



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

System Performance In Focus: HYEUFU 21 Benefit Forecasts

Forecasting and Costing

**BUDGET SENSITIVE – embargoed until
15 December 2021**

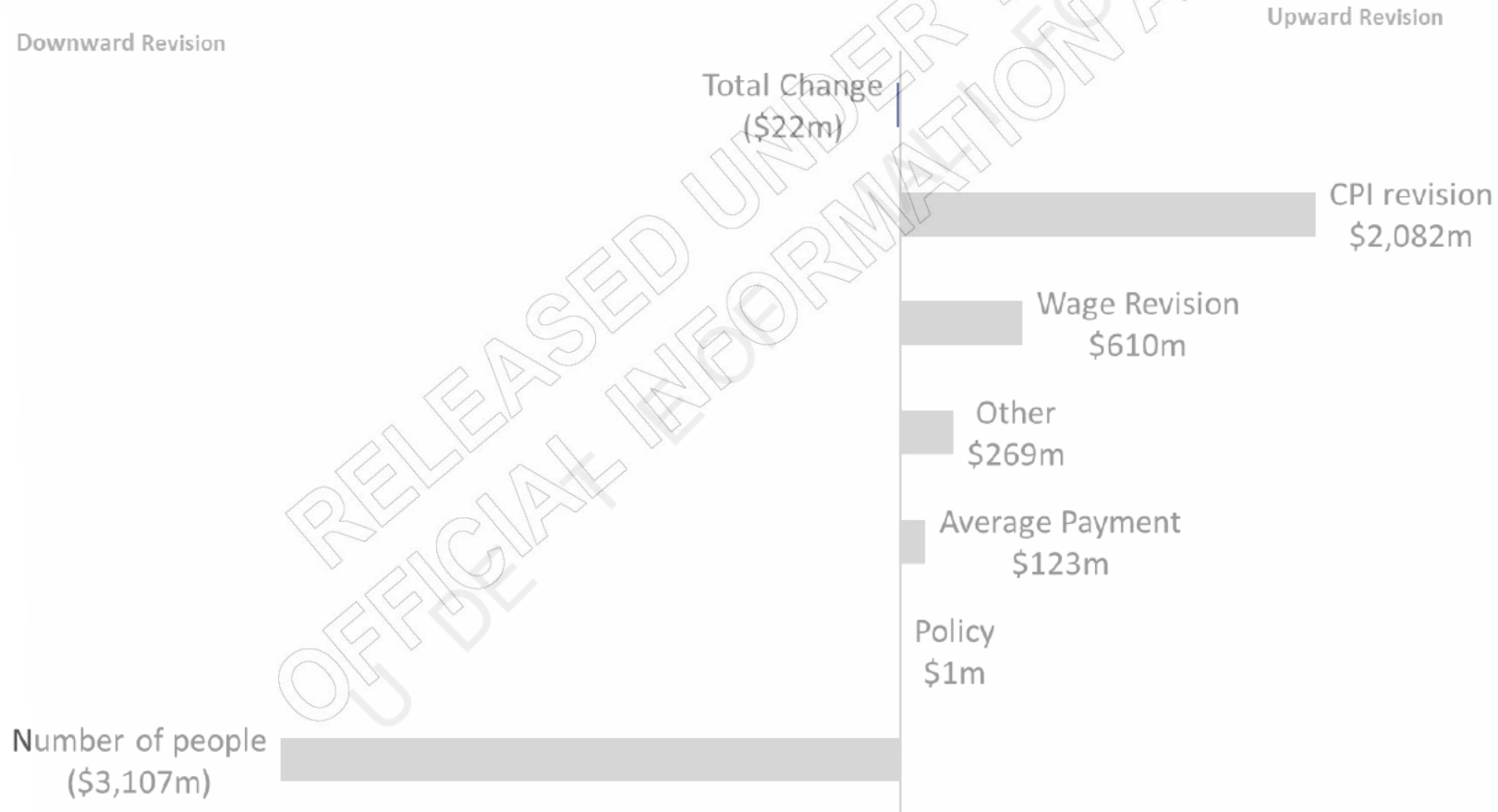
Forecast Summary: Comparing to Budget 21

- Total expenditure is mostly unchanged compared with Budget 21. Overall we have **revised benefit expenditure down by just \$22 million (0.02%) over four years to June 2025.**
- Underlying the Budget 21 forecasts, we expected benefit numbers would be rising throughout 2021 because economic conditions would be soft whilst the border controls were still in place.
- However, **the number of people on benefit fell**, resulting in around 27,000 (7.1%) fewer benefit recipients than expected at Budget 21 by October 2021. This is because:
 - MSD has maintained a strong focus on supporting people into employment
 - Recent economic data being stronger than expected.
- Stronger than expected economic data is expected to lead to **higher inflation and wage growth than expected at Budget 21**, leading to higher benefit expenditure as main benefit payments adjusted for wage growth.

The downward revision to numbers is mostly offset by the upward revision to CPI and wages

HYEFU 21 Components of Forecast Change - 2021/22 to 2025/26

Vote Social Development - BoREs



Economic conditions are better than expected

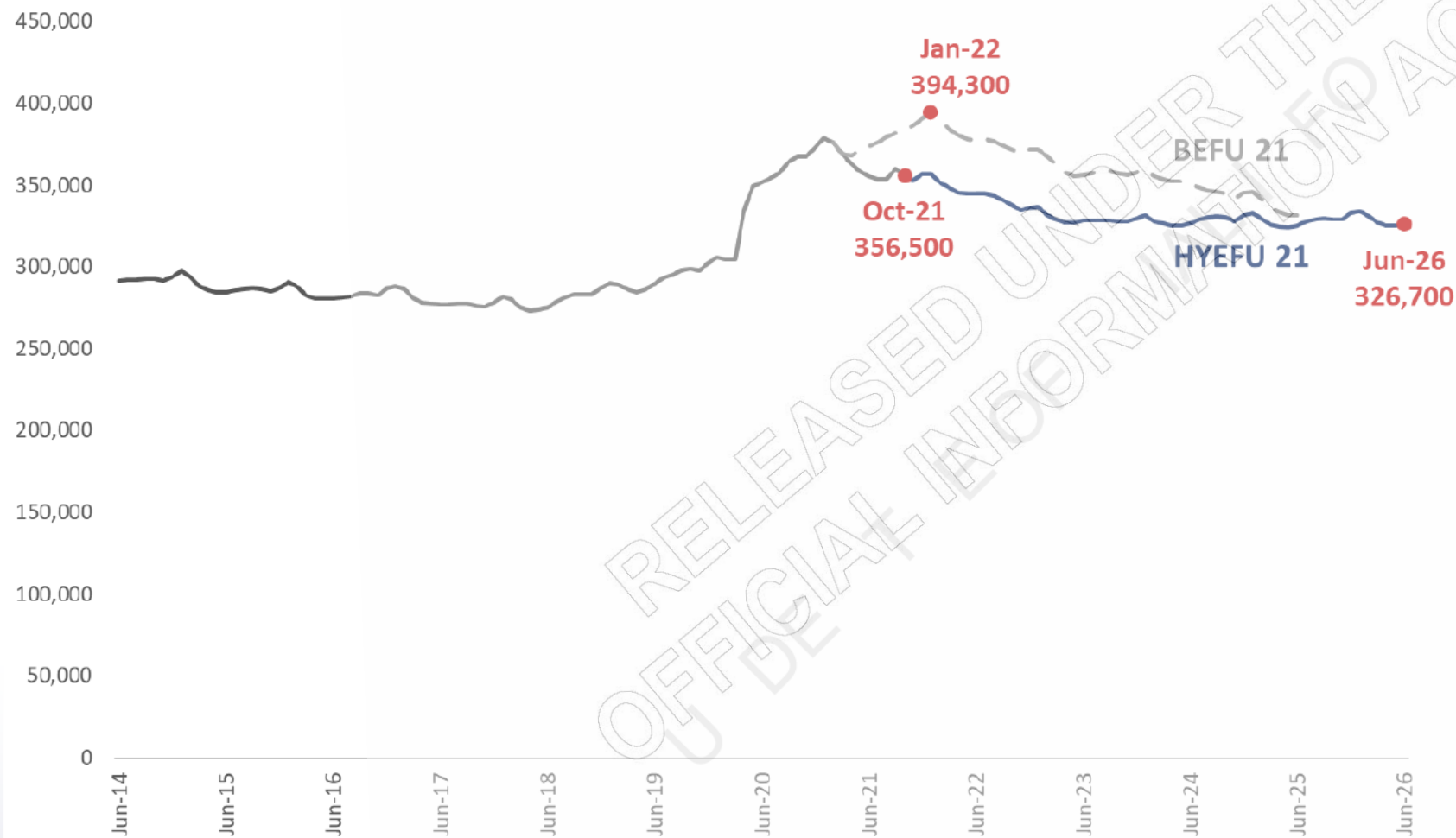
- What's happened since Budget 21?
 - Economic data such as GDP growth, inflation and wage growth has been much stronger than expected since Budget 21
- What does a stronger than expected economy look like?
 - NZ is currently experiencing excess demand for goods and services
 - Leading to the unemployment rate falling towards historic lows (3.4%), widespread labour shortages and higher (and more persistent) inflation and wage growth
 - International supply constraints are adding to price increases
- How does a strong economy affect our forecasts over the next 5 years?
 - Treasury now think that monetary policy will be used (through higher interest rates) to reduce the high levels of demand and inflation in the economy
 - This means lower economic growth is expected over the three to five term than was previously forecast at Budget 21

What do strong economic conditions mean for our benefit forecasts?

- We expect **fewer people on benefit than was expected at Budget 21**, this results in lower expenditure in 2021/22 compared with Budget 21
- However, **revisions to Wage and CPI forecast adjustments mostly offset this**, resulting in higher expenditure by 2024/25
- Across the 4 years this results in very little total change

Working Age Benefits

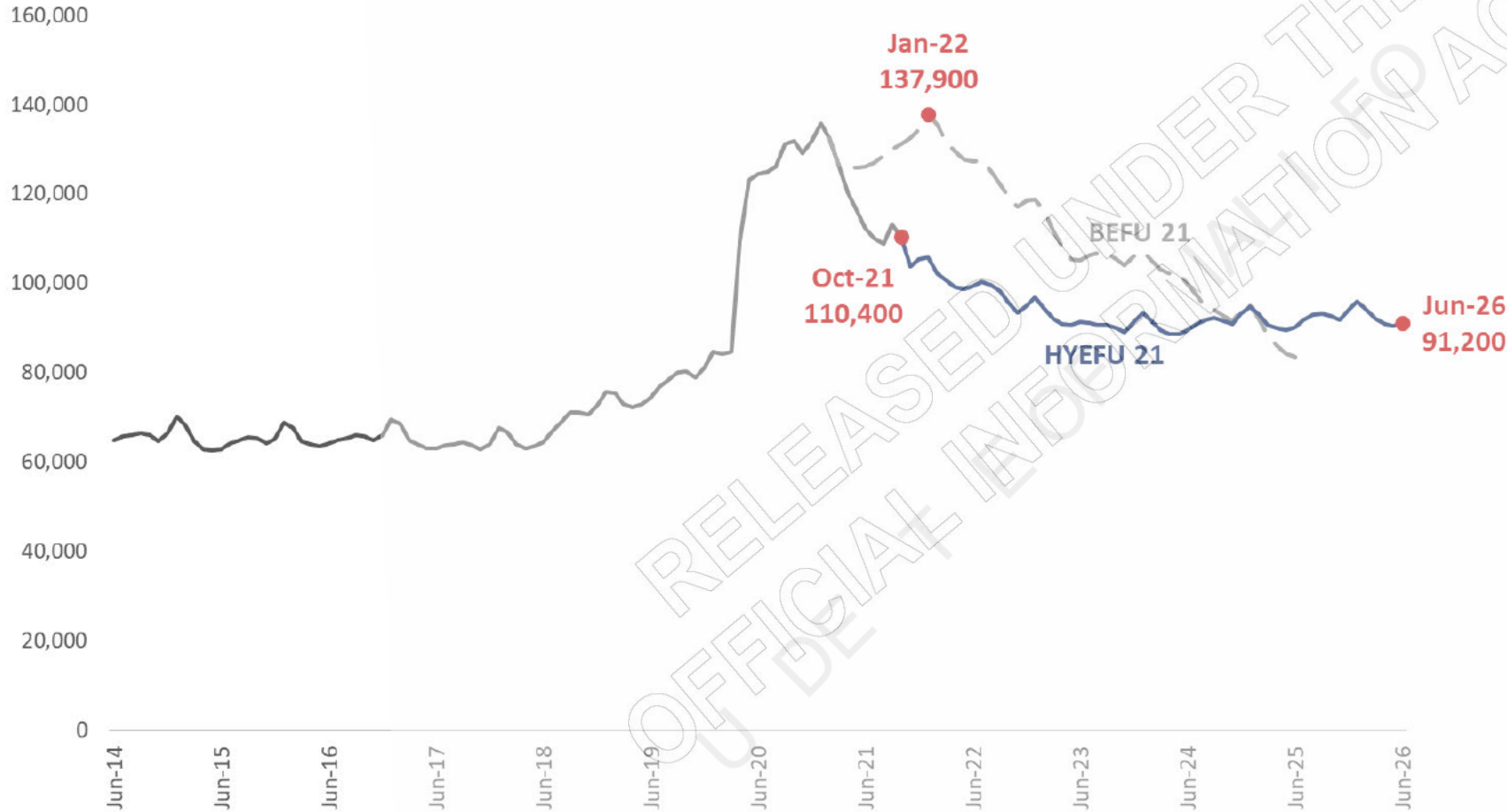
Number of recipients



- The number of **working age beneficiaries is expected to be lower** than forecast at Budget 21
- This is mostly due to the lower starting point with **27,000 (7.1%) fewer people than forecast** at Budget 21 mainly due to JS
- We no longer expect a peak in January 2022
 - We now expect the reopening of the border to have less of an impact to our forecasts than we did at Budget 21

Jobseeker Support – Work Ready

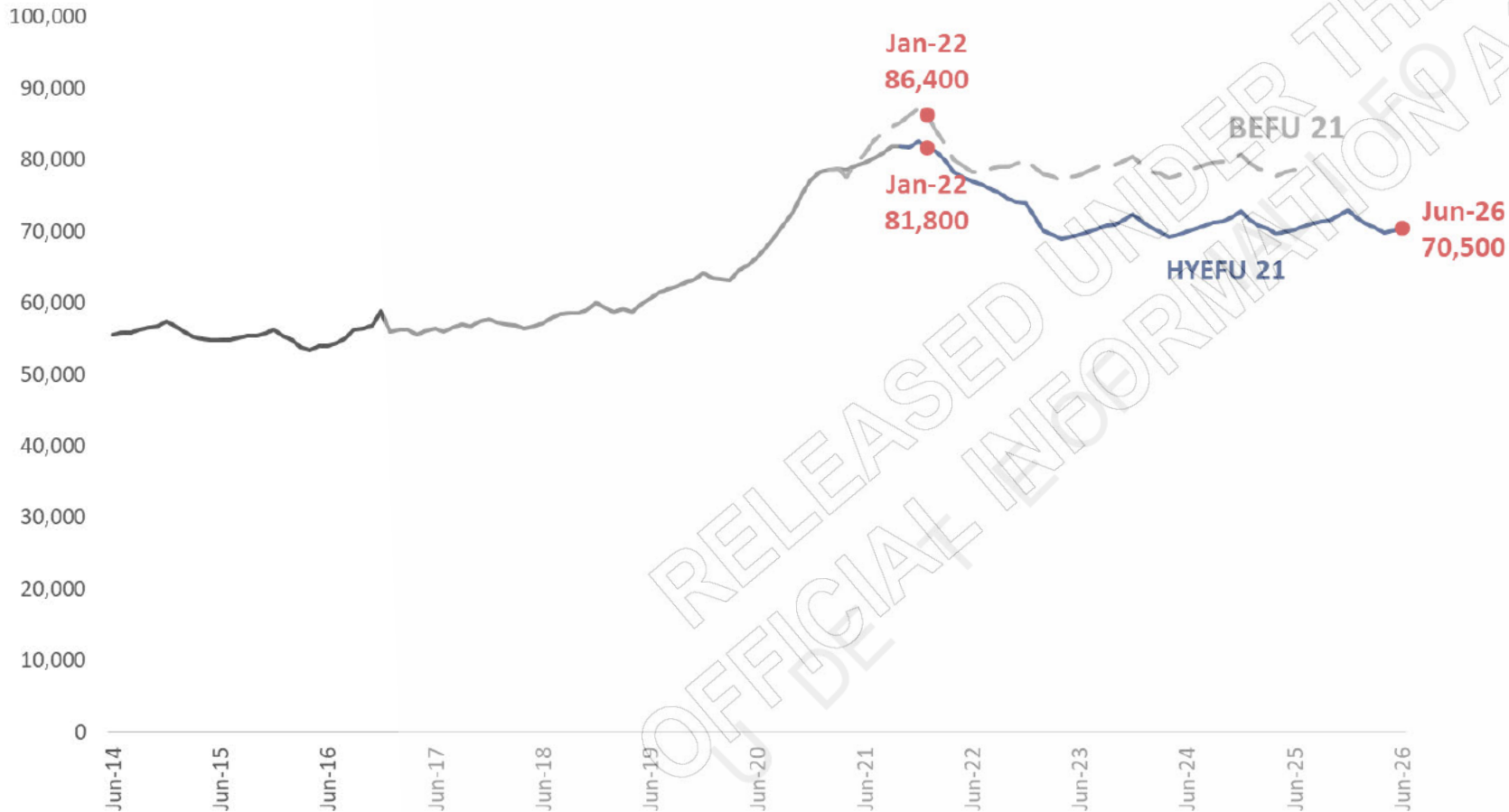
Number of recipients



- We still expect the **number of people on JS-WR to decline** until about the end of 2023
- **MSD has maintained high exits** in 2021 despite challenging conditions
- The effect of increasing interest rates means **economic growth** (annual average growth) **is expected to slow from about 2024**, and means the decline in JS-WR is expected to flatten

Jobseeker Support – Health Condition or Disability

Number of recipients

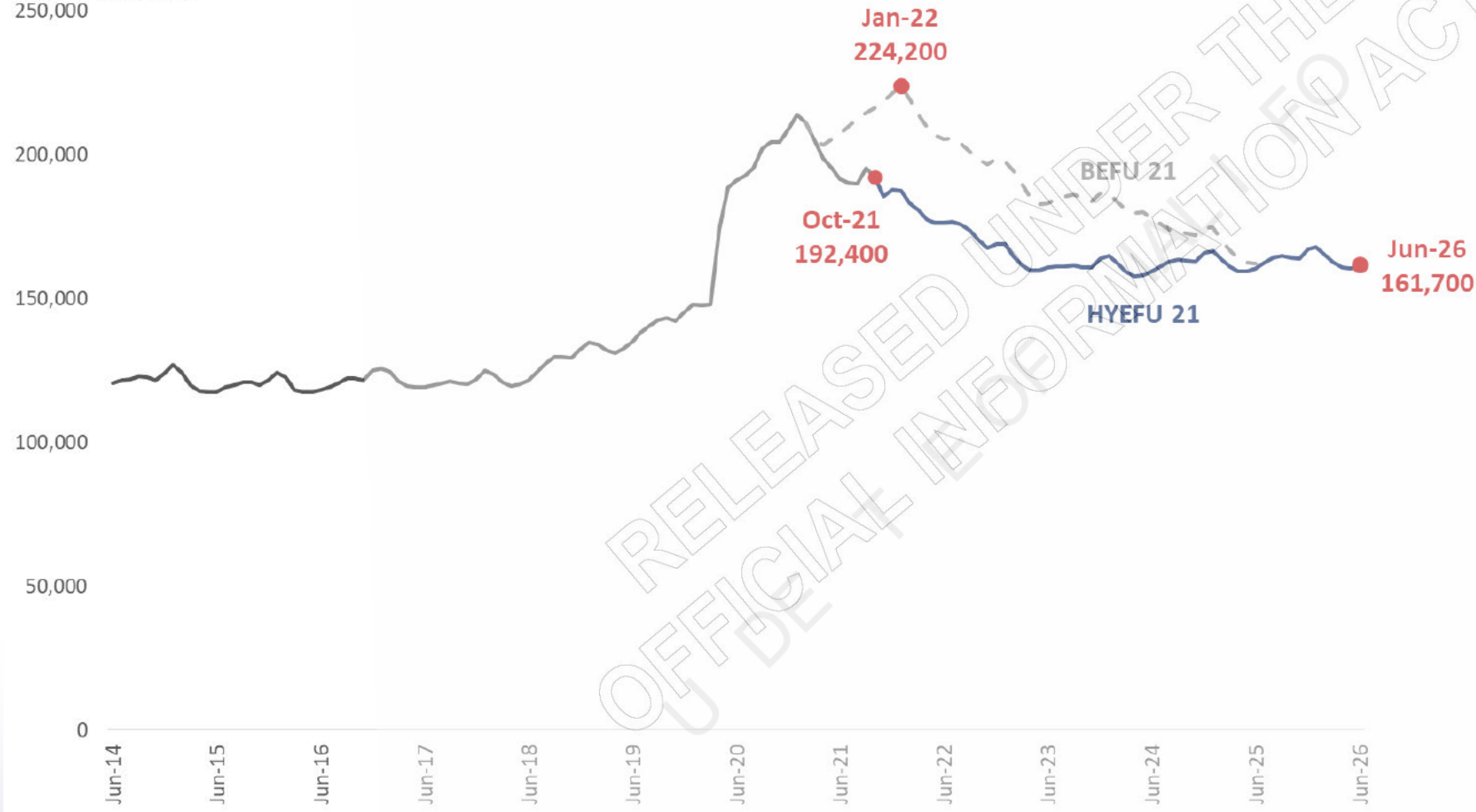


- JS-HCD has experienced higher than normal growth since April 2020, mostly due to the **deferral of medical certificate process**
- This process is expected to **restart in January 2022**, and over the following year we expect numbers to fall as people move from JS-HCD to JS-WR or SLP
- Overall we expect fewer people on JS-HCD than we did at Budget 21

Jobseeker Support - Total

Actual and Forecast

Number of people
250,000

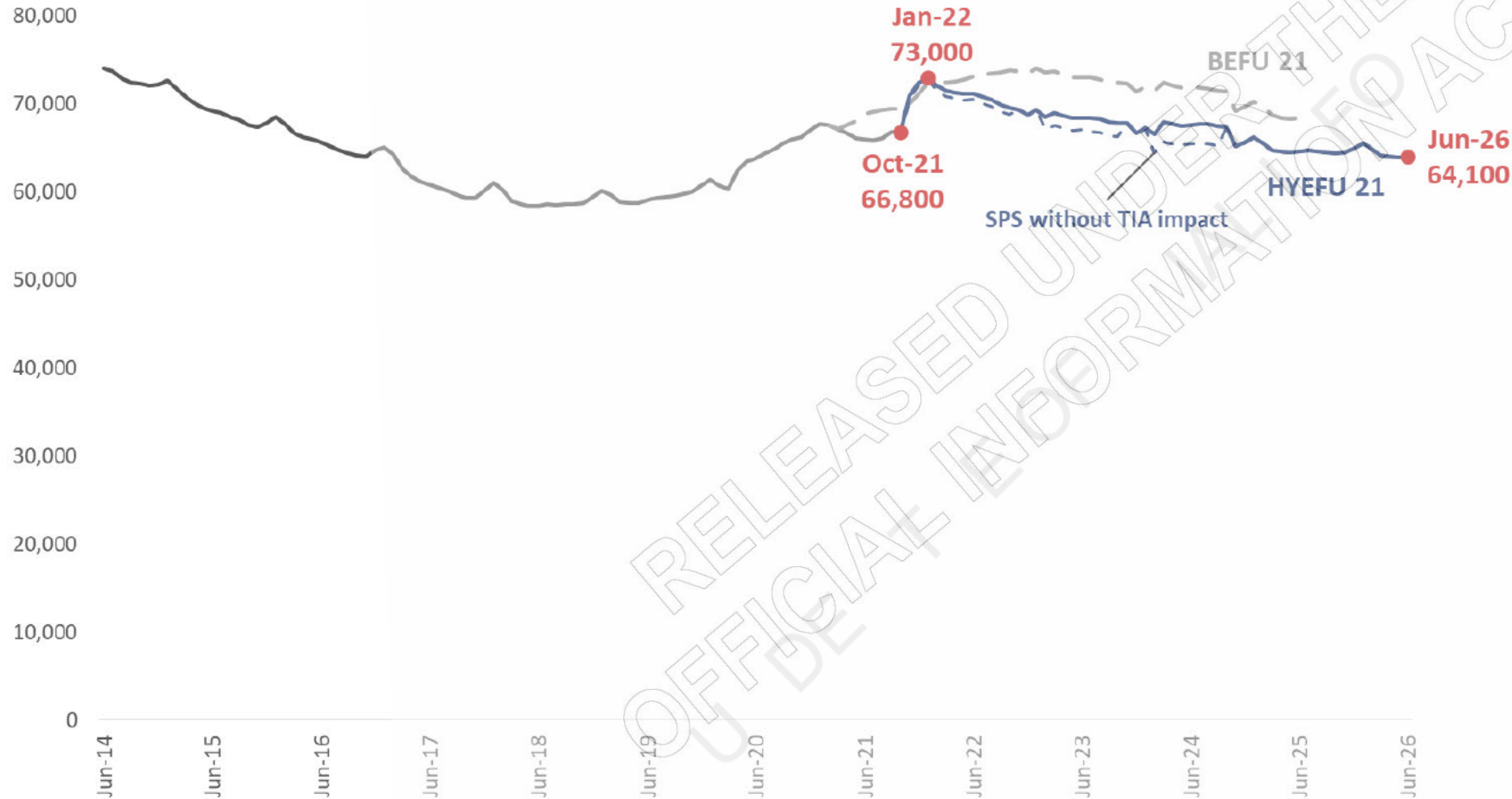


- **Growth in the number of long term JS recipients** (those on JS for over 3 years) is likely to limit how low JS-WR will go over the next five years
- Currently there are around 56,000 people who have been on JS for over 3 years

Sole Parent Support

Number of recipients

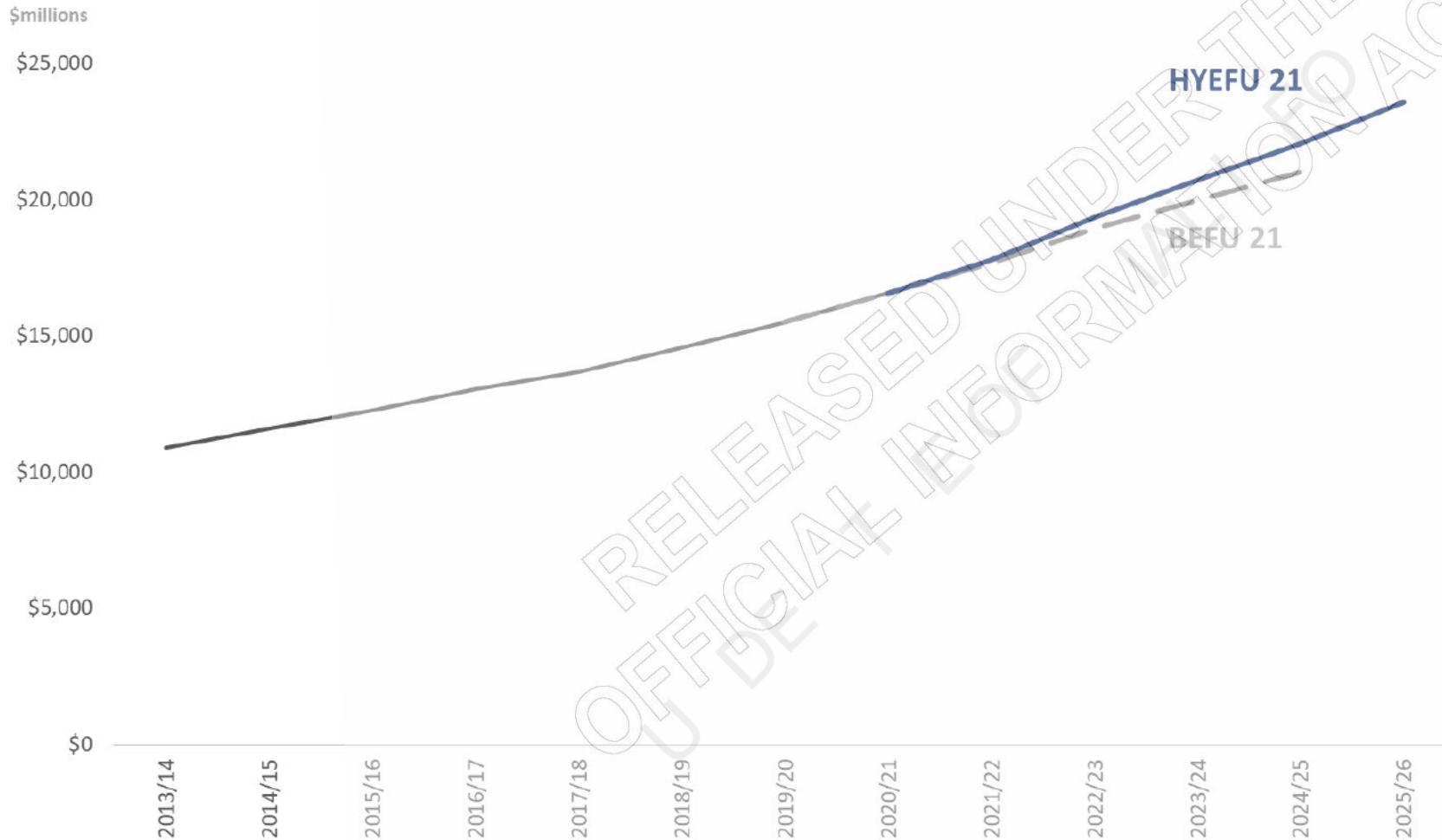
Number of people
80,000



- The key change to SPS at HYEFU 21 is that the subsequent child policy is now expected to happen instantaneously, rather than over a year
- This is expected to result in about **5,700 people moving from JS to SPS in November 2021**
- We expect the number of people on SPS to fall over the next five years, partly because of:
 - **better employment rate** for sole parents in the short term
 - the **number of sole parent families falling** in the long term

New Zealand Super Expenditure

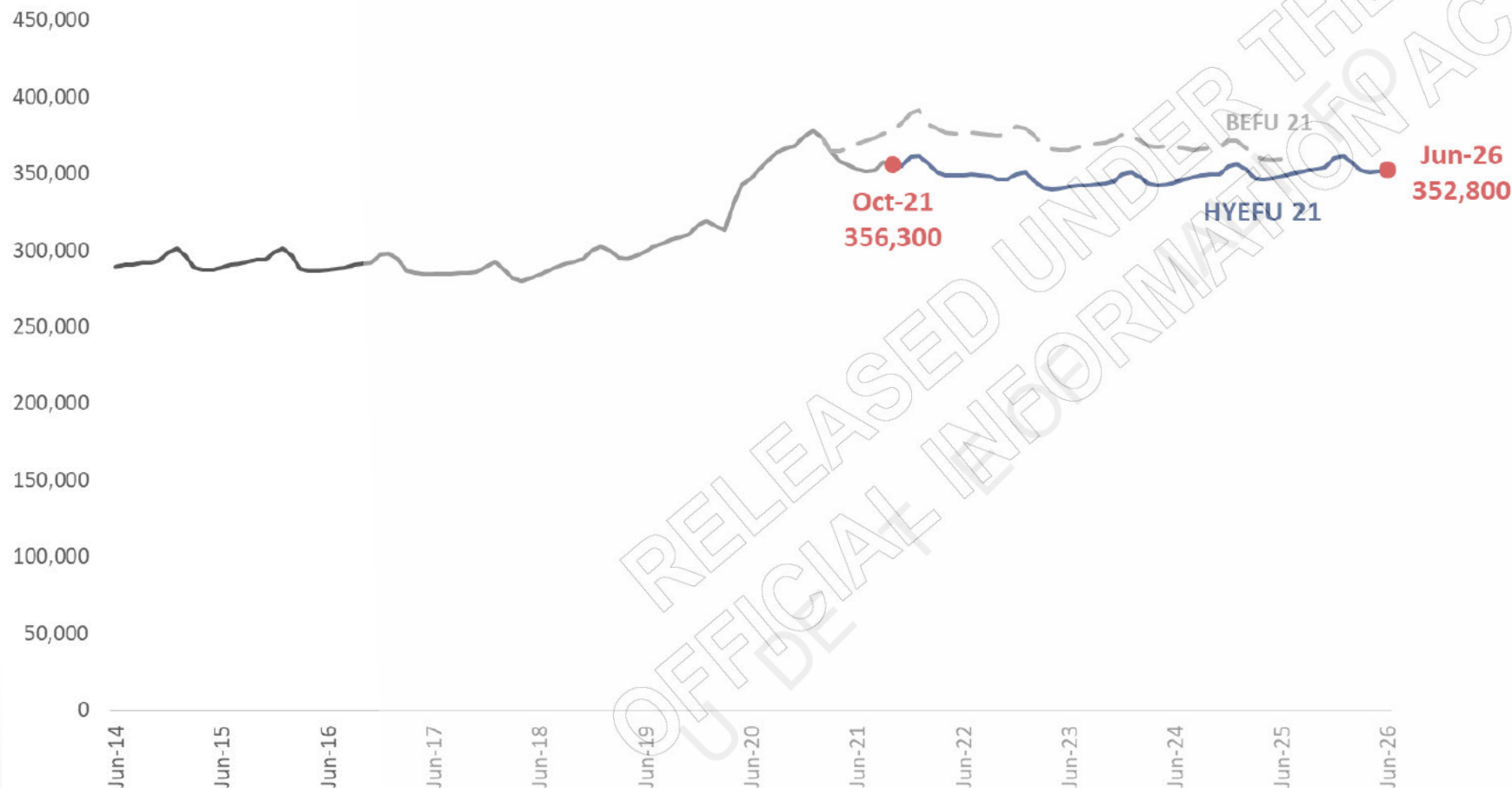
New Zealand Superannuation Expenditure per Annum



- Overall the largest revision in terms of expenditure comes from NZS. This is **\$2.3 billion (3.0%) higher** over the next four years than at Budget 2021
- Most of the increases over the next two years is because of CPI adjustment rather than the wage adjustment

Accommodation Supplement

Number of recipients



- Overall **we expect fewer people on AS over the next five years** than we did at Budget 21
- This is mostly due to the lower number of people on main benefits
- In the long run **we expect the number of people taking up AS to increase slightly**, this is because:
 - the declining trend in JS is expected to flatten off towards the end of the forecast period
 - there is also an ongoing rise in the number of people on NZS taking up AS

Special Needs Grants (not including EH SNGs)

Special Needs Grants - Non-Recoverable

Grants per month



- Overall **we expect there to be fewer SNGs** over the next 5 years compared to Budget 21
- This is mostly due to:
 - the lower number of people on main benefits
 - recent grant numbers have been lower than forecast at Budget 21

Uncertainties to the forecasts at HYEFU 2021

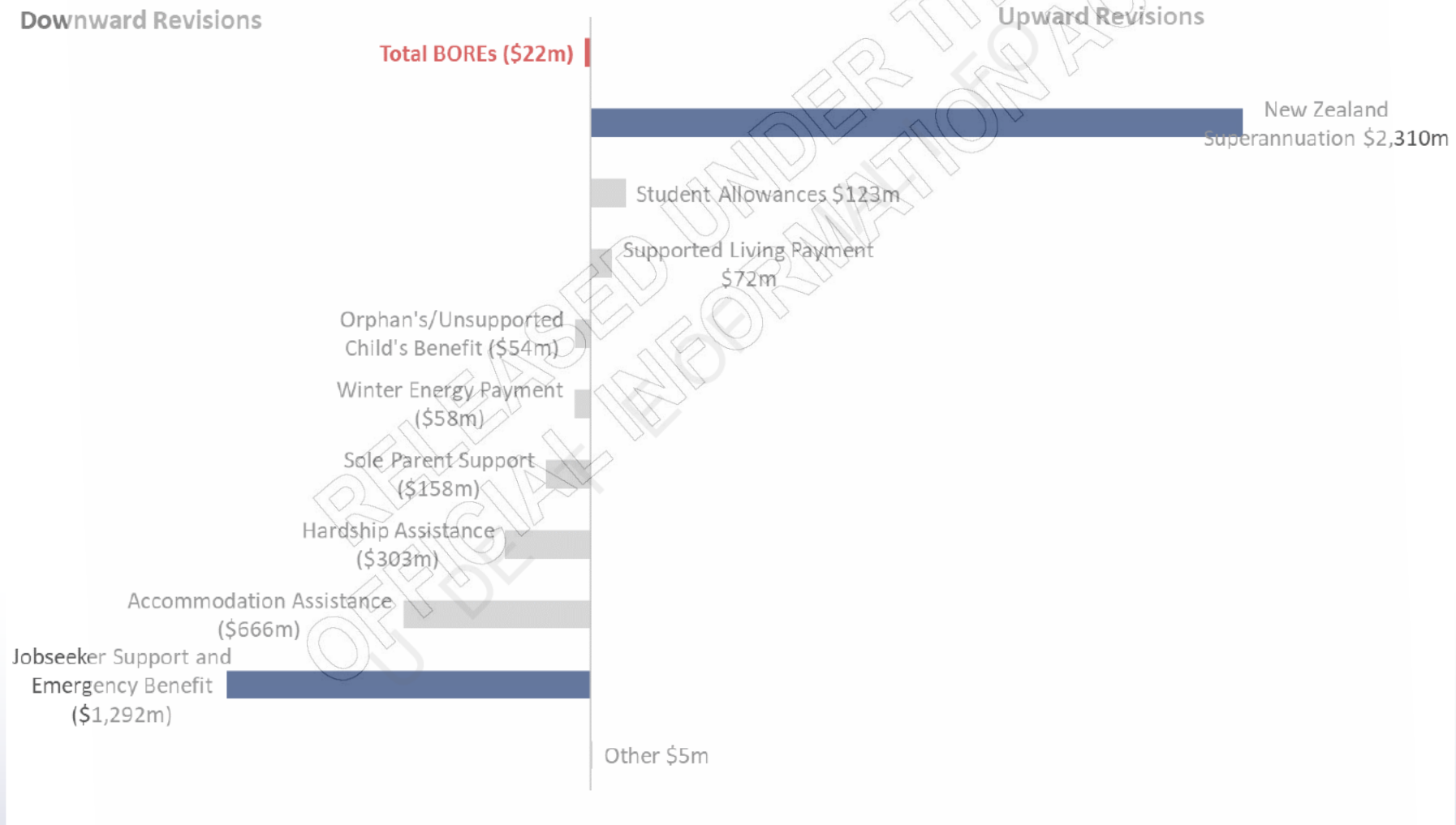
- Treasury's forecast does not specifically separate the impact of vaccine mandates.
 - Treasury think that the impact of mandated vaccines on total employment is likely to be small over time, although there may be a shift in the composition of those employed from the unvaccinated to the vaccinated
 - We have uncertainties around benefit take up as a person losing a job, may not result in take-up of a benefit payment

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- Other uncertainties at HYEFU 21 include:
 - changes in the alert level settings
 - travel behaviour when border restrictions are lifted

Main appropriations contributing to the revision

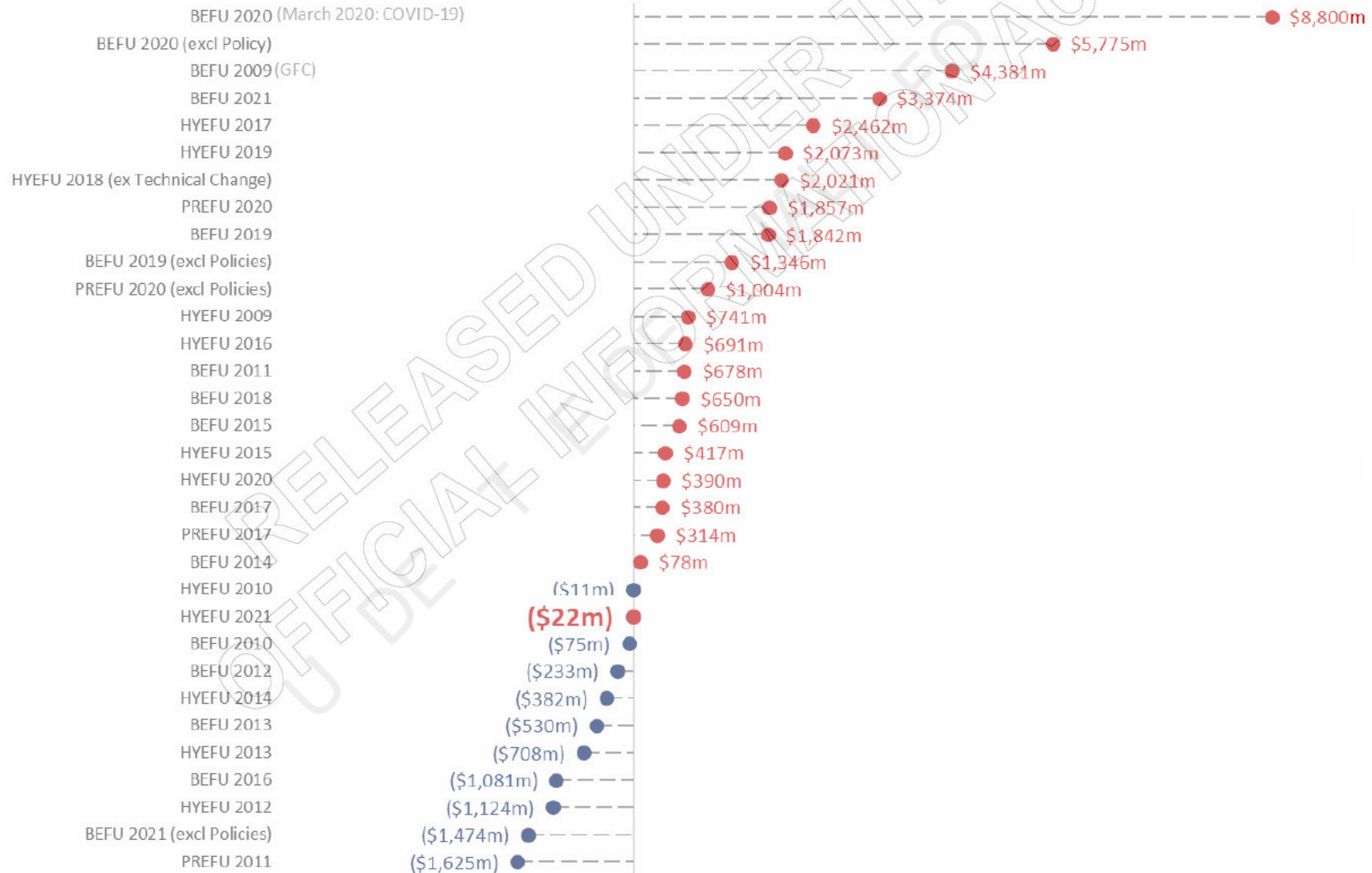
Significant Revisions - Four Years to June 2025



Forecast revisions comparison

(Excludes Supplementary Estimates Add-ons, includes policy)

HYEFUs Four Year Total, BEFUs Five Year Total and PREFU 2020 as four year total



Next Steps

- Joint Ministers Report to be sent to the Minister – **10 December 2021**
- Brief the Minister at the next Official's meeting – **13 December 2021**
- Benefit forecasts to be published on MSD website – **15 December 2021**

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