

Regulatory Impact Statement

Welfare Reform – Work Availability Expectations for Domestic Purposes and Widows Beneficiaries and Merging Benefit Categories.

Agency Disclosure Statement

This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Social Development to accompany the Cabinet paper “Welfare Reform – Increasing the Work Focus of the Benefit System”.

It provides an analysis of options considered to extend work availability expectations to more recipients of the Domestic Purposes Benefit-Sole Parent (DPB-SP), and to recipients of the Widows Benefit (WB) and Domestic Purposes Benefit-Woman Alone (DPB-WA). It also covers proposals to merge some benefits with the Unemployment Benefit (UB) to create a new, work-focused benefit. A RIS is not required for other aspects of the proposals in the Cabinet paper at this stage. They require further work with detailed report backs in February 2012, and will be included in a RIS at that stage.

These are initial proposals, with further Cabinet decisions on detailed aspects of these reforms required before legislation can be drafted and implementation can occur. A more detailed analysis of issues and options will take place as the policy is developed, and future Cabinet papers will require a more detailed RIS to reflect this.

At this stage in the policy development process it is not considered that the changes proposed would impose additional costs on business, impair private property rights, market competition, or the incentives on business to innovate and invest, nor override common law principles.

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Status quo and problem definition

Work availability expectations for recipients of the Domestic Purposes Benefit and Widow's Benefit

At the end of June 2011 there were 114,000 working age people receiving the Domestic Purposes Benefit (DPB), and in June 2011 the estimated future cost of providing that benefit stood at \$20 billion.

There are well established links between long-term benefit receipt and poverty, poor health, and many other poor social outcomes:

- long-term benefit receipt leads to prolonged periods of low income and poverty
- children raised in benefit-dependent families are at increased risk of a number of poor socio-economic outcomes, such as joblessness, and of themselves becoming benefit dependent as adults.¹

At present sole parents receiving DPB do not have part-time work availability expectations until their youngest child is aged six years of age, and do not have full-time work availability expectations until their youngest child reaches 18 years of age. The age for full-time work availability expectations is higher than for many other countries.

Limited work availability expectations for people receiving DPB delay the entry of people receiving this benefit into the workforce. Spending longer periods on benefit results in greater removal from the labour force, increasing a person's risk of experiencing the negative outcomes of long-term benefit receipt mentioned above.

Increasing work availability expectations for sole parents would lead to their earlier preparation for work and entry into the workforce, which can result in improved social and economic outcomes for parents and their children. However, this has to be balanced against child outcome considerations. Earlier work availability expectations could reduce the amount of time that parents have available for the care of their children, which could impact on their child's health and developmental wellbeing. On the other hand, participation in quality Early Childhood Education is beneficial for children, with the greatest benefits for children from lower socio-economic households.

Women receiving the Widow's Benefit (WB) and Domestic Purposes Benefit-Woman Alone (DPB-WA) currently have no work availability expectations, including those without children. These benefits were established to reflect the needs and expectations of society at a time when labour force participation rates amongst married women were low. It is no longer appropriate to have different work expectations for these groups than for people receiving other benefits, and for men (who cannot access either WB or DPB-WA). Bereavement provisions, including temporary exemptions from requirements to be available for work, are already available within the benefit system.

Merging benefit categories

Like most other OECD countries, in recent decades New Zealand has experienced increasing numbers of people receiving health and disability benefits. While some people

¹ Maloney, T., Maani, S. and Pacheco, G. (2008), '*Intergenerational Welfare Participation in New Zealand*'. Australian Economic Papers, 42: September p346-362.

receiving these benefits are work-tested, the majority have not been expected to look for work – those who are in poor health, and disabled people. Although it is sometimes inappropriate for some people in those groups to be in work, that is not the case for all health and disability benefit recipients. Not only can many people in these groups contribute through employment, many already do and there is evidence that points to improvements in their health and well-being if they do take up appropriate work.²

Despite the ability of many in these groups to be in some form of employment, the current division of benefit categories creates a perception that people on benefits other than UB are unable or not expected to prepare and look for work. This perception is re-enforced by the fact that, traditionally, these benefits have not had work expectations. This perception is widespread among the public, benefit recipients themselves, and some service providers. This prevents a proper focus on identifying what work people on these benefits are capable of doing, and helping them into that work.

Objectives

Work availability expectations for Domestic Purposes Benefit and Widow's Benefit recipients

The policy objective is to improve outcomes for parents, children and society by increasing the number of DPB and WB recipients available for work and supported to improve their work readiness, while ensuring that their children receive appropriate care to support their health and developmental wellbeing.

Merging benefit categories

The policy objectives are: to increase the focus on work preparation and availability; and to support an investment approach by providing the delivery agency with more flexibility to work with a wider range of people to help them find work, while ensuring that support is available for those who need it.

Regulatory impact analysis

Work availability expectations for Domestic Purposes Benefit and Widow's Benefit recipients

For DPB and Widow's Benefit recipients with children, the age at which work availability expectations are applied needs to be balanced with outcomes for their children. A range of evidence relating to the effects of parental employment on children has been considered to inform the options. In summary, that evidence suggests that:

- maternal employment is generally beneficial for the children of sole mothers, mainly due to improved parental mental well-being and self-esteem, increased income and increased work-education values³

² For examples, see: OECD (2009) *Sickness, Disability and Work: Keeping on Track in the Economic Downturn*, High-Level Forum, Stockholm, p.7; Waddell, G and Burton AK (2006) *Is work good for your health and well-being?*, TSO: London; Dame Carol Black (2008), *Working for a healthier tomorrow*, TSO: London.

³ Brewerton M. (2004), *Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes*. Published by the Ministry of Women's Affairs
http://www.mwa.govt.nz/news-and-pubs/publications/work-and-enterprise/copy_of_influence-of-maternal-employment.pdf

- long duration childcare (such as that required for full or substantial part-time work) from birth to a year or so in age, or lower quality care, is less likely to be beneficial and more likely to be outcome-neutral or harmful, depending on the home circumstances and environment it replaces
- the home environment remains by far the most important domain for child development - high quality care very early in life (from under one year of age) can be beneficial where it replaces a home environment that is violent, abusive, highly chaotic or neglectful
- exposure to high quality ECE appears beneficial for most children from around three years of age, with, at worst, neutral impact
- the children of beneficiaries face a greater risk of educational under-achievement, and are more likely to benefit from quality Early Childhood Education from an earlier age (including before the age of three)
- from a career perspective, women are probably best advised to go back to work around six months after childbirth⁴
- from a child development perspective, the OECD found “In general a return to work of the mother before the child is 6 months old may have more negative than positive effects. However, the effects are small and not universally observed.”⁵

No compelling policy reasons have been identified for maintaining the current lack of work obligations for women receiving the WB and DPB-WA without dependent children, or for treating bereaved widows with children completely differently than separated persons.

Age of part-time work availability expectations

Part-time work expectations for DPB/WB are set based on the age of the person’s youngest child. A range of youngest child ages was considered, alongside evidence regarding parental work patterns and norms in New Zealand. Evidence about the impact on children was also considered. Most consideration was given to applying it at:

- youngest child aged one or two years
- youngest child aged three (as recommended by the Welfare Working Group) or four years
- youngest child aged five years.

The impacts of each of these options are summarised in the table below:

⁴ OECD (2011), *Doing Better for Families*, OECD Publishing <http://dx.doi.org/10.1787/9789264098732-en>

⁵ OECD (2011), *Doing Better for Families*, OECD Publishing <http://dx.doi.org/10.1787/9789264098732-en>

Age of part-time work expectations	People affected	Countries that apply part-time work testing at this age	Childcare provision	Impact
Two or one years of age	33,400 or 45,600 sole parents and their children respectively	The United States, Denmark, some Canadian provinces, Israel, and some Nordic states	Provision of Childcare Subsidy to subsidise the cost of childcare	<ul style="list-style-type: none"> • Greatest impact on increasing employment, family income and helping to reduce long-term benefit dependency • Greatest potential risk of negative impacts on children of those work tested • No highly subsidised provision of childcare will make transition to work more problematic
Four or three years of age	13,800 or 22,800 sole parents and their children respectively	Continental European and some Nordic states	Provision of 20 hours subsidised Early Childhood Education is available at these ages.	<ul style="list-style-type: none"> • Less impact on increasing employment and helping to reduce long-term benefit dependency than for younger ages • Reduced risk of negative impacts on dependent children • Provision of subsidised childcare will provide some help in making the transition to work.
Five years of age	7,400 sole parents and their children	The UK and some Canadian provinces	Free universal primary education is available at this age	<ul style="list-style-type: none"> • Less impact on increasing employment and helping to reduce long-term benefit dependency than earlier options • Least risk of negative impacts on dependent children • Provision of free primary education will provide good help in making the transition to work, backed by access to OSCAR services.

Age of full-time work expectations

The ages of youngest child at which work availability expectations begin in a number of other countries were considered, alongside the Welfare Working Group (WWG) recommendation to introduce full-time work expectations when the youngest child is six years of age. The legal requirement of parental supervision for children up until fourteen years of age represented a barrier to considering full-time work testing at ages of less than 14 years. Because of this restriction, applying a full-time work test for ages of youngest child of less than 14 years was considered inappropriate.

A review of the full-time work expectations that applied during 1999 to 2003 for sole parents whose youngest child was at least 14 found that this had generally positive results, but that there were some concerns.

The main advantages were that it resulted in a higher proportion of sole parents in full-time work, causing a fall in the number of DPB recipients.

Disadvantages included concerns about the care and supervision of older children who exhibit behavioural problems, and that clients generally saw a full-time work test as not recognising the needs for supervision and support of adolescent children.

Additional children

A number of options were considered as a disincentive to a sole parent benefit recipient having further unsupported children while on benefit. Other options each involved limits to the amount of time that work search expectations would be delayed as a result of having subsequent children.

There is strong evidence that maternal employment at ages of less than six months can sometimes have a negative impact on child development (unless care is of very high quality or the home environment very negative). For this reason the WWGs recommendation of delaying part time work testing for subsequent children by only fourteen weeks was considered to be too short.

It was concluded that the WWGs alternative recommendation of applying the work expectations that would have applied based on the age of the older child/children once the newborn is one year of age would discourage having subsequent children while on benefit, while still allowing an appropriate period for bonding of mother and child. One year of age is a reasonable period for parental attachment with the child to be established, and is reflected in current parental leave provisions and child development findings.

Merging benefit categories

A range of approaches was considered. Changes to benefit categories are aimed at providing a strong message to the public, beneficiaries, and case managers that the benefit system is undergoing a fundamental change, and increasing the focus on work for more people.

One option considered was retaining existing benefit categories, while increasing work expectations within these categories. However, this would not send a strong enough signal that people are expected to be available for work when they can, particularly for people currently on the Sickness Benefit (SB). Retaining a "Sickness Benefit" focuses on what people cannot do, and does not set clear enough expectations about returning to work and requiring people to realise partial work capacity.

Another option that was considered was the creation of a single benefit covering all clients, as recommended by the WWG. It was considered that this option would not be sensitive enough to people who will never be able to work, by including them in a benefit that would have strong messages about work availability. It would also hinder clear identification of some of the different groups on benefit who have different circumstances and needs.

Including DPB sole parents with younger children in the work-focused benefit (including those who would not be expected to be available for work) was also considered. However, incorporating significant numbers of people who would not be expected to work into a work-focused benefit (particularly sole parents with children under 5) would be misleading, because not everyone on the work-focused benefit would actually be moving towards or into employment. Doing so would dilute the work focus of the work-focused benefit. For similar reasons, including those currently receiving the Invalid's Benefit (IB) and Domestic Purposes Benefit – Care of Sick and Infirm (DPB-CSI) within the new benefit was also rejected.

The preferred option was to create a new work-focused benefit that would cover the existing UB, SB, and DPB and WB clients who have full-time work obligations, while merging DPB-CSI with IB and retaining this as a separate benefit. This will send a strong signal to the public, beneficiaries, and case managers that the benefit system is undergoing a fundamental change to focus on work for more people, while maintaining a clear distinction with those who are not expected to be available for work.

The new work-focused benefit will be supported by new assessment processes that identify the level of work expectation and support that is appropriate for sick and disabled beneficiaries. This will include more comprehensive work capacity assessment. This is particularly important to maintain the gateway to the benefit where there are no requirements to be available for work.

Further work on new assessment processes is required and detailed proposals will be presented to Cabinet at a subsequent report back.

Consultation

The Treasury, the Ministry of Health, the Ministry of Education, the Department of Labour, Te Puni Kokiri, and the Ministry of Women's Affairs were consulted during the preparation of the proposals outlined in this RIS. Their feedback has been included. The Department of Prime Minister and Cabinet and Ministry of Pacific Island Affairs were informed.

The WWG undertook extensive public consultation as part of the development of its recommendations. No further consultation with stakeholders has taken place.

Implementation

The proposals in this paper will require amendments to the Social Security Act 1964. Further Cabinet decisions on the details of welfare reform for DPB/WB recipients are necessary before the detail of the required legislation and implementation can be finalised.

These proposals will alter the existing stock of regulation by changing the work expectations of some benefit recipients. They will not add to the stock of regulation.

Legislation to implement these changes may give rise to potential inconsistencies with the New Zealand Bill of Rights Act. Officials from the Ministry of Justice and Ministry of Social Development will work together to identify and resolve any such inconsistencies as detailed policy development takes place, prior to the introduction of legislation.

Monitoring, evaluation and review

The proposed changes to work expectations for recipients of the DPB/WB and merger of SB with UB are part of wider moves to reform the welfare system to align it with an investment approach to welfare. The investment approach uses demographic and individual level information, combined with evidence of which services and programmes are effective for different people, to match services to where they are most effective. High quality monitoring, evaluation, and review of benefit settings and programmes are an integral part of this approach.

Further Cabinet decisions will be sought on detailed aspects of the proposals in the paper, including details of monitoring, evaluation and review. Where these proposals have a regulatory impact a detailed RIS will be provided.