Key Findings – Highlights

- The valuation is based on data collected up to 30 June 2014 and includes experience following the Welfare Reform policy and operational changes implemented in August 2012, October 2012 and July 2013.
- This fourth valuation provides us with:
  - a time series to examine movements from year-to-year, and to compare actual experience to forecast,
  - the impact of the Youth Service, introduced in August 2012, where youth and young parents work with providers to achieve training, education, and employment milestones,
  - some of the impact of policy and operational changes in July 2013, including the implementation of a new service delivery model,
  - the continuing impact of policy and operational changes through the welfare reforms of August and October 2012. Among other things, these reforms introduced work readiness and work preparation obligations to Sole Parents; and
  - analysis of the impact of family benefit history on long-term benefit dependency
- In every valuation, new information is incorporated back into the estimates, ensuring ever increasing accuracy and relevance over time.

Welfare Reforms and Future Focus Impacts included in the Valuation

- Impact from Welfare Reform changes that occurred from July 2013 onwards, including:
  - Simplification of the benefit structure in July 2013
- Continuing Impact from Welfare Reform changes that occurred from July/August 2012 onwards, including:
  - implementation of the Youth Service in August 2012
  - introduction of Job Streams in July 2012
  - Bill 1 changes to work expectations for sole parents, partners of main beneficiaries, widows, and women alone effective October 2012
  - A new service delivery model, with the level of case management tailored to clients' likelihood of long-term benefit receipt
- Continuing impact from Future Focus changes from September 2010 onwards:
  - a new requirement for Unemployment Benefit (UB) recipients to reapply for the benefit and complete a comprehensive work assessment interview every 52 weeks;
  - introduction of part-time work obligations for parents with youngest child 6 or older
  - new budgeting obligations for clients who repeatedly apply for hardship assistance
- Additional Future Focus changes from May 2011 to:
  - require Sickness Benefit (SB) recipients to attend a reassessment interview with a case manager after 52 weeks
  - require new SB recipients to undergo additional medical assessment after 8 weeks

The 30 June 2014 valuation projections include impacts from the early Welfare Reforms as well as from Future Focus. Further impact from changes introduced from July 2013 is also included for the first time in this valuation. Over time, changes in actual experience will increasingly be reflected in the projection.

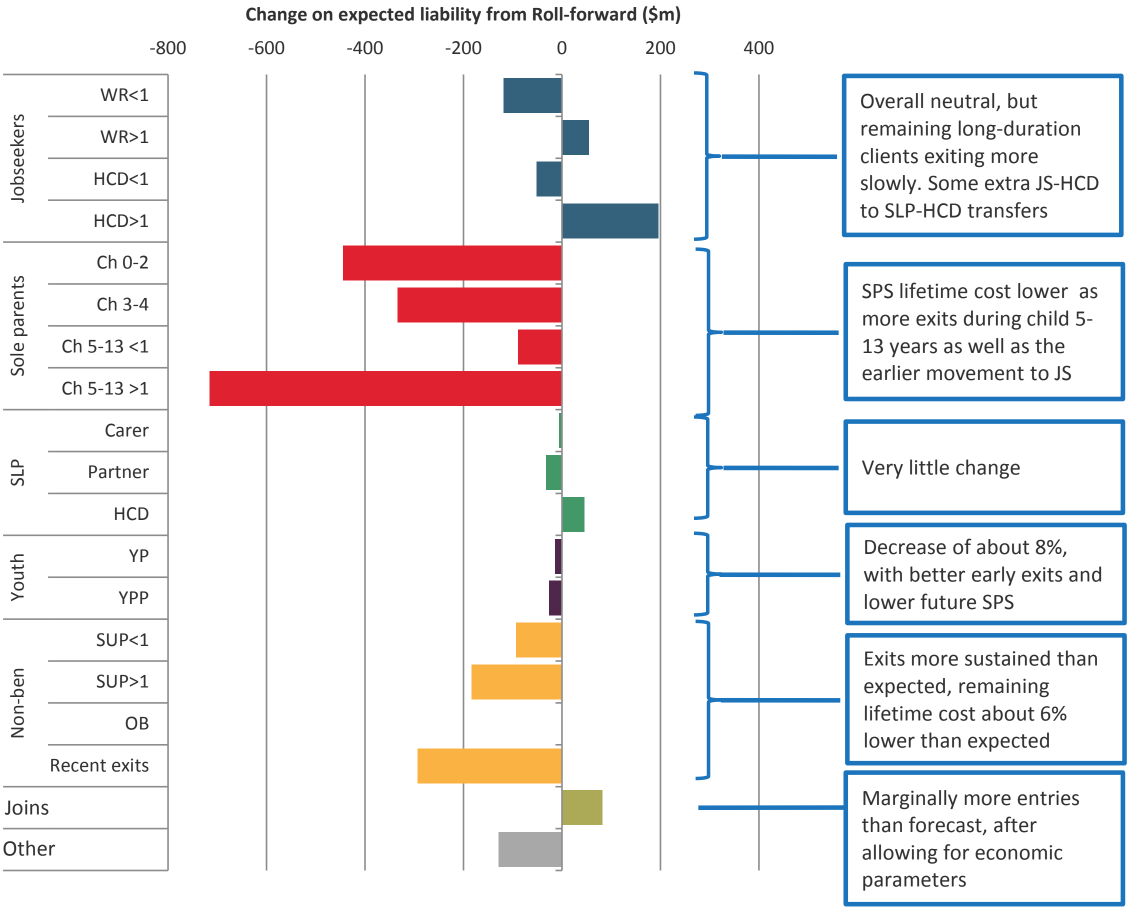
The Numbers

- The estimate of the liability in the benefit system as at 30 June 2014 is $69.0 billion.
- The total decrease in liability from 30 June 2013 is $7.5 billion - a reduction of about 10%.
- A large factor in the decrease is the future CPI forecast (most benefits increase with CPI), causing a $2.0 billion decrease in the liability.
- Also, slightly lower than previously forecast unemployment rates and slightly higher than previously forecast discount rates has resulted in an additional decrease of $0.6 billion.
- A further $2.2bn of the decrease in liability was an expected decrease because the falling rate of unemployment had been expected to result in more people exiting benefits and less people applying for a benefit.
- Once factors outside of MSD's management control are removed, the liability decreased by $2.2 billion. Some of this relates to lower than expected numbers of beneficiaries on the valuation date and some to improvement in future forecasts.
- Benefit payments over the year were $34 million lower than forecast in the 2013 valuation.
- Expected payments had already been lowered in last year's valuations to reflect improved experience in 2012/13. Compared to pre-reform baseline forecasts in the 2012 valuation, there has been a cumulative reduction in payments of $606 million over two years.

- Highlights of impacts of the July 2013 changes include:
  - More of the beneficiaries newly classified as Jobseekers (JS) — particularly Sole Parents with children 14 and older, but also former Widows/Women Alone — are exiting benefits
  - There is also growth in transfers by this group to other benefits
  - The number of JS Partners appears to be dropping significantly, accounting for much of the decrease in overall JS numbers.
- Welfare reform has reduced expected future time on main benefits by an average of 1.2 years for SPS clients and 2.8 years for youth benefit clients.
- Over the two year period to 30 June 2014, less people on benefits and lower expected time on benefits means that welfare reform appears to have reduced expected future benefit receipt by 12%.

Breakdown of Liability Change Under Management Influence

- Once factors outside of MSD's management control are removed, the liability decreased by $2.2 billion over the year.
- Each year valuation assumptions (e.g. exit rates) are updated as recent experience changes our expectations for the future. Hence, the $2.2 billion decrease is above and beyond improvements reflecting in assumptions for the previous valuation (30 June 2013).

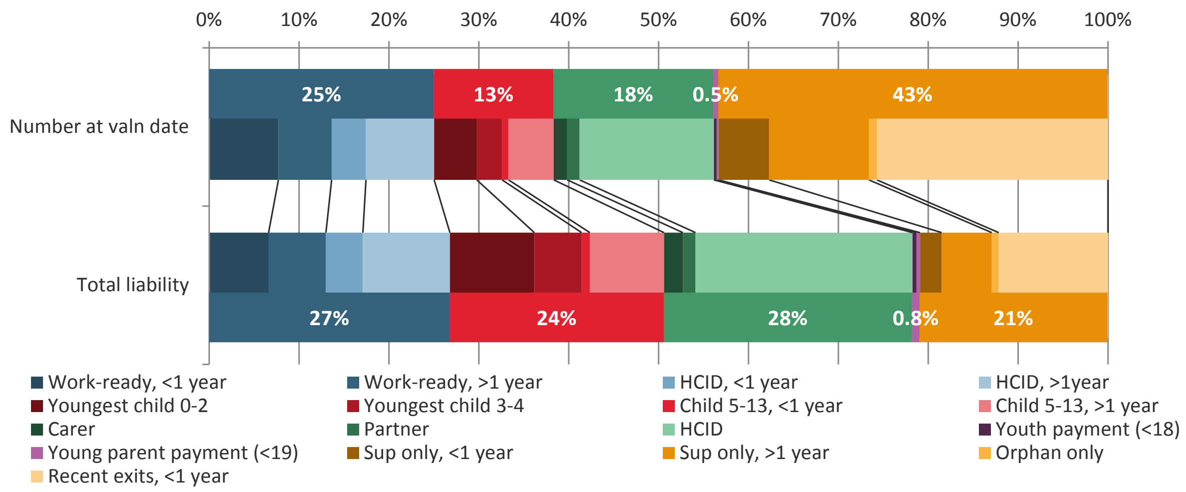


- Improvements are due primarily to more sole parents exiting benefits than expected, and more sustainable exits from the benefit system.
- Youth clients are also exiting earlier and have reduced expected future benefit receipt.
- Jobseekers and Supported Living Payment client's contribution were neutral, with longer duration clients exiting more slowly than expected

Segments

- The analysis built into the report includes estimates that provide a life-time perspective on clients transitions through the benefit system, with their full future cost attached to their status on the valuation date.
- The difference in average lifetime cost across segments means that some segments have a disproportionately large or small impact on total liability compared to the number of clients in that segment.
  - For instance, sole parents represent 13% of the clients valued, but 24% of the total liability.

Contributions of segments towards client numbers and liability total



Youth / Youth Service

- Valuing the lifetime costs of benefits makes it clear that an effective strategy for working with youth and young entrants is essential to achieving the goal of reducing long-term benefit receipt.
- Since the Youth Service was introduced in August 2012, there has been an increase in the number of Youth Payment (YP) beneficiaries (under age 18).
- This has been roughly offset by decreasing numbers of Young Parent (YPP) beneficiaries (under age 19).
- The increase in YP numbers is potentially due to lower levels of teen pregnancy, combined with proactive outreach to Youth not in education, employment or training (NEETs).
- A key indicator of success for the Youth Service is whether youth clients are less likely to move into, and remain on working age benefits.
- An evaluation of the Service has found that it is increasing the rate at which Youth participants leave the benefit system rather than moving into working-age benefits.
- Analysis based on valuation models corroborates these findings, by looking at former Youth's status a year after aging into working-age benefits (age 19 for YP, and age 20 for YPP).
- 51% of clients who were YP (or its earlier equivalent) at age 17 are projected to be off benefits when they turn 19 compared to just 31% in 2010/11. This is driven heavily by lower entry into SPS, but also better JS outcomes.
- 19% of clients who were YPP at age 18 are off benefits by age 20, compared to 12% in 2010/11.
- The timing of these improvements is closely aligned with the introduction of the Youth Service.
- The average projected years on benefit for a Youth Payment client has decreased 12%, from 15.8 years to 13.4 years. The average projected years on benefit for a Young Parent Payment client has decreased 15%, from 18.0 years to 15.2 years.

Jobseekers

- Average lifetime costs for Jobseekers have remained at similar levels to last year, with duration on benefit slightly longer for the Work Ready Jobseeker – Greater than 1 year (JS-WR > 1) segment in particular. However, numbers in Jobseeker segments are 8% lower overall, with a particularly significant decrease of 15% in the JS-WR > 1 year segment. This decrease in numbers has driven a substantial decrease in the total liability for Jobseekers.

Sole Parents

- Sole parents have seen the largest decreases in both absolute and relative terms, with a $3.3 billion decrease in total liability. This is a 19% decrease.
- This has been caused in equal measure by lower numbers (10% lower) and lower average liability (also 10% lower).
- The most pronounced change is in the Child 5-13 less than 1 year segment, where the decrease in liability is 23%.
- The youngest child 0-2 and youngest child 3-4 segments each saw an 8% decrease in liability.

Supported Living

- A decrease in the number of Partners more than offset by increases in Carers and clients with health conditions and disabilities, pushing overall numbers up by 1%.
- Carer numbers in particular are up by 10% on 2013.
- The overall liability for these three segments is 1% lower, as the average lifetime cost has dropped slightly.

New Insights

Age of Entry and Intergenerational Benefit Receipt

- 75% of the liability is attributable to clients that first entered benefits under the age of 20. A key finding of this valuation is the extent to which early entry is co-related with intergenerational benefit receipt.
- For Youth benefit clients as at 30 June 2014:
    - 88% (9 in 10) were from beneficiary families, the majority of whom received a main benefit for most of their teen years.
    - 51% were in beneficiary families for 80% or more of their teen years.

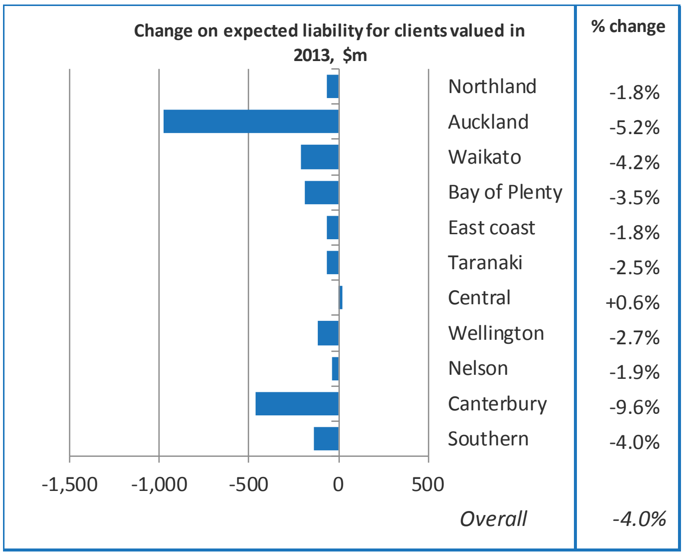
- The correlation is striking enough to believe that early entry may be a proxy for intergenerational benefit receipt (with the notable exception of teen-aged SLP entrants).
- The evaluation looked specifically at the share of beneficiaries up to age 25 that can be matched to a record of parental benefit receipt - a “benefit match”. We also looked at the extent of their family’s exposure to benefits, during each matched beneficiary’s teenage years (13-18).
- These figures show that inter-generational correlations are very strong – most young clients in the benefit system had some exposure to the benefit system through a parent or guardian.
- Nearly three quarters (74%) of all beneficiaries up to age 25 had a parent on benefit while they were a child, and just over a third (35%) had a parent on benefit throughout their teenage years.
- The greater the family benefit history the longer the client tended to stay on a benefit, particularly for the Jobseeker benefit.
- For instance, a client whose parent was intensively in the system during ages 13-18 was then 48% more likely to remain on JS-WR after a year compared to those clients matched to a non-beneficiary parent. Their exits were also less sustainable; on leaving the system, they were 11% more likely to be back on benefits within two years.

Regional Differences

- Many welfare themes are common across regions – they all deal with the same benefit categories, eligibility requirements and general benefit dynamics.
- However there are significant differences between regions.
    - The local economic conditions might make it easier or harder to assist clients into work.
    - Some regions also have more extreme seasonality to the receipt of benefits.

- The demographic properties of the population (both general and benefit populations) in a region might affect the types of benefits received and the expected time they remain on them.

- For this reason this valuation has undertaken a detailed regional comparison.
- Unemployment trends vary considerably across the country, with relatively high current unemployment in Northland and East Coast contrasted with the relatively low unemployment rates in the Canterbury, Nelson and Southland districts.
- The $2.2 billion decrease in liability under management influence is spread between regions.

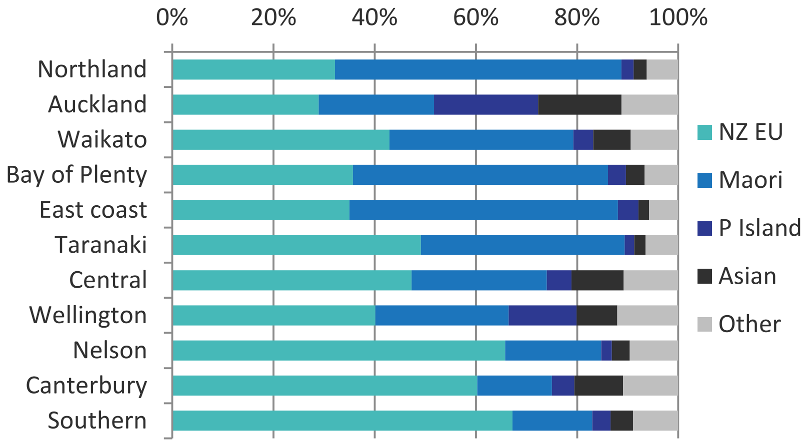


- A decrease of nearly $1 billion in Auckland explains almost half of the overall decrease.
- The Canterbury region had a very large decrease—10% below expected—likely due in part to the strong recovery following the earthquakes in that region.
- The Central region was the only region that fared (very slightly) worse than expected.
- There has been a year on year decrease in the number of beneficiaries relative to 30 June 2013 in all regions.
- Average lifetime costs have also decreased in all regions, with the exception of a marginal increase in Southern, where the average liability remains second-lowest of any region.
- The distribution of liability roughly corresponds with the distribution of clients between regions, reflecting fairly similar national trends in benefit receipt and predictors of liability.
- Regional labour markets, mix of beneficiary types, and ethnic composition vary significantly by region, and each has an impact on expected future cost.
- There is about a difference of around $30,000 in average liability from the highest in East Coast ($128,000) and Northland ($124,000) to lowest in Canterbury ($94,000) and Southland ($97,000).

Differences in ethnic composition by region

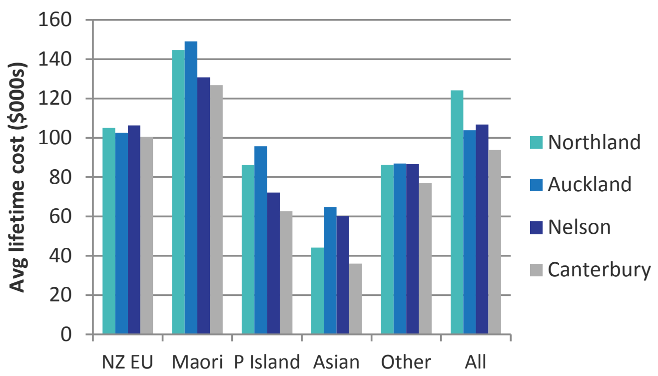
- There is significant variation in ethnic composition of beneficiaries by region:
  - NZ Europeans make up over 60% of beneficiaries in Nelson and Southern regions
  - Auckland has a high proportion of Pacific Islander and Asian clients
  - The concentration of Maori beneficiaries is highest in Northland, Bay of Plenty, and East Coast

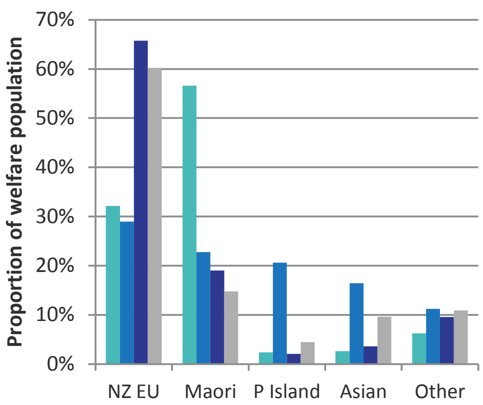
Ethnic composition by region, all beneficiaries



- These demographic differences are important in understanding regional variation in lifetime costs, which vary significantly by ethnicity.
- Example: Comparing Northland and Auckland:
  - Comparing the regions shows that some of the variation in regional average lifetime costs is associated with differences in ethnic composition.
  - On average, lifetime costs are about $20,000 higher in Northland.
  - However, breaking down average costs in each region by ethnicity shows that there is more similarity for beneficiaries who belong to the same ethnic group whether they live in Northland or Auckland than there is between beneficiaries of different ethnicities within either region.
  - In particular, Maori beneficiaries, whether they live in Auckland or Northland, have an average lifetime cost $40,000 higher than any other ethnic group in either region.
  - The overall difference in average lifetime cost between the two regions occurs in part because Northland has twice the proportion of Maori beneficiaries.
  - Further, Auckland tends to have higher average lifetime costs than Northland, all other things being equal.
- The differences in average liability across the remaining ethnic groups show Pacific Islander, Asian and Other ethnic groups all have a lower average liability than NZ Europeans.
- This result tends to hold true across other regions. Northland, Auckland Nelson and Canterbury have very different unemployment rates (high in Northland/Auckland, low in Canterbury/Nelson) and ethnicity profiles, yet the average liability is fairly constant across the regions within an ethnicity group. This is particularly true for NZ European and Maori beneficiaries.

Average liability (left) and ethnicity profile (right) in Northland, Auckland, Nelson and Canterbury





Operational response:

- Our operations continue to respond to factors highlighted in this and previous valuations
  - One-to-one Work-Focused Case Management (WFCM) for clients at risk of long-term benefit receipt, who may be able to work, has been expanded to include 3,000 more of our clients with health conditions and disabilities.
  - Over time, streaming rules to refer clients to the most appropriate service level are being improved as we learn more about what works for different people.
  - A new trial offering flexible childcare assistance to sole parents was started in August 2014 and an intensive case management trial for young people receiving supported living payments started in November 2014.
  - A new trial will start in February 2015 aimed at supporting people whilst in employment, helping former clients in their transition back into the workforce. It involves a national inbound and outbound calling campaign aimed at addressing the barriers that clients may face to sustain employment.
  - A new trial will start in March 2015, working with some of our long-term JS clients. This will involve case conferences, budgeting/literacy/numeracy assessments, employment subsidies industry partnerships and in-work support to improve work-readiness outcomes for these clients.
  - This valuation includes new and valuable insights about drivers of long-term benefit dependency e.g. family benefit history. We are currently working through how these new insights may help shape the way we work with our clients.