option that involves strengthening rules and delivery processes to create more robust work capacity assessments to prevent people who enter the benefit system with work capacity being classified as sick or disabled and moving to non-active payments (also see Chapter 4).

Sole parents on a benefit

In Chapter 3 we present options to reduce long-term benefit dependency among sole parents. In June 2009 there were 46,700 sole parents aged 28-64 years who had spent more than five out of the past 10 years on a benefit. This high rate of long-term benefit dependency (and accompanying low employment rate) is one of the main reasons that New Zealand has a high rate of child poverty.

Reducing the number of sole parents who are long-term beneficiaries will require a significantly greater policy and delivery focus on helping sole parents into paid work, building on recent reforms to the Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010. Access to childcare, including out-of-school care for children of school age, is vital. While there is a significant level of Government funding already directed to childcare and early childhood education services there remains a question of whether that is well targeted to the groups at risk of long-term benefit dependency.

International evidence suggests that effective approaches combine increased work expectations with targeted childcare support and interventions to help sole parents overcome the barriers to moving into employment. In Chapter 3 we discuss how the benefit system can help improve outcomes for children.

4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?		
(i) Focus on paid work	Option 1: Enhanced status quo	<i>Work within current expectations (part-time work expectation from when the youngest child is six years old).</i>
	Option 2: Early Childhood Education alignment	<i>Part-time work obligation from when the youngest child is three years old; full-time work obligation from when youngest child is six years old.</i>
	Option 3: Alignment with parental leave protection	<i>Part-time work obligation from when the youngest child is one year old; Unemployment Benefit from when the youngest child is six years old.</i>
	Option 4: Unemployment Benefit	<i>Provide for all sole parents through the Unemployment Benefit with reciprocal obligations, and with employment related support.</i>
	Option 5: Youngest child	<i>Tie the beginning of work expectations to the age of the first child rather than subsequent children of a parent who enters the benefit system.</i>
(ii) Child wellbeing	Option 1: Conditions that promote the wellbeing of children	<i>Require every beneficiary with children to meet their parenting obligations. This could include tying the payment of a full benefit to the child's attendance at school and meeting minimum child health standards.</i>
	Option 2: Budgeting activities	<i>Requiring at-risk sole parents to engage in budgeting activities, including budgeting advice.</i>
	Option 3: Income Management	<i>Management of a component of beneficiaries' payment. Components of benefits are strictly managed when sole parents demonstrably fail to use the benefit appropriately (for example, failure to provide essentials for children).</i>
(iii) Childcare	Option 1: Childcare for low income sole parents (permanent)	<i>Provide more childcare assistance for low income sole parents who are in employment.</i>
	Option 2: Childcare for low income sole parents (temporary)	<i>Provide time-limited subsidies to sole parents who move into paid work. This could either be paid to the provider or the beneficiary.</i>
	Option 3: Expand out of school services	<i>Expand out-of-school care for school-aged children. This could be targeted just at sole parents.</i>
	Option 4: Personalised childcare support	<i>Provide help to sole parents to locate and arrange childcare as part of case management. Some funding could also be available.</i>
(iv) Support to move into paid work	Option 1: A long-term cost and investment model	<i>Ensuring interventions for sole parents are focused on reducing long-term benefit dependence.</i>
	Option 2: Greater support through Work and Income	<i>Work and Income would have a greater focus on supporting paid work of sole parents with more dedicated funding and a greater focus on post-placement support.</i>
	Option 3: Greater support through external delivery	<i>A range of new service and supports could be developed and delivered by outside providers.</i>
	Option 4: The use of Student Allowances	<i>Sole parents encouraged to move onto Student Allowances when in effective, relevant or appropriate education or training.</i>

People on a Sickness Benefit and people on an Invalid's Benefit

Despite a strong labour market until 2008, and no evidence of deteriorating population health, the number of people on a Sickness Benefit or an Invalid's Benefit grew significantly during the 1990s and 2000s. As at June 2009 there were 23,900 people, aged 28-64 years, on the Sickness Benefit who had been on the benefit for more than 5 out of the past 10 years, and 65,300 people who had been on the Invalid's Benefit for more than 5 out of the past 10 years.

The current benefit system has little focus on ensuring that people on the Sickness Benefit and the Invalid's Benefit receive immediate and effective assistance to address their health and labour market needs. This fails to take account of the strong evidence that early intervention is critical to ensuring a successful return to work for people with sickness and disability. There is too much focus on incapacity, not enough focus on ability to work and as a consequence employment-related issues are often medicalised.

Advice from the OECD and others suggests that comprehensive reform is required in this area. This would include system-wide change, increasing the work focus for people on Sickness Benefit and Invalid's Benefit, better assessment of work capacity and a concentration on prevention and early intervention.

One way to make this change is to take a long-run perspective of the potential life-time costs for this group. Incorporating some insurance-based investment strategies into the benefit system could provide this perspective. Transparent accounting of the life-time costs of benefit receipt would mean interventions would be made on the basis of how they reduce long-term dependency and, as a result, costs.

New capabilities and potentially institutions would be needed to provide improved rehabilitation and employment support. One approach to building this capability quickly would be to leverage off existing capability provided to ACC clients. In the table below we present options that more closely align the Sickness Benefit and Invalid's Benefit with ACC systems – including possible integration of parts of the two systems.

In the table below we also present options to improve the employment, job search and vocational rehabilitation that people receive on the Sickness Benefit and the Invalid's Benefit.

Working with employers to reduce the likelihood of sickness or disability being barriers to paid work is critical. Some employers already recognise the advantages of promoting wellness in the workplace through increased productivity, reduced staff absences, and turnover.

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?		
(i) System changes	Option 1: Widen the Unemployment Benefit	<i>Include people with current or future work capacity in the Unemployment Benefit.</i>
	Option 2: Incorporate some insurance-based investment strategies into the management of Sickness Benefit and Invalid's Benefit	<i>Investment and delivery model to better support people on the Sickness Benefit and Invalid's Benefit based on the life-time costs of the claim and evidence on what works.</i>
	Option 3: Align the provision of support and services	<i>Align the provision of services to Sickness Benefit and Invalid's Benefit recipients with those provided to ACC claimants.</i>
	Option 4: Extend ACC services	<i>Extend the non-compensation components of the ACC scheme to people covered by the Sickness Benefit and the Invalid's Benefit.</i>
(ii) Focus on paid work	Option 1: Stream individuals based on their work capacity	<i>Stream individuals into groups with expectations for each group varying between part-time, full-time or no work expectations. Work search and preparation depend on stream. This relies on a quality streaming tool.</i>
	Option 2: Personalised expectations based on people's work capacity	<i>Introduce personalised plans with expectations specific to the circumstances of each individual, relying on quality information.</i>
	Option 3: Standardised reassessment	<i>Standardised reassessment and review periods for some people on Sickness Benefit and Invalid's Benefit. This option places review timeframes on beneficiaries according to stream they are put into, as per Option 1.</i>
	Option 4: Personalised reassessment	<i>This option follows the personalised approach in Option 2 with review periods being based on individual circumstance.</i>
(iii) Work capacity assessment	Option 1: Improve medical assessments	<i>Greater use could be made of second opinions, auditing processes and regular audits of random sickness certificates.</i>
	Option 2: Introduce fit notes into the application process	<i>Introduce fit notes in to the application process for Sickness Benefit and Invalid's Benefit. This is a note that not only outlines the condition, but also how a return to being fit for work will be achieved.</i>
	Option 3: Introduce comprehensive work capacity assessments	<i>Introduce comprehensive assessments of a person's capacity to perform a range of activities or their work capacity, or a combination of both.</i>
(iv) Employment support	Option 1: Provide intensive case management	<i>Provide intensive case management for those with greatest risk of long-term dependency.</i>
	Option 2: Vocational rehabilitation and employment	<i>Increase vocational rehabilitation and employment programmes where there is evidence of cost effectiveness.</i>
	Option 3: Early intervention approaches	<i>Improve the effectiveness of current funding by reviewing what works, including shifting toward low cost, early intervention strategies.</i>

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?

(v) Prevention and early intervention	Option 1: Information about financial benefits	<i>Provide information to employers about the financial benefits of promoting wellness in workplaces.</i>
	Option 2: Support health professionals	<i>Support health professionals to focus on work capacity and provide them with information about the health benefits of work.</i>
	Option 3: Increase financial incentives	<i>Increase financial incentives for employers to invest in prevention, and for health professionals to focus on the value of paid work for their patients.</i>
	Option 4: Support employers	<i>Support employers and health professionals to intervene early when sickness and disability arises. This could build on the approach used in the ACC Better@Work pilots.</i>

Māori and benefits

Māori are significantly over-represented in the benefit population. At the 2006 Census, over 27 per cent of working-age Māori were on a benefit, compared to just over 12 per cent for the total working age population. By today's numbers, if Māori had the same rate of benefit receipt as non-Māori, there would be 64,000 fewer Māori on a benefit.

In order for any changes to the benefit system to be effective in reducing long-term dependency, they will need to work for Māori.

A specific option has been developed to bring focus and leadership to the challenge of improving Māori employment outcomes by establishing a high level Strategic Memorandum of Understanding between the Minister for Social Development and Employment and Iwi/Māori. Sitting behind this is the need for Government and Iwi/Māori to lead the response. Key features would include: clear accountability; high level goals and targets; agreed actions and clear responsibilities; and transparent reporting against targets.

6. What changes do we need to improve paid work outcomes and reduce long-term benefit dependency amongst Māori?

(i) Policies to support Māori	Option 1: A Strategic Memorandum of Understanding	<i>A Strategic Memorandum of Understanding between the Minister and Iwi/Māori to bring a concerted focus to Māori benefit dependency involving a goal, clear targets and accountability, and to drive effort and innovation.</i>
	Option 2: Using specific outcome targets for Māori	<i>Using specific outcome targets for Māori to ensure that focus is being directed at the challenge of improving Māori economic and social outcomes and reducing benefit dependency.</i>
	Option 3: Developing specific programmes for Māori	<i>Developing specific programmes for Māori including for-Māori-by-Māori, where evidence shows this is the best approach to reducing long-term dependency.</i>
	Option 4: Increased use of not-for-profit organisations to deliver services to Māori	<i>Identify opportunities to bring in not-for-profit organisations to develop innovative solutions to address the causes of poor employment outcomes.</i>

Young people and benefits

There were around 21,370 16 – 19-year-olds in the benefit system as at June 2010. Of these, there are around 3,700 young people aged 16 and 17 years old in the benefit system. We expect that half of young people who enter the benefit system before their 18th birthday will spend five or more years out of the next 10 years on benefit, based on a cohort who entered in 1999.

Reducing the number of young people entering the benefit system, and shortening the length of time that they stay, requires a variety of approaches. These include a greater focus on at-risk young people before they enter the benefit system, greater expectations when they enter the benefit system, and a focus on active engagement with young people when they are in the benefit system.

7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?		
(i) Policies to support at-risk young people in the education system	Option 1: Reform of funding for secondary education	<i>Create flexible funding mechanisms for secondary education so that resources clearly follow students.</i>
	Option 2: More focus on work-related education and training.	<i>This would include increased work experience and emphasis on work-relevant skills within schools, as well as more emphasis on apprenticeships as a valid alternative to university.</i>
	Option 3: Identification, early intervention and pastoral care for at-risk young people in education	<i>This could include identifying at-risk students from early ages, reducing truancy and improving behaviour, and greater use of targeted pastoral support for at risk-young people and their families.</i>
(ii) Policies for at-risk young people outside of the education system	Option 1: Better targeted expenditure	<i>Review the existing fragmented programmes and their funding to improve cost effectiveness and coordination of programmes, based on evidence about what works.</i>
	Option 2: Participation in education and training	<i>Introduce a requirement that young people need to be in education or training to qualify for a benefit.</i>
	Option 3: Increase support inside the benefit system	<i>More active case management and personalised support with education or training as the first option for young people.</i>
	Option 4: Strengthen obligations for pastoral care	<i>Extending statutory coverage of Child, Youth and Family up to age 18 to take responsibility for at-risk young people.</i>
	Option 5: Remove payment to young people	<i>Pay benefit directly to family or carer, instead of to young people aged 16-17 years old.</i>
(iii) Teen parents	Option 1: Better/enhanced support for teen parents and their children	<i>Address health and housing needs as part of an overall youth-focused strategy. Require parents under 18 years to engage in education, work-focused training or work as a condition of benefit.</i>
	Option 2: Teen parenthood prevention	<i>Provide more education about the consequences of teenage pregnancy. Require teen parents under 18 years to live at home, or with a responsible adult; require teen parents to receive counselling as part of ante-natal health care.</i>
	Option 3: Requirements aimed at achieving better outcomes for children of teen parents	<i>Require teen parents to engage in parenting programmes such as Plunket and programmes accessed by other sole parents.</i>

Financial incentives in the benefit system

For most people, the financial incentives to work in the current structure are reasonably strong. In addition, for people who are on a benefit with a work expectation, such as the Unemployment Benefit, there is an expectation that reasonable offers of paid work will be accepted. However, high levels of supplementary assistance, the abatement regime and costs associated with paid work can discourage paid work. In turn this can undermine an overall system focus on encouraging people into paid employment. Chapter 7 discusses a range of specific options to increase the incentive for people who are on a benefit to take up and remain in paid work.

The New Zealand benefit system is made complex by supplementary allowances, including a second tier of payments. The most important of those are: the Accommodation Supplement; Disability Allowance; and Working for Families Tax Credits (delivered by the Inland Revenue Department). In addition, there is a third tier of grants to cover costs like dental care or white goods. These are Temporary Additional Support to temporarily help people who have essential living costs that they have no other ways to meet, and loans, including recoverable Special Needs Grants, that are recoverable from future allowances or earnings.

While the aim of these programmes is to direct resources where there is greatest need, this process requires substantial administration. Furthermore, it is rule-bound and does not always succeed in targeting need. It leads to requirements for multiple form-filling, repeated requests to reveal highly personal information and the need to demonstrate poverty. The complexity of the system makes it hard to administer, and sends confusing signals to beneficiaries that can undermine personal responsibility.

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?		
(i) Financial incentives to work	Option 1: Transfer people from benefit system to tax system where they have part-time work	<i>Migrate people in part-time work from the benefit system to the tax system by moving abated benefit to an in-work tax credit.</i>
	Option 2: Increase the financial incentives for people working part-time to work more hours	<i>Increase the financial incentives for people working part-time to work more hours by enabling them to keep more of their additional pay, offset by higher abatement at lower levels of earning.</i>
	Option 3: People with no work expectations	<i>Relax abatement of benefit for people with no work expectations.</i>
(ii) Additional help for people when they move into employment	Option 1: In-work payments to beneficiary	<i>Provide long-term beneficiaries with an allowance for the initial period of employment.</i>
	Option 2: Provider-delivered in-work support	<i>Building on current programmes, have a more significant pool of funds that can be used to support work outcomes by long-term beneficiaries.</i>
	Option 3: Transition assistance for sole parents	<i>Cover the cost of transport, childcare and other direct costs for first year of employment up to a cap.</i>
	Option 4: Transition allowance for sick and disabled people	<i>Cover the direct costs associated with sickness and disability, including workplace modification, as a sick or disabled person moves into paid work.</i>

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?

(iii) Strong signals to discourage semi-permanent use of the benefit system	Option 1: Increasing conditions with benefit duration	<i>Increasing conditions with benefit duration to send signals about the temporary use of benefit. This could include ensuring people are active while on a benefit, including a limited work-for-the-benefit, for example, 2 days per week or 16 hours after 2 years continuous duration.</i>
	Option 2: Income Management for long-term beneficiaries	<i>A component of benefit payment may be strictly managed when people with work capacity are on a benefit almost permanently and they demonstrably fail to use the benefit appropriately, for example, failing to provide essentials for children.</i>
	Option 3: Step down	<i>Components of benefits withdrawn when people with work capacity are using the benefit system on an almos- permanent basis, for example more than a year.</i>
	Option 4: Strict time limit	<i>Each person without an exemption from work expectations is funded for a certain period, for example, up to a limit of five continuous years on a benefit. Reliance on hardship assistance beyond this period.</i>
(iv) Supplementary programmes	Option 1: Second and third tier and main benefits	<i>Roll the funding currently spent on second and third tier payments into main benefits. A variation of this option would be to only roll the third tier of payments into main benefits.</i>
	Option 2: New capped hardship fund	<i>Roll the funding currently spent on third tier payments into a new capped hardship fund administered regionally.</i>
	Option 3: Regional supplement	<i>Roll the funding currently spent on second and third tier payments into a new regional supplement.</i>
	Option 4: Integrate accommodation payments	<i>Integrate Accommodation Supplement and Income-Related Rents with Temporary Additional Support.</i>
	Option 5: Expand NGO and not-for-profit provision of budgeting, banking and insurance services	<i>Encourage beneficiaries to build financial independence through provision of specialist savings and insurance schemes delivered by NGOs and not-for-profit organisations, with funding drawn from current supplementary assistance.</i>

Effective service delivery

A key theme throughout our work is how to send strong signals about intervening early to reduce benefit dependence among people likely to stay on a benefit for a long period. Government organisations are typically funded by annual appropriations funded from annual tax revenue. The issue with this approach for funding social assistance is that it underestimates the financial commitment the Government has made when agreeing to pay the benefit. For instance, when agreeing to pay an Invalid's Benefit, the Government has committed to make payments while that person continues to qualify for that benefit. This commitment is far greater than the single year cost of paying the benefit.

Effective employment service delivery needs a focus on employment outcomes, clear accountability arrangements, robust measurement of effectiveness, and strong organisations with a capability to innovate and deliver outcomes. Work and Income have effective processes that deal with those who have few barriers to getting into or back into work. Building on these, there may be advantages in introducing contestability to place a greater focus on innovation and outcomes among delivery agencies. A key question then relates to what the optimal mix of government and non-government (private and voluntary sectors) delivery is, in getting the best outcomes for beneficiaries at risk of long-term benefit dependence.

9. What changes do we need to improve the approach to funding and delivery of employment and other services?		
(i) Investing early to avoid costs of long-term benefit dependency	Option 1: Current model with life-time cost focus	<i>Retain the current model, but the life-time cost is independently assessed and reported, the future liability would be used as a key measure of performance, and there would be a greater access to multi-year funding and consequences if the future liability changes.</i>
	Option 2: New model focused on future liability	<i>A new model of welfare based on the expected life-time cost of benefit receipt. In this approach, new institutional arrangements would finance welfare directly, would be accountable for the life-time costs of benefit receipt to the people financing the system, and they would have access to the full range of instruments and funding to address life-time costs.</i>
(ii) Delivery of the services	Option 1: Enhanced status quo	<i>Identify opportunities to improve the delivery of employment services through Work and Income with contracting-out on a regional basis.</i>
	Option 2: Greater accountability for outcomes	<i>Increase transparency and strengthen incentives for the delivery agent to deliver cost-effective outcomes, including the use of innovation, skills and capability outside of Government.</i>
	Option 3: A contestability model	<i>Provide employment and other services through a network of providers who are paid on an outcomes basis. Government manages the model, the tendering process and designs the policy settings for service delivery and delivers services for people who do not need specialist support.</i>
	Option 4: A fully contracted-out contestability model	<i>As Option 3, but contracting for services is undertaken by a separate agent outside of Government, as is done in the United Kingdom.</i>

In this paper we discuss options around how employers can be involved and supported in providing paid work for beneficiaries. In many cases beneficiaries can gain employment with little or no active support. In other cases there can be a significant gap between what employers expect and what the beneficiary is able to provide without a significant level of support. A greater focus on getting people into paid work will require that the gap be narrowed. The evidence on what is effective in helping beneficiaries into paid work is clear – effective interventions need to have a focus on employers and their needs. We have heard from employers that they are concerned with absenteeism, punctuality, work ethic, attitude and behaviour.

Employers have suggested a number of other ways to ensure prospective employees are work ready. These include stricter conditions for Unemployment Beneficiaries regarding accepting and remaining in work, developing NZQA certified training programmes with a substantial on-the-job component, and more use of private sector employment placement and retention providers.

10. What changes do we need to support employers to achieve better employment outcomes for beneficiaries?		
(i) Supporting Employers	Option 1: General employment programmes	<i>Ensure that all general employment programmes are more directly tied to employers' needs.</i>
	Option 2: Engage with employers to locate vacancies	<i>Incentives targeted at the collection/filling of vacancies by delivery agencies.</i>
	Option 3: Expansion of Industry Partnerships model	<i>Develop further training options based on employers' workforce and support needs.</i>
	Option 4: In-work support	<i>Increase the scale and scope of current programmes that provide an active role in establishing and maintaining the employment relationship between employers and beneficiaries.</i>

There is anecdotal evidence of community perception that benefit fraud is a victimless crime, with people turning a blind eye to it. This view fails to recognise that there is a cost to the taxpayer and the community. Fostering higher levels of personal responsibility is the key to addressing benefit abuse and fraud. This might involve delivering strong public messages about the use of the benefit system, effective monitoring and rapid penalties, and ensuring there are simple, clear rules and reduced incentives for abuse and fraud around relationships.

11. What changes do we need to address benefit fraud and abuse?		
(i) Fraud and abuse	Option 1: Public campaigns	<i>Deliver strong public messages about integrity in the use of the benefit system through public campaigns.</i>
	Option 2: Enforcement	<i>Tougher penalties, and stricter monitoring and enforcement.</i>
	Option 3: Relationship fraud	<i>Clarify rules relating to relationship fraud and address the systematic drivers of relationship fraud.</i>

The implementation of any reform will be critical to its success. On the one hand a major immediate reform package can lead to the benefits of reform being observed quickly. On the other hand a staged implementation enables policy makers to evaluate the success of reform and build on what works. A staged reform can also mean that people who are currently on a benefit have a reasonable period to prepare for new policy arrangements.

12. How should a new benefit system be introduced?

(i) Transitioning to a new system	Option 1: Uniform transition	<i>Apply the new approach to welfare to both existing clients and clients who are new to the system.</i>
	Option 2: Grandparenting or sunset clauses	<i>Allow some or all existing clients to maintain their current status either permanently (grandparenting) or temporarily (sunset clause).</i>
	Option 3: Staged reform	<i>A staged implementation approach that explicitly recognises the savings from lower benefit receipt. This would allow the time to develop new delivery agents.</i>

Tell us what you think

In this paper we present a range of options to address issues relating to reducing long-term benefit dependency. The experience of reform in New Zealand and elsewhere is that successful reform requires some tough decisions and judgements about the trade-offs in policy design. However, reform packages that have a range of mutually reinforcing initiatives with a clear overall goal can be successful.

The benefit system should provide temporary help to people in times of unemployment and adverse life events when they have no other means of support, aimed at assisting them back into work. The system should also provide permanent support for those who have no means of caring for themselves. A strong benefit system needs to send stronger signals about the value of paid work for wellbeing and the importance of intervening early to avoid the costs of long-term benefit dependency.

The Welfare Working Group has been asked to make recommendations to the Government about how to reduce long-term benefit dependency. We would like your views on the practical options for change set out in this paper.

We have identified a number of questions about the range of options for reducing long-term benefit receipt that we consider to be important when thinking about the benefit system. Your responses to these questions will help us develop our final recommendations to Government.

When you are responding to the following questions, your submission could consider:

- whether we have asked the right questions;
- whether there are options that we have not identified;
- which options will work to reduce long-term benefit dependence in a cost effective way; and
- which options are most likely to carry significant risks for the community and taxpayers, beneficiaries and employers.

Questions about the range of options

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?
2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?
3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?
4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?
5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?
6. What changes do we need to reduce long-term benefit dependency amongst Māori?
7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?
8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?
9. What changes do we need to improve the approach to funding and delivery of employment and other services?
10. What changes do we need to involve and support employers to achieve better employment outcomes for beneficiaries?
11. What changes do we need to address benefit fraud and abuse?
12. How should a new benefit system be introduced?
13. What are the key components of a successful package of reform to reduce long-term benefit dependency?
14. Are there other questions and areas for change not discussed that are critical to reducing long-term benefit dependency within the scope of the Welfare Working Group's Terms of Reference?