Key Findings - 2016 Valuation of the Benefit System for Working-age Adults

- The cumulative impact over five years of change to the way the Ministry works with people is approximately a $13.7 billion reduction in the welfare system's future lifetime cost.
- Those changes have meant that compared to the pre-reform 2012 valuation clients are expected to spend about 1,300,000 fewer years on main benefits over their working lifetimes. Over three quarters of this reduction in future years on benefits can be attributed to policy and operational changes.
- The latest valuation of the New Zealand benefit system puts the estimated future lifetime cost of the current beneficiary population at $76.0 billion.
- This result is $7.6 billion higher than the estimate in the previous valuation.
- This increase in the liability estimate since last year is mostly due to changes to economic assumptions, and it masks an underlying $1.7 billion performance improvement.
- Welfare Reform policy and operational changes have had a significant impact on benefit uptake over the past few years, with flow-on financial savings.
- The $1.7 billion improvement has been largely driven by improvements for Sole Parents and Jobseekers, but also by a reduction in re-entries to benefits.
- In essence, people are exiting the welfare system in ways that are more stable and sustainable.

Interaction between social housing history and welfare duration

- Previous years' valuations have considered the interactions between risk factors and cross-agency service usage. The valuation continues to incorporate data on clients' child protection history, criminal history, educational status and intergenerational benefit receipt.
- This year's valuation incorporates new data from the government provided social housing support through the Income Related Rent Subsidy.
- The 2016 benefit system valuation uses a combined benefit system – social housing projection model, which represents the largest technical extension to the valuation model since 2012.
- While the benefit system valuation does not include social housing costs, the combination of the benefit and social housing systems cohorts allows us to better understand the combined population.
- For example, benefit system clients in social housing have a higher risk of long-term benefit dependency. Combinations of key risk factors are also more likely to be present. For example, 18-24 year old benefit system clients who have spent time in social housing are two times more likely to have a criminal conviction and two times more likely to have had a parent on benefit for at least 80 per cent of their teenage years.
- The valuation considers such clients and identifies a number of factors which are most likely to signal risk of benefit dependency. These include ethnicity (Māori have higher risk) and a history of child protection events.
- Māori clients are heavily over-represented in both welfare and housing systems, 31 per cent and 36 per cent respectively, compared to 15 per cent of the population.

- Māori are more likely to have factors associated with greater long-term cost and time on benefit, such as criminal convictions, a history of child protection events and intergenerational benefit dependency.

- Identifying combinations of risk factors also highlights the degree of disparity between Māori and non-Māori clients and explains differences in average liability.

- For example, Māori are three and half times more likely than non-Māori to have at least five of the key risk factors for predicting future benefit receipt.

- Nearly half of those in the social housing cohort are in the benefit system cohort, though this is not uniform across the benefit system – of those in social housing, relatively more of them are Sole Parent Support Clients and Supported Living Clients, compared to the general welfare population.

- Many risk factors associated with long-term benefit receipt are more concentrated amongst social housing clients

Mental health conditions

- Mental health is the most common health condition among Jobseeker – HCD and Supported Living Payment – HCD clients – comprising 45% and 35% of these groups respectively.

- Collectively, JS-HCD and SLP benefit categories make up 53 per cent of the total benefit system population.

- The average future lifetime cost is significantly higher for mental health clients than the average client with a health condition or disability – due mostly to the higher proportion of mental health conditions at younger ages.

Characteristics at entry and prediction of outcomes

- Previous valuation reports have highlighted the importance of early entry into the benefit system in understanding the total future cost. About 75% of the liability for all current clients is estimated to be attributable to clients who first entered the benefit system under the age of 20.

- This valuation looked at how effectively lifetime cost can be predicted at the point of entry.

- The average liability for new entrants aged under 25 in 2015/16 at the end of their quarter of entry is $129k, with Supported Living Payment and Sole Parent Support entrants substantially higher. We also find that lifetime costs are significantly higher for Māori and those with child protection history.