



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Evidence Brief

The effects of work testing sole parent benefit recipients on employment outcomes

January 2010

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Date of publication

This report was completed in January 2010, and published in the MSD Research Archive website in September 2019.

ISBN

Online 978-0-9951242-4-0

THE EFFECTS OF WORK TESTING SOLE PARENT BENEFIT RECIPIENTS ON EMPLOYMENT OUTCOMES

Key points

- Work testing, on average, results in modest increases in sole parent clients' employment and earnings, and in modest reductions in benefit payments.
- When combined with comprehensive employment assistance, work testing increases employment and earnings for disadvantaged clients at least as much as it does for more advantaged clients, (with the exception of those who are at risk of depression).
- Impacts are largest in the context of strong labour demand.
- Without in-work financial assistance, work testing does not increase incomes.
- In the medium term, programmes that are most effective in increasing employment seem to be those which provide a mix of initial activities tailored to individual needs, such as an immediate job search or short-term education or training, and also strongly emphasize the need to find work.
- In the longer term, there is evidence that training that has a human capital development focus (a focus on knowledge, habits, social and personality attributes including creativity) has a much larger impact on employment rates than training that has a labour force attachment focus.
- Work testing programmes can improve educational and behavioural outcomes for younger children of beneficiaries if accompanied by increased income and use of centre-based childcare, but result in poorer outcomes for adolescent children (possibly due to reduced supervision).
- There is evidence that work testing programmes can decrease the incidence of physical domestic abuse.
- Messaging around work testing can reduce numbers coming on to benefits, although little is known about the size and nature of these wider effects, or their impacts on overall net fiscal benefits.

'Work testing' refers to the policy of requiring benefit recipients who meet certain criteria to be available for, and to be seeking, work. For sole parents, work testing criteria may depend on the age of their youngest child and the absence of major disabilities affecting the parent or children. A work test is often enforced by sanctions for non-compliance and accompanied by employment assistance and programmes.

Situation as at January 2010

Employment rates for New Zealand sole parents overall are low compared to those of partnered parents (CSRE, 2007) and to those of sole parents in other OECD countries (OECD Family Database, 2009, Table LMF3.1). Associated with their low employment rates and high rates of benefit receipt, New Zealand sole parent families are over-represented among those with low incomes and low living standards (CSRE, 2007).

What works?

Work testing can lead to modest increases in employment

Research indicates that, on average, work testing results in modest increases in employment and earnings and a modest reduction in benefit payments to sole parents (Hamilton, 2002; Smedslund *et al.*, 2006). Increases in employment and earnings are highest in the initial years participants are affected by the requirements (Smedslund *et al.*, 2006). Net fiscal benefits (ie, benefits less costs) are on average small (Greenberg *et al.*, 2005).

Work testing for sole parent benefit recipients applied in New Zealand between 1997 and 2003 appears likely to have accounted for some of the growth in sole parent employment that occurred over that period (CSRE, 2007).

Work testing can increase employment among disadvantaged clients

In a study of programmes required to offer a mix of services thought most likely to benefit hard-to-serve clients, and to subsidize child care, transport, and work-related expenses for participants, the increase in employment for disadvantaged clients was no different from that for more advantaged clients.

There were few differences in impacts between subgroups defined by characteristics such as education levels, sense of control, health or emotional problems, child care problems, and transport problems. The exception was risk of depression (Hamilton, 2002; Michalopoulos *et al.*, 2000).

In a meta-analysis that included a number of other studies, impacts were usually greater for more disadvantaged sub-groups (Greenberg *et al.*, 2005). In New Zealand, when work testing for sole parent benefit recipients was removed in 2003, the fall in benefit exit rates was greatest for the more disadvantaged clients (CSRE, 2007).

Impacts vary widely and are influenced by local conditions

The scale of impacts on participants' economic outcomes and welfare receipt varies widely across evaluated programmes (Ashworth *et al.*, 2004;

Greenberg *et al.*, 2005, p.93; Smedslund *et al.*, 2006). Net fiscal benefits also vary widely (Greenberg *et al.*, 2005, p.63). For example:

- Impacts tend to be greater in a strong labour market (Ashworth *et al.*, 2004; Greenberg *et al.*, 2005; Gorey, 2008).
- Programmes that provide child care as part of an intervention are significantly more effective in boosting employment and earnings than those that don't, even in areas with few jobs (Gorey, 2008).
- There is some evidence that overall impacts are larger where the client base is more disadvantaged (Greenberg *et al.*, 2005).

Programme design can involve tradeoffs

The impacts of work testing on participants' economic outcomes and welfare receipt are influenced by the design of the whole welfare package. In some cases programme design requires tradeoffs between desired outcomes (for example, increasing employment versus increasing families' incomes or reducing government expenditures).

- Without in-work tax credits or other forms of in-work financial assistance, work testing may not increase family incomes, or lift families out of poverty. Many of those who take up employment as a result of work testing go into low paid jobs and without in-work financial assistance do not increase their incomes (Hamilton, 2002). However, in-work financial assistance increases programme costs (Bloom & Michalopoulos, 2001) and can limit effects on employment and earnings and the reduction in benefit payments achieved (Ashworth *et al.*, 2004; Greenberg *et al.*, 2005).
- The use of sanctions for non-compliance has a positive effect on job searches and increases transitions to employment (Greenberg *et al.*, 2005; Ochel, 2005). However, increased sanction rates can increase programme costs considerably (Greenberg *et al.*, 2005), and there is some evidence that, for the unemployed, the effect of being sanctioned is to reduce earnings levels and employment security once off a benefit (Arni *et al.*, 2009). Families with significant barriers to employment and those who have trouble understanding benefit rules are more likely than average to be sanctioned (Daguerre & Etherington, 2009).

Effects of education and training components vary with time

Within-site, side by side comparisons of labour force attachment programmes (requiring *all* participants to job search first) versus human capital development programmes (requiring *all* participants to participate in education or training first), shows that labour force attachment programmes produce larger immediate gains, in the medium term lead to larger gains for groups with low education, and are less expensive to administer than human capital development programmes. Both types of programmes produce similar overall gains in employment and earnings after three to five years (Bloom & Michalopoulos, 2001; Hamilton, 2002; Michalopoulos *et al.*, 2000).

Programmes most effective in increasing employment and earnings and reducing benefit payments, and do this for the broadest range of people, appear to be those that provide a mix of initial activities that are tailored to individual needs; immediate job search for some and short-term education or training for others, and which also strongly emphasize the need to find work (Bloom & Michalopoulos, 2001; Hamilton, 2002; Michalopoulos *et al.*, 2000).

In the longer term (after five to six years) there is evidence that training which has a human capital development focus and seeks to improve basic and job-related skills has a much larger impact on employment rates than training that has a labour force attachment focus (such as interview skills or CV preparation courses). The relative advantage of human capital development training in promoting employment grows with time (Hotz *et al.*, 2006).

Other outcomes

Where programmes that involve work testing raise family incomes and increase the use of centre-based childcare, they appear to improve educational and behavioural outcomes for younger children in the participating families. However, work testing for sole-parents tends to have negative effects on outcomes for their adolescent children, which are not reduced where programmes increase family income (Grogger & Karoly, 2005). These effects possibly result from reduced supervision or increased responsibilities for adolescents at home, so may require accompanying Youth Development programmes (Grogger & Karoly, 2007).

Welfare-to-work programmes can decrease the incidence of physical domestic abuse. There is some evidence that these reductions are due to increases in employment (which may raise people's self-esteem or self-efficacy, ameliorate family stress, or reduce the amount of time spent with partners) and caseworkers linking clients with support services (Hamilton, 2002).

Programmes which involve a work test have, to date, been found to have few effects on marriage, subsequent fertility or the living arrangements of participants (Gennetian & Knox, 2003; Hamilton, 2002).

What doesn't work?

Work testing does not increase employment for all participants. It can be associated with an increase in the rates of movement by sole parents with disabilities or ill-health onto incapacity-related assistance (Schmidt & Sevak, 2004; Wilson *et al.*, 2005). Those at a high risk of depression do not achieve earnings gains from welfare-to-work programmes. Different, or more intensive, interventions may be needed for sole parents with these and other mental health difficulties (Michalopoulos *et al.*, 2000).

A number of external factors reduce the impact of work testing if these are not addressed as part of the programme (Michalopoulos *et al.*, 2000), eg:

- lack of affordable, acceptable childcare
- lack of local job opportunities
- inflexible employment
- lack of transport.

Difficulties with implementation can reduce effectiveness, as was apparent with the 1999 implementation of work testing in New Zealand (DoL & MSD, 2002).

What don't we know?

The evidence base on the impact of work testing continues to develop. Recent studies that re-analyse evidence across multiple programmes and extend the length of the follow-up can challenge policy conclusions drawn earlier from experimental studies (for example Hotz *et al.*, 2006; Gorey, 2008).

While the evidence suggests that impacts on participant outcomes and net fiscal benefits per participant are on average modest, the messaging around work testing may have impacts on the employment and fertility of those not directly affected, and reduce the numbers coming onto benefits (Dahlberg *et al.*, 2009; Grogger *et al.*, 2003; Grogger and Karoly, 2005). Little is known about the size and nature of these wider effects, or their impact on overall net fiscal benefits.

Virtually all the evidence on programme effects relates to overseas countries, mostly the United States. The applicability of these findings to the New Zealand institutional settings, labour market, and client base is not clear.

There is therefore some uncertainty about the scale of the impacts and net fiscal benefits of work testing for sole parents receiving benefits in New Zealand, particularly in the context of a recession.

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