

## **‘WORKING FOR NEW ZEALAND’: A Background Paper on Recent and Proposed Welfare Reforms in New Zealand**

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In June 2001, the Labour-coalition government published *Pathways to Opportunity* (Ministry of Social Development, 2001). This statement set out a new agenda for overhauling New Zealand’s social security system and focused on six areas:

- A simpler system;
- Making work pay and investing in people;
- Supporting families and children;
- Mutual responsibilities;
- Building partnerships; and
- Tackling poverty and social exclusion.

Since the release of *Pathways to Opportunity*, the government has introduced a number of changes “designed to improve work outcomes for working-age people and make work pay”(Benson-Pope, 2006a). This work has been incremental and, prior to the major changes summarised in this paper, included:

- Policy and service changes made in 2002 to support Domestic Purposes Benefit (DPB) or Widows Benefit (WB) recipients to “prepare for a return to work when their situation allows” (Benson-Pope, 2006b). This involved replacing the work test introduced by National in 1997 with a requirement for the recipient to participate in developing a Personal Development and Employment Plan, supported by Enhanced Case Management;
- The introduction of a *Jobs Jolts* package in 2003. This contained 15 specific initiatives aiming to help employers with skill shortages, people with disabilities, long-term Sickness Benefit (SB) and Invalids’ Benefit (IB) recipients, mature job seekers, drug dependent job seekers, youth, and people who have been made redundant obtain work (Benson-Pope, 2006b);
- The *Sickness and Invalid’s Benefit Strategy* introduced by the Ministry of Social Development (MSD) in 2004. Initiatives aiming to support people with ill health or disability move towards work and independence were subsequently trialled in 14 Work and Income concept sites (Benson-Pope, 2006b).

This background paper focuses on the Labour-coalition government’s latest and strengthened efforts to ‘improve work outcomes’ for beneficiaries and low-income workers which are part of a package entitled ‘Working New Zealand’. As its name suggests, this package is ultimately concern with paid work and is based on the assumption that “work in paid employment offers the best opportunity for people to achieve social and economic well-being” and “the priority for people of working age should be to find and retain work” (New Zealand Government, 2006, p. 17). The Working New Zealand package includes *incentives* and rewards for work by ‘making

work pay' through Working for Families although, as the following discussion points out, this family assistance package has actively excluded families reliant on income support. The financial and disciplinary penalties that are part of the Working New Zealand package have provided further *disincentives* to those reliant on the social support system. These include the changes to hardship provisions, the introduction of a 'work-first' service delivery model and the proposed shift towards a single, core benefit.

Drawing upon relevant Cabinet papers and the limited literature that comments upon these changes, the paper deals with each of these key reforms in turn. Overall, however, it finds the reforms troubling because:

- Individuals are identified and valued in the community not for their contribution but for their ability to be competitive and to contribute to 'economic transformation' (O'Brien, 2005). As such, paid work is prioritised over all other forms of social and economic activity. This is particularly concerning for those people living with significant illness or disability, who are one of the main targets of the work-focused approach, and for those people whose primary work at this time of their lives is caring for children, the sick or the elderly (Bradford, 2006b);
- In making a distinction between the supposed 'deserving' and 'undeserving poor', the reforms *exclude* New Zealand's neediest from many of the benefits of the social security system unless they are an active participant in the labour market. This significantly transforms the idea of social security, which was originally intended to provide a secure safety net for all New Zealanders who demonstrate considerable need. As such, the reforms are unlikely to alleviate growing levels of hardship in New Zealand and unnecessarily provide for increased surveillance of particular groups by the state in the face of increased freedom for others (Sharples, 2006); and
- The reforms fail to address the underlying causes of hardship, poverty and income inequality, which are associated with the low wages and working conditions available to many New Zealanders (O'Brien, 2005; St John & Craig, 2004)

## **'WORKING FOR FAMILIES'**

As noted, 'making work pay' is one element of the Working for New Zealand package. Aside from a commitment to regular minimum wage increases, the Labour-coalition government's major initiative in this area has been Working for Families, a family assistance package announced as part of Budget 2004. Aiming to assist low-income families by increasing their take-home income and by providing financial support to overcome barriers to participation in work, Working for Families involve three main components, which are discussed below:

### **Family Support and Child Tax Credit**

The first component of Working for Families provided increases to Family Support, a per-week, per-child, tax credit based on family income that was introduced in 1986. Appearing to begin restoring the maximum purchasing power of Family Support, the Labour-coalition government increased this payment by \$25 a week for the first child and \$15 for subsequent children in April 2005, with another \$10 promised in 2007.

(St John & Craig 2004). Pre-election changes in 2005 also increased the threshold for abatement of Family Support and lowered the rate at which it is withdrawn.

While these changes were welcome, they did little to assist New Zealand's poorest families, those on core benefits. In 1996, part of Family Support was carved off and renamed the Child Tax Credit (CTC). Being essentially a labour market tool aiming to make people in work better off than those on benefits, the eligibility criteria for CTC excluded children whose parental income was from a benefit of any kind, such as a student allowance, accident compensation or superannuation. The CTC never worked very well as a work incentive, because it simply rewarded independence from the state, not the number of extra hours worked. Families also faced very long income ranges over which extra money earned would not make very much difference to their take-home pay and abatements, such as child support payments, loss of accommodation supplement and childcare subsidies, could add cumulatively to the Effective Marginal Tax Rate (EMTR) and provide a significant disincentive to earn extra income. Moreover, the CTC was complex for parents to understand and difficult to administer, with the criteria crude and discriminatory against those who rely on the state for any form of assistance. As such, the 2005 and 2007 Family Support increases gave a significant boost to low wage family incomes but failed to address the exclusion of the poorest children from New Zealand's family assistance system (St John, 2006).

### **In-work payment**

The increases to Family Support were also accompanied by the replacement of the CTC with the In Work Payment in 1 April 2006 (Wynd, 2006a). This is a payment for families who work a minimum number of hours each week. To be eligible, a claimant must be in paid work and receiving a salary/wages or be self-employed. Couples must normally work 30 hours or more a week between them and sole parents must normally work 20 hours or more a week. Although other income support recipients are able to claim the In Work Payment, provided they work the required hours, those on an income-tested benefit or student allowance are not eligible (Inland Revenue Department, 2006).

Rather than addressing the problems associated with the CTC, the In Work Payment has perpetuated them in three main ways. First, the IWP is just as complicated as the CTC, requiring proof of hours worked (St John & Craig, 2004). Second, higher EMTRs limit the incentive to work, especially because they are extended further up the income distribution, while doing little to alleviate the problem of high EMTRs as people transition from benefits to work (Dwyer, 2005). Third, and most importantly, the IWP is very generous to small families in low-wage work but, in rewarding work rather than alleviating poverty, it further discriminates against families on core benefits. The CTC was paid to any low-income families regarded as not 'substantially dependent on the state', while the In Work Payment sets an additional requirement that sole parents must be working at least 20 hours per week and couples at least 30 hours per week (combined) to be eligible. Thus, many of those who received CTC will not be eligible for IWP. In addition, sole parents are expected to work five hours per week more to receive the payment than individuals within a couple relationship. Furthermore, caregivers for children who are supported via child support payments from the other parent are negatively affected. A caregiver was able to receive the CTC but not the IWP (Wellington People's Centre, 2006). Yet, ironically,

the IWP makes it easier for one parent to stay home where there is a full-time breadwinner (see Johnson, 2005)

As a result of these incongruities, CPAG (2006) has initiated a legal case challenging the IWP, alleging that it is discriminatory on the basis of parent work status. While families reliant on a core benefit are excluded, many better-off families are eligible for what is effectively a subsidy to help supplement low-wage work. Indeed, Revenue Minister Peter Dunne (2006) has indicated that: "The combined impact of all of the Working for Families changes to Family Assistance will benefit three quarters of all families in New Zealand, including 85,000 families eligible for Family Assistance for the first time from 1 April 2006". Not only are New Zealand's poorest families excluded from this initiative because they rely on benefits, but research indicates that the burden of discrimination built into the In Work Payment falls particularly hard on Maori and Pasifika families. This is because young people in these groups make up just over half of all those excluded from the In Work Payment, due to Maori or Pacific children being more likely to come from families reliant on insecure jobs, insecure working hours and benefit income; thus they are more likely to miss out on the In Work Payment (Wynd, 2006a).

Overall, the IWP compares unfavourably to Australia and the United Kingdom where improved work incentives have been achieved while still providing per child weekly payments paid to *all* low-income children, regardless of the source of their parents' income (St John, 2006). Indeed, fewer than half the Organisation of Economic Cooperation and Development (OECD) member countries provide benefits that are conditional on work, such as the new In Work Payment (Dwyer, 2005).

### **Childcare subsidies and Accommodation Supplement**

Finally, Working for Families also made welcome changes to both childcare subsidies and the Accommodation Supplement. Childcare subsidies for preschool children which are determined by parental income and paid to approved licensed childcare centres, family day care projects or chartered Kohanga Reo. Working for Families increased the hourly rate of this subsidy and the income levels at which they apply. This increase was long overdue; but St John & Craig (2004) note that the subsidy reduces quite severely as incomes increase, which may minimise its impact. It is also important to note that New Zealand's level of spending on publicly subsidised childcare is woeful compared to other OECD countries. Yet childcare is the cornerstone of any successful attempt to encourage labour market participation, especially amongst women (Child Poverty Action Group - CPAG, 2007).

In addition, changes were made to the abatement levels of the Accommodation Supplement may be paid to families and single people, whether on benefits or not, to help with high housing costs. From 4 October 2004, entry thresholds were reduced and income before abatement were increased for working people, while those on benefits no longer have any of their Accommodation Supplement reduced for income earned up to \$80 gross a week. Changes to the maximum rates and where they apply in April 2005 are likely to allow this to act as a real incentive to work (St John & Craig, 2004). However, Dwyer (2005) indicates that the removal of the first \$80 of income a week abatement means that the Accommodation Supplement will no longer increase, as it once did, for some beneficiaries when they take up work.

**In summary:** Working for Families represents a first step in redistributing money in favour of low income working families with children. Yet it also highlights the government's preference to increase tax-based assistance through the pre-existing Family Assistance tax credits instead of increasing welfare benefits (Johnson, 2005). Although appearing to benefit those reliant on income support (see Dwyer, 2005), the initial reforms in 2005 left some 175,000 of the poorest children with little effective increase in their income. This is because increases in family support were cancelled out by reductions in core benefits and, as the next section highlights, the Special Benefit (St John & Craig, 2004). The introduction of the In Work Payment in 2006, the further raising of the threshold for abatement and the reduction of the rate of abatement of family assistance did nothing to change this situation, as none of these measures affected those on core benefits.

Although Working for Families may help to reduce child poverty, the predicted reductions of between 30% and 70% (depending on which poverty threshold is used) may well be too ambitious (see Perry, 2004). As St John & Craig (2004, p.6) note: "While work is very important for reducing poverty and increasing overall wellbeing, a 'work first' policy is not sufficient to address child poverty. Reducing child poverty needs specific, focussed policy, where children are assisted regardless of their parent's employment status". As such, CPAG (St John & Craig, 2004) recommend that the In Work Payment, which discriminates on basis of employment status, should be abandoned and family Support increased for all children. The Green Party (Bradford, 2006a) have also called for a cost-of-living indexed, taxable Universal Child benefit.

## **CHANGES TO HARDSHIP PROVISION**

The impact of Working for Families on families reliant on benefits was heightened by a second component of 'Working New Zealand'. A phasing out of the Special Benefit was announced alongside the Working for Families package, effectively reducing entitlement to hardship assistance for the poorest families in New Zealand. Prior to 1 April 2006, such families were able to access the Special Benefit, a form of hardship assistance that used a formula assessment to compare a person's income and essential costs and, if their income was less than their costs, pay the difference. Although capped at 30% of the person's allowance costs (excluding the living allowance), it was possible for a Work & Income officer to use their discretion to depart from the formula assessment if doing so was justified by the person's circumstances. As such, WPC (2006) argues that the Special Benefit was New Zealand's last welfare safety net, ensuring that families could put food on the table.

Nonetheless, the Special Benefit was replaced with the Temporary Additional Support (TAS) in 2005. This new mechanism for addressing hardship was deliberately designed to both provide less financial support and to be less flexible than the Special Benefit (WPC, 2006). This has been achieved by:

- Ignoring \$21.09 of the applicant's accommodation costs in the assessment of an applicant's financial position. This effectively reintroduces the old National Government Special Benefit policy of the 1990s whereby a person had to have a shortfall of income compared to essential costs of more than \$20 per week to receive hardship assistance;

- Removing room for discretion when accounting for costs and circumstances outside the strict rules-based system. This will prevent TAS fulfilling the role as New Zealand's backstop welfare safety net and will inevitably lead to situations where people are in real need but Work & Income will be prevented from providing help;
- Limiting the number of costs now deemed to be essential and weekly maximums for costs will be imposed; this means many applicant's essential and unavoidable costs will not be taken into account;
- Imposing a cap of 30% of the applicant's main benefit plus 30% of excess disability costs, with no room for discretion to depart from this cap; and
- Adding the requirement that people must reapply for hardship assistance every 13 weeks, even where there has been no change in circumstances. This imposes a high degree of bureaucracy both on applicants and Work & Income when compared to the Special Benefit which, although subject to regular three and six monthly reviews, was provided continuously for as long as entitlement criteria were met (WPC, 2006).

The Labour-coalition government offered two reasons for these reforms. First, there had been a substantial increase in the numbers of people, particularly sole parents, applying for the Special Benefit (Ministry of Social Development, 2004a, 2004b). Aiming to save an estimated \$50 million per year by cutting Special benefit (WPC 2006), the reforms ignored that such increases were driven by the inadequacy of core benefits, which have made it increasingly difficult for families to survive on a core benefit alone (WPC, 2006). The increase in Family Support from 1 April 2005 was supposed to reduce the need for hardship assistance but, ironically, because it is included as income in the assessment of the Special Benefit and because of a tighter formula, the need for hardship assistance may be even greater (St John & Craig, 2004).

Second, reform of the hardship provision was also part of a broader shift to remove discretionary powers from Work & Income officers by implementing a completely a rules-based system of assessment. It was hoped that this would address the variable take-up rates of Special Benefit across the country, as well as reduce the administrative burden on case managers and provide access to specialist services for those with high and complex needs. However, WPC (2006) indicates that the variable take-up of Special Benefit was less to do with the discretionary system and more to do with WINZ's failure to assess applicants for their full and correct entitlements. Despite the Labour-coalition's policy that everyone should receive their full and correct benefit entitlement, advocates working with MSD found that only 47% of those eligible were receiving it nationally in February 2006, with considerable regional variation.

Given this poor take-up rate, assessing the loss of the Special Benefit is difficult. This is particularly so because the 'grandparenting' of existing payments of the Special Benefit means that no one receiving a Special Benefit prior to 1 April 2005 will have their benefit reduced and only new applicants are subject to the new rules. However, WPC (2006) estimates that the phasing out of the Special Benefit has cut the entitlement of 30 000 beneficiaries and when in fully force will affect over 50 000 beneficiaries and people on low incomes. As such, this constitutes the biggest benefit cut since Ruth Richardson's 1991 'Mother of all Budgets' and, interestingly, is one

that Labour fought back in 1994. Perhaps wary of this record, the legislation for the package was passed under urgency the day after the 2004 Budget without any public input, even though most of the changes in the package were not due to take effect for some years (WPC, 2006).

**In summary:** The changes to hardship provision are a significant step backwards, because in tightening eligibility and access they impact negatively on low income families, particularly those on benefits. For this reason, Bradford (2006a) argues that Temporary Additional Support should be abolished and the Special Benefit reinstated so Work & Income officers again have discretionary ability to meet the genuine needs of beneficiaries who are receiving all other entitlements but still cannot make ends meet financially.

### **'WORK-FOCUSED' SUPPORT PACKAGE**

Such a move is unlikely, given that the tightening of hardship provisions were a significant financial disincentive in a broader strategy to shift the focus of the social security system from welfare to work. This strategy is central to the Social Security Amendment Bill (New Zealand Government, 2006) which is currently passing through the Parliamentary select committee process. The Bill amends the Social Security Act 1964 and puts into effect the 'Working New Zealand: Work-Focused Support' package of proposals to "increase opportunities for people to participate in the labour market, where work is an appropriate outcome", while also continuing to "provide social and financial support for people with temporary or long-term barriers to work" (New Zealand Government, 2006, p.1). While suggesting that a 'safety net' will be retained for New Zealand's neediest, this work-focused approach is driven by the mantra 'the right job at the right time, right from the start'; that is, Work & Income should provide a consistent focus on work right from the first contact with working-age clients (Benson-Pope, 2006b).

The rationale for this approach is the much-invoked contradiction where: "we have one of the lowest unemployment rates in the OECD but have one in eight households has no-one in work" (Benson-Pope, 2006b, p.59). This statement needs unpacking and placing in an historical context, however, to be fully comprehended. As Minister for Social Development and Employment, David Benson-Pope (2006b) notes in a key Cabinet paper, the number of working-age people in receipt of an income-tested benefit declined over recent years. In particular, the number of people receiving unemployment-related benefits decreased by 29 003 or 42.2% from June 2004 to June 2006, leaving New Zealand with the lowest unemployment rate in the OECD. There was also a 7% reduction in the number of people receiving the DPB from June 2004 to June 2006. In contrast, the numbers receiving SB and IB continued their historic trend upwards, although the rate of increase did slow in the last two years, with numbers receiving these benefits rising by only 3.4% to 122 000 in the year to June 2006.

Overall, Benson-Pope (2006b) and his ministry are concerned that: "If we take no further action, assuming that current trends and practices continue, it has been estimated that the cost of supporting the existing population of beneficiaries (as at June 2005) over the lifetime of their claims on Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit represents a future liability of \$25 billion to the State".

But the work-focused package is more than a cost-saving exercise; indeed, Treasury was concerned that the package did not offer ‘value for money’, with Phase One set to cost about \$100m over the next few years. Indeed, MSD estimates that the reforms might lead to only 7000 fewer beneficiaries after five years, which suggests expenditure of just over \$14 000 per beneficiary! (Treasury, 2006).

Importantly, Treasury (cited in Benson-Pope, 2006b, p.29) also noted that “it may not be possible to clearly link changes in labour market participation to the effect of the package as a whole or specific components of it”. Perhaps this is why the Minister requested approval for the project without going through the normal processes where its merits can be compared with other projects (Wynd, 2006b). Certainly, the work-focused package, rather than being based on the ‘evidence’, was intended to do important ideological work in reframing the social security system around a focus on citizen obligations to work with no corresponding responsibility by the state to provide decent jobs and adequate wages.

This section of the paper first indicates how since June 2005 the ‘work-focused’ approach has been embedded within the social support system by a trial conducted at 12 Work and Income service centres and two contact centres (Benson-Pope, 2006b). With a new service delivery model in place that provides many of the ‘carrots’ believed necessary to move larger numbers of beneficiaries into work, it is argued that the purpose of the Social Security Amendment Bill is to put in place the ‘sticks’ by introducing a level of compulsion that was impossible under existing legislation.

### **Trialling a new service delivery model**

The first phase of the Labour-coalition’s ‘work-focused’ reform programme was concerned with developing a new service model, which aimed to streamline delivery, improve assessment, access, and free up manager’s time to focus on employment outcomes. The new model “starts with the client, not the benefit, and builds services around the outcomes that clients can achieve” (Benson-Pope, 2006a, p.6). Importantly, this approach was said to take a wider perspective than previous service models, by working with clients in the context of their daily lives and recognising that: “The ability to work is often constrained by factors that a person may have little control over, such as the availability of childcare or mental health support services that are necessary for a person to work. Taking into account the context of a person’s daily life requires acknowledgement of and support to address these barriers if employment is to be a realistic outcome” (Benson-Pope, 2006a, p.7).

The changes mostly implement a different way of delivering services and the order in which they are provided, rather than a major transformation of the range of services offered by Work & Income. Low unemployment has allowed MSD to argue that it is no longer appropriate or efficient to allocate resources on the basis of benefit category rather than client’s actual service requirements and employment potential (Benson-Pope, 2006b). A new pre-assessment process<sup>1</sup> enables Work and Income staff to do an initial assessment of a person’s circumstances, needs and work status/readiness, and to start offering them appropriate assistance from initial contact. In this assessment

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<sup>1</sup> Although ‘new’, this assessment process does appear to build on a work capacity assessment trial that was conducted in early 1999 for those with sickness, disability or injury which was abandoned by the Labour-coalition government upon its election (Lunt, 2006).

process, working-age beneficiaries are no longer distinguished by the reason for their entitlement (unemployment, sickness, disability or sole parent) but by their 'work status'. In the trial, clients were formally assigned to one of four service streams that would inform decisions regarding appropriate employment assistance. These were 'Retention in Work', 'Early Response (Rapid Return to Work)', 'Work-Focused (Able to Work but not Immediately)' and 'Work-Unlikely' (e.g. people with terminal cancer)<sup>2</sup>.

Critical to this shift is the assumption that working-age beneficiaries may *all* benefit from employment assistance, regardless of which main income-tested benefit they receive. This widened access to services such as the WRK4U seminar, which provides an overview of how Work & Income can help people obtain employment and information on income assistance (e.g. eligibility, obligations etc) and was previously available only Unemployment Benefit (UB) clients. In addition, access to work brokerage was expanded, with completion of a jobz4u profile for all clients able to work now, prior to receipt of benefit.

Initially these services were offered only to new clients, with existing clients being involved from September 2006 once the upfront work-focused services were bedded in. Those assessed as 'work-unlikely' were not offered employment assistance unless the client expressed a desire to work and to participate in employment assistance and/or their circumstances changed such that they could work. The trial also introduced a new seminar for people who want to work but are unable to do so immediately due to constraints like caring responsibilities or illness. This is similar to the WRK4U seminar, except that a greater emphasis is placed on planning ahead for a return to work and providing information on useful local services that a client might wish to access. Work brokerage services focus on linking clients with suitable employers in their local area (Benson-Pope, 2006a).

While relatively small numbers (18% of potential DPB clients and 20% of SB/IB clients) were streamed as able to 'work now' (Benson-Pope, 2006b), that such beneficiaries were self-identifying as able to work and making use of employment services prior to receipt of benefit justified opening up access to employment services that had primarily been offered to UB clients to these groups (Benson-Pope, 2006a). This willingness to look for work may have been facilitated by changes to the '15-hour' and stand-down rules relating to the IB that were made as the Working for Families was introduced. IB recipients had previously been able to work only 15 hours per week before they lost entitlement to the benefit but from 1 July 2005 they are, with the agreement of their Case Manager, able to work 15 hours or more a week for an agreed period of up to six months without losing their benefit of entitlement (although it might be reduced, depending on the amount they earn while working). This provides a trial period to see whether they can sustain this employment. A second change meant that a person who left the IB altogether no longer faced an automatic stand-down period if they had to stop work and reapply for the benefit because of the same illness, injury or disability (although if they had high earnings,

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<sup>2</sup> In an earlier Cabinet document (Maharey, 2005) there were originally only two streams: 'rapid return' and 'work development'. As noted later in this section, the Social Security Amendment Bill reduces the four streams trialled to three.

they could still face a stand-down). Both of these changes were welcomed because they removed some of the bureaucratic barriers that may have discouraged some IB recipients from trying out work (Ministry of Social Development, 2005).

Furthermore, three additional employment services for clients experiencing ill health or disability were rolled out to the Work and Income prototype sites in September 2005:

- A dedicated employment co-ordinator who works with case managers to help clients with higher support needs access employment services and work;
- A preparation for work vocational assessment tool for staff to use when working with clients who have presented with ill health or disability and have confirmed that they are willing and able to plan for their return to work; and
- A targeted health intervention for clients wanting to return to full-time employment who require a single health intervention to enable them to return to work but are unable to access that intervention through the public health system within three months. To be eligible, clients need to show they have a job lined up.

To a certain degree, this greater accessibility to employment assistance addressed complaints that existing vocational services were unable to meet the needs of the estimated 80% of people on IB and SB want to work (Office for Disability Issues, 2002). But it was also intended that these service enhancements would shorten the duration of DPB, SB and IB clients on primary income support before exiting to full-time work and increased earnings from and participation in part-time work while on income support (Benson-Pope, 2006b).

Information on client perceptions of the new service model prototype is limited but Benson-Pope (2006b) claims that feedback from clients indicated that the work-focused message was being received consistently and positively. However, the three employment services targeted at people experiencing ill health or disability continued to be trialled in prototype sites because it was too early to determine what impact these services were having and whether it was worth rolling them out to all Work and Income service centres (Benson-Pope, 2006a). Yet, as the following section highlights, these enhanced services also paved the way for the new planning and activity requirements placed upon sickness and invalid's beneficiaries in the new legislation.

### **Legislating compulsion: The Social Security Amendment Bill 2006**

As noted above, a work-focused approach requires that beneficiaries be categorised according to their work status, rather than the reason they require a benefit. The Bill modifies the three work-status streams into which beneficiaries may be inserted:

- Work Support, primarily for those on UB, will be assisted to find and retain work, and the services to be provided are designed to do this;
- Work Support Development, for most other beneficiaries except those exempt from any requirements, who will be assisted to plan for work in the future, with services designed to assist with this and developing work-related skills'; and
- Community Support, for people receiving the DPB for the care of the sick or infirm and some IB recipients, who will have no specific planning requirements. People may still access services if they wish to (New Zealand Government, 2006).

During the trial, participation in upfront work-focused services prior to receipt of benefit was voluntary; the prototype operated within current legislation, which meant MSD could not require a person to participate in any prescribed employment activity prior to receipt of benefit. Work & Income started from the presumption that people wish to participate in upfront work-focused services, with people opting out of those services if they did not wish to participate. Benson-Pope (2006a) claims that in April 2006 less than 10% of people invited to participate were choosing not to do so. Given the apparent success of a voluntary approach, it might seem unnecessary to increase the level of compulsion embodied within the various 'work-focused' activities. But this is exactly what the Social Security Amendment Bill does. This section details the main changes:

**Introduction of pre-benefit activity requirement for the unemployed.** From 23 September 2007, new applicants for the UB will be required to undertake a work-related activity or activities if directed by the Chief Executive as part of the application process for the UB. Such activities include attending job interviews, accepting offers of suitable employment, participating in approved employment-related seminars or training, attending interviews with MSD staff, completing any self-assessment or planning required by MSD, any other activity specified in regulations under the proposed new section 132J.

There are three major concerns with this pre-benefit activity test: First, it acts as a gatekeeping mechanism which can be used to reduce beneficiary numbers by discouraging application for the UB (Bradford, 2006a). This is particularly troubling given that at this stage there is no mention of any appeal or review process (Wynd, 2006b). Second, the pre-benefit activity test is likely to result in hardship because the processing of an individual's application will not begin until the pre-benefit activity is completed. The Bill provides that a pre-benefit activity requirement can be given orally, potentially leading to confusion and misunderstanding, causing even more significant delays and likely hardship (Bradford, 2006b). Finally, the last reference to section 132J provides space for a future government to insert work-for-the-dole by regulation as a pre-benefit activity (Bradford, 2006c). Given that National, ACT, New Zealand First and the Maori Party and National, ACT all support work-for-the-dole this appears to be very likely reality.

**Enhanced requirements placed upon people who are work-tested.** These include:

- Amendments made in regard to Job-Seeker Agreements (JSAs). At present, the JSA must include an activity from a list provided by MSD, but is usually the outcome of negotiation between client and Work & Income officer. The Bill requires that the JSA activity be selected by MSD, removing choice from the beneficiary and providing more room for coercion (Wynd, 2006b);
- The extension of part-time work-testing to partners of beneficiaries if their youngest child is six or over but under 18. At present, those with a youngest child over 14 have a full-time work test. Bradford (2006c) suggests that the proposed shift to part-time work-testing is an improvement but that it would be preferable if no work-test were applied to this group;
- Strengthened requirements for DPB and WB recipients, who may now be obligated to undertake specific activities such as rehabilitation as part of their Personal Development and Employment Plan (PDEP). While it is specifically stated that such activities will not include work, work experience or medical

treatment and that current sanctions will remain the same, the PDEP provides the space for this to be changed rapidly. This is because the Bill allows for PDEPs to be reviewed at any reasonable time (instead of annually as is current practice), which could potentially lead to harassment of such beneficiaries (Bradford 2006c).

**Introduction of planning and activity requirements for sickness and invalid's beneficiaries and spouses or partners of beneficiaries with a dependent child under six.** From 24 September 2007, these groups will be subject to the same planning and activity requirements and sanctions as a person on DPB or WB; that is, failure to meet their PDEP requirements will result in 20% reduction in benefit for the first four weeks and a further 30% reduction after that (i.e. 50% maximum) until they comply (New Zealand Government, 2006). While these sanctions lessen the burden on spouses or partners of beneficiaries of dependent children under six, they represent a significant new burden for IB and SB beneficiaries and their spouses.

Some IB clients will be exempt from work-related requirements but the Bill clearly indicates that sickness or disability is no longer considered a good reason to be out of work, particularly given the enhanced employment assistance for sickness and invalid's beneficiaries provided during the trial (see Combined Beneficiaries Union - CBU, 2007). The disability sector has long argued that people with disabilities and sickness *want* to work but that societal barriers impede the participation of these groups in the mainstream labour market (see Lunt, 2006). Not only is it unclear how useful the new services for SB and IB clients have been, given that a final evaluation is not due until June 2007 (Benson-Pope, 2006b), but requiring people living with disability or sickness to undertake planning and activity requirements suggests that the problem to fix is with the 'individual' rather than the society in which they live. In addition, there appears to be an assumption that an SB or IB recipient is capable of looking after themselves, if the spouse works (CPAG, 2007). Moreover, in stating that overseas experience suggests that employment assistance provided on a purely voluntary basis has low take-up, Maharey (2005) hints that the extension of compulsory planning for disability may be already on the cards.

In further questioning the appropriateness of expecting all people of working age who are receiving a benefit to fulfil the same work tests and work planning obligations, (CPAG, 2005) also raises concerns about the planning and activity requirements to which spouses or partners of beneficiaries with a dependent child under six are now subject. It argues that children must be included in any assessment of whether a beneficiary is deemed capable of returning to full-time or part-time work. While it is likely that caregivers are likely to be placed in the 'work development' stream, there is a concern that 'support' for moving into full-time work will, in practice, translate to pressure on parents to undertake inappropriate employment or risk losing their benefits. In that MSD has indicated that it will better account for the context in which people live their lives, it is certainly difficult to see how the care givers and people with disabilities can be subject to the same expectations as the unemployed: New Zealand's childcare provisions remain inadequate and the employment of people with disabilities relies on progressive employers open to the idea that a disabled worker might benefit, rather than hinder, their business (CPAG, 2007). For this reason, Bradford (2006c) suggests that only those capable of full-time work should be work-tested.

**Replacement of Independent Youth Benefit work-test with an activity requirement.** From 24 September 2007, Independent Youth Benefit (IYB) recipients will be required: to participate in agreed approved activities for 30 to 40 hours per week; or to be available for and seeking full time employment; or if unable to do the above as a result of sickness, injury, disability or pregnancy, to participate in at least one developmental, training or education activity for a minimum of three hours per week. If they fail these requirements then work-test sanctions will be applied (for first or second failure, suspension of their benefit until they meet their expectations; a third failure will result in cancellation (and non-entitlement for 13 weeks) of their benefit. Bradford (2006c) notes that while these changes provide more flexibility for IYB beneficiaries, treating people under 18 as different from adults for income support purposes may be considered discriminatory.

The Bill includes other minor and, in some cases welcome, changes:

- Provisions relating to the application process have been aligned and updated. From 24 September 2007 applications for a benefit must be in writing, which is a burden for some, and if evidence to support the application is not presented within 20 working days then it lapses, with no backdating for new applications (unless due to an error on part of the department). This has the potential to impact on those who are ill or who because of a mental disability do not understand the process and are unable to meet the 20 day requirement (Bradford, 2006c);
- Residence criteria have also been aligned so that they are the same across all benefits. This is generally viewed as a positive move (Bradford, 2006c);
- The maximum income stand-down period is reduced from 10 weeks to a maximum of two weeks. Bradford (2006c) argues that this reduction is welcome but that income-related stand-down periods should be abolished because they are a major cause of poverty, as beneficiaries often used up all their savings before benefit comes on stream. Wynd (2006b) also notes that the benefits of a maximum two-week stand down for all beneficiaries are cancelled out by the requirements for 'pre-benefit activity' that will form part of the application process;
- Some modifications to training assistance, transition to work grants, wage subsidies and work experience to further enhance services;
- The discontinuation of 'Activity in the Community' as an employment intervention, except for those 'unlikely to return to work'; and
- The extension of DPB and WB entitlement, subject to residency requirements, to custodial parents whose child under 18 was born outside New Zealand. Previously such parents were eligible only for the Emergency Benefit (CBU, 2007).

**In summary:** The SSA Bill largely embeds and 'tidies up' the work-focused service delivery model that has been trialled over the past two years. The Bill contains amendments that ameliorate some of the inequities that exist in the current welfare system, such as stand-downs and residential qualifications, but in removing discretion and imposing more regulation it further complicates, rather than simplifies, the Social Security Act (Bradford, 2006c). This is particularly the case given that the unit for benefit income assessment has not been aligned with that used for tax purposes and weekly income assessments will become standard (CPAG, 2005). Most importantly, the Bill introduces a greater degree of coercion by making compulsory some activities that were formally voluntary and by extending work-testing or work planning to all income-tested benefits.

This is deeply concerning given that, despite MSD's recognition that "the ability to work is often constrained by factors that a person may have little control over" (Benson-Pope, 2006a, p.7), the work-focused approach largely assumes that *any* paid job (under whatever employment conditions) is better than *no* paid job (CPAG, 2005). In this context, the much-touted goal of 'sustainable employment' is less about providing good quality, stable jobs at a living wage and more about ensuring beneficiaries are off the benefit for a certain period of time (at present, roughly three months) (Wynd, 2006). If short-term work is perceived as sustainable, the transitions on and off benefits need to be as seamless and trouble-free as possible, but the introduction of pre-benefit activity tests for the unemployed make this unlikely. Furthermore, while wealthy parents retain the choice as to whether their children are cared for by an in-home parent, the Bill establishes a different standard for those who are ill or disabled, or who do not have high-earning partner: "The latter are expected to be working in paid employment, regardless of what they consider is best for their children" (Bradford, 2006b, p.2).

Finally, as Pita Sharples (2006, p.64) stated at the first reading of the Bill: "One the one hand we sit by in this House today and watch \$95.7 million being spent on reforming the social support system to supposedly create a work-focused system, and on the other hand we close our eyes to the fact that not one cent will go towards the creation of jobs that people want to get out of bed for – not one cent to enable the establishment of meaningful, adequately paid, secure employment". Certainly, the redefinition of 'suitable employment' that is contained within the Bill does not consider whether a job provides decent or 'sustainable', despite the latter being a key focus of the Labour-coalition's Social Development policy (WPC, 2007).

## **PROPOSED SINGLE CORE BENEFIT**

The shift towards a work-focused approach was considered to be Phase One of the process of reforming the social support system, focused on getting the right services and support in place to help people prepare for, make the transition to, and stay in work, as well as beginning to align the rules of the existing income-tested benefit categories. All of this is said to be preparation for Phase Two, the move to a single core benefit. Originally mooted by Labour in 1989, more recent plans for this shift were first scheduled for 2007-2008 but are now planned for 2009-2010. If implemented, Phase Two will replace existing working age benefits, which categorise people according to why they cannot work, with a single benefit designed around outcomes. This is something no other OECD country has done and thus remains untested (Treasury, 2006).

The Labour-coalition government believes a single benefit desirable because it offers an opportunity to "rewire the system around outcomes" (Maharey, 2005, p.5), that is, focusing on the goal of work rather than the reasons why a person is on the benefit. This is needed because "too often the rules get in the way of achieving outcomes. The challenge is to design the rules to support the outcomes, instead of trying to achieve the outcomes despite the rules" (Maharey, 2005, p.19).

This emphasis on rules is important because the single benefit is also predicted to bring greater simplicity in the system by using a rules-based system that provides similar people with similar support (CPAG, 2005). The term 'universal' benefit has

been used in discussion about this proposal, but the move to a single benefit will not affect New Zealand Superannuation, Orphan's Benefit and Unsupported Child's Benefit. In addition, there will still be a high level of targeting through a series of add-on payments relating to disability, childcare and housing. Arguing that it is these add-ons that create confusion, CPAG (2005) believes there is little chance a single benefit will simplify the system. Certainly, if a new disability payment mooted is costs-based (rather than provided at a flat-rate), this will introduce further complexity for both staff and beneficiaries, as well as impose high transaction costs on people with disabilities which may discourage applications for full entitlement (CPAG, 2005; Maharey, 2005).

Discussion of a cost-based system for people on the IB and SB also suggests that the single benefit will provide only a minimal income, with expenses over and above 'normal' household expenses will be covered. It is likely the single benefit will be set at the UB rate (as at February 2007, \$144.92 for those under 25 and \$173.92 for over 25s), a significant drop from the current rate IB rate of \$217.38 (for those over 18), thus placing people with disability at the same financial disadvantage as other beneficiaries. This will particularly be the case if the new disability payment is available only for the first year of working, as a Treasury (2006) report suggests. Certainly, the single benefit is likely to place even more people in a situation where they have inadequate income to support themselves and their families (CPAG, 2005). It is also possible that a move to standardise benefits will remove the 48-year old law that allows blind people to paid work full-time *and* receive the IB (Collins, 2006). While Maharey (2005) refers to the need to bring support for people with ill health or disabilities onto the same core rates as beneficiaries, it is important to stress that the gap between IB and other payments has been widened by Working for Families and by the loss of the Special Benefit. This compares unfavourably with the United Kingdom, where the New Deal offers a higher core benefit rate for those seriously ill and a portable top up for those in work. Participants also receive medical and psychiatric services from the National Health Service to assist them back into work (CPAG, (2005).

With 'the devil in the detail', the broad proposals issued for the single benefit leave many questions unanswered. For example:

- What criteria will be used to establish benefit eligibility?
- How will the transition to a single benefit be made and will it involve only new clients or also existing clients? Maharey (2005, p.5) has stated that "excessive grandparenting would run counter to the purpose of the reform, and limit the gains made", suggesting that existing beneficiaries will be effected but this would seem to contradict promises that the reforms will make no one be 'worse off' financially (CPAG, 2005).
- What happens to those who do *not* have children but are working over 30 hours per week yet unable to support themselves? MSD is considering extending the rule that prohibits people working over 30 hours a week from obtaining the SB or UB to all beneficiaries under the single benefit regime. While the combination of Work Payment and Family Tax credit leaves families who work 30 or more hours a week on low wages in much the same position as if they were eligible for the benefit, single people and couples without children cannot receive Working for Families payments. As such the Bradford (2006c) suggests that 30 hour eligibility rule be abolished, leaving income as the determining factor as to how

much, in any, benefit a person otherwise eligible for the single core benefit receives.

**In summary:** If implemented, a single core benefit focused on employment outcomes is unlikely to ‘simplify’ the current income support system, while potentially ignoring important variations in the reasons why people require income assistance. It is anticipated that many beneficiaries will get less money on a core benefit than they currently receive, worsening the already enormous problem of income adequacy. Yet, the single benefit is only the icing on the ‘work-focused’ package’s cake; even if recent rumours suggesting that MSD has shelved the idea single benefit are true, the major reforms are already in place and are simply waiting to be formalized through the amending legislation.

## CONCLUSION

Since 2004, New Zealand’s social support system has undergone some of the most fundamental changes it has seen in many decades. Although the single core benefit, if implemented, represents a significant end-point, the most radical reforms have already been undertaken through the tightening of hardship provisions, the introduction of Working for Families and the implementation of a work-focused service delivery model.

Given the significance of these reforms, it is concerning that they have been introduced with little or no discussion about benefit adequacy and sufficiency in terms of alleviating and preventing poverty, even though eliminating child poverty was one of the Agenda for Children’s (2002) ‘key action areas’ (Wynd, 2006). As noted, the changes to core benefits and the Special Benefit that accompanied the loss of the Working for Families package have hit poor beneficiary families very hard, even though local and international evidence suggests that: “[i]t is the amount of income in the household, rather than whether the parent is working, that is vital to the child’s well-being” (O’Brien, 2005) and that obtaining work does not in itself guarantee that a family will move above the poverty line. As a result, the latest MSD (2006) statistics show that beneficiaries (especially those with dependents) are those facing hardship or severe hardship in New Zealand.

This failure to take into account the ‘evidence’ suggests that the reforms have an ideological motive and represent an attempt by the Labour-coalition to reduce the policy differences between the major parties and build electoral support by implementing the reforms to the social security system that National and the minor parties would like to make. With the exception of work-for-the-dole, Labour-coalition’s policy is almost indistinguishable from that of National’s in the late 1990s. Indeed, when responding to the first reading of the Bill in Parliament, National MP Anne Tolley (2006, p. 60) indicated that: “National is supporting this bill going to the Social Services Committee. Why on earth would be not? We have been arguing for this for 7 years”. This is troubling because it represents a bipartisan silence on key issues that must be addressed, both for ‘economic transformation’ and for ‘tackling poverty and social exclusion’. This includes the priority issue of income adequacy for *all* New Zealanders, regardless of their work status.

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