

SOCIAL
ASSISTANCE

*Welfare
that Works*



Honourable Jenny Shipley

30 July 1991

DSW
361
.61
SOC

DEPT OF SOCIAL WELFARE, W'TON
A0028176AB
BRN 13569
PRESERVATION

SOCIAL ASSISTANCE

Welfare That Works



A Statement of Government Policy on Social Assistance

Hon Jenny Shipley, Minister of Social Welfare
with
Hon Simon Upton, Minister of Health
Dr The Hon Lockwood Smith, Minister of Education
Hon John Luxton, Minister of Housing

30 July 1991

CONTENTS

FOREWORD	1
EXECUTIVE SUMMARY	3
OVERVIEW	11
BENEFITS - reform of the benefit system	23
SUPERANNUATION - the state's role in providing retirement income	35
SOCIAL SERVICES - protecting access to social services	43
ACCOMMODATION - assistance with accommodation	54
HEALTH - assistance with user charges for health services	59
EDUCATION - protecting access to education	69
SOCIAL SUPPORT - helping those who cannot help themselves	75
IMPLEMENTATION - the implementation of reform	80

RELEASED UNDER THE OFFICIAL INFORMATION ACT

1

FOREWORD

The Government's social and economic objective is to provide an environment where New Zealand families are able to take control of their own lives, freed from the dependence on state welfare that currently traps so many of our people.

To achieve that objective we must be prepared to make bold changes and strike a new balance between the state's responsibility for the citizen and the citizen's responsibility for their lives and those of their families.

The policies articulated in this document represent an integrated approach to social security and access to social services in New Zealand. Assistance will be delivered primarily by the Department of Social Welfare. However, specific policies making up the new approach have been developed by the relevant ministers.

Housing policies described in this supplement to the 1991 Budget remain the responsibility of the Minister of Housing, health policies are the responsibility of the Minister of Health and education policies are the responsibility of the Minister of Education. As the Minister of Social Welfare, I am responsible for the co-ordination and delivery of targeted assistance.

There is a temptation, in my view a misguided one, to view social policy issues as being separate from those of economic policy. This is not the case. Economic and social policies must be developed and function together. They are interdependent. Both the social and economic aspects of Government policy are directed towards the well-being of all New Zealanders. Both types of policy affect each other.

The basic problem the Government is addressing in this Budget package is the need to face the realities of New Zealand's current position. Our stagnant economy is the primary cause of the growth in unemployment and the growing alienation of some groups in society. We must have economic growth to provide the kind of lives that New Zealanders want and need. To achieve that growth we must make changes in many areas, including the way we define and administer our social assistance.

The levels of support offered in the form of benefits and other social assistance are a major factor in our fiscal costs. They are also critically important in terms of the incentives and choices they offer to people. If assistance is poorly designed the cost is measured not solely as extra state spending but also as a major factor damaging our economy and undermining responsible social behaviour.

The effect of that is more than worrying statistics on the financial pages of the newspaper; it is also felt in the loss of real jobs and real incomes for real people.

A poorly designed set of social policies can cause further harm in the very areas they are supposed to help.

The growth in social spending, the increase in the number of long-term beneficiaries, the forecasts that show rapid increases in the costs of superannuation and the rising pressure on health services are all danger signs for a nation that is already heavily in debt and straining to achieve an adequate rate of growth.

We must reform policies so they promote growth, encourage employment and continue to offer protection and support that is sustainable to those in genuine need.

Most importantly, we must take steps now to encourage New Zealanders away from dependence on the state towards personal and family independence.

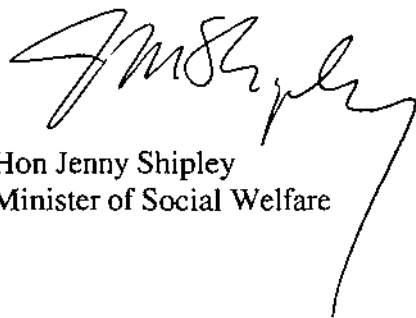
It is pointless expecting people to be able to achieve this easily in times of high unemployment. That is why the reforms outlined in this document are planned to progress in line with improvements in our economic position. But if we do not make a start today, as a nation we will not be in a position to make the most of better economic times in the future.

This paper outlines the Government's policies in a range of areas. Taken together, these policies define the role of the Government in providing support for its citizens. They also define the role of individuals and families in providing support for themselves.

Overall, these reforms will sustain the welfare state at a level that can be supported by our economy. They are planned to take effect as the economy grows. Without these changes, and the other economic reforms that the Minister of Finance is announcing, the old set of policies would have continued to add to our fiscal costs and discourage effort, until they ruined our economy. A bankrupt economy is no basis for a welfare state.

The changes outlined here will improve the focus of our social policies. They will improve opportunities for people while continuing to provide the protection people really need.

They are a foundation for welfare that works.



Hon Jenny Shipley
Minister of Social Welfare

EXECUTIVE SUMMARY

General

- The social welfare system, as we know it today, expanded in a period when the economy was buoyant and there was little demand for welfare support. However, after a long period of economic decline, demand for social assistance from the state is outstripping the ability of working New Zealanders to earn enough to meet its cost.
- An adjustment is needed to ensure that social assistance is fair and adequate for those in need of help, and fair and affordable for the rest of the community.
- The new social assistance policies being introduced by the Government are an essential part of the process of creating an environment which encourages the economic growth that will generate jobs and relieve the demand for welfare.
- A major element in the new policies is a reduction in the use of a universal system where everyone, regardless of income, is entitled to the same level of state assistance in retirement, health, education and other social services - and an increase in the use of a targeted system where incomes are assessed and individual and family assistance is based upon that assessment.
- In future, those who can afford to make some contribution to the cost of the social services they use will do so, to ensure those who cannot afford social services continue to receive them.
- A new plastic card will be offered to lower income people to establish their entitlement to extra assistance in areas such as health costs. The card will be developed over the next few months. It is referred to here as a "Kiwicard". Use of the Kiwicard will be voluntary.
- The assessment of the ability to pay will be based on the concept of a core family, rather than an individual.
- Assistance will not be based on income alone. It will depend on a family's total need for a whole range of services, according to income, number in the family, housing costs, health and education status.

- The process of developing a workable and sustainable system will be phased in over a reasonable period of time, and these reforms will not be introduced immediately.

The benefit system

- Reform of the benefit system is designed to protect the system's integrity and provide a "safety net" for those who can demonstrate genuine need.
- The safety net will provide for a modest standard of living, but not one better than that experienced by New Zealanders in paid employment.
- The reforms are designed to encourage self-reliance by providing people with sufficient motivation to move from state dependence to independence.
- Eligibility for the Unemployment Benefit will be tightened so that where both partners in a family are well and have no childcare responsibilities, neither partner will receive the Unemployment Benefit unless they both pass a work test of being available for work and actively looking for a job.
- The higher earner stand-down provisions will be extended to applicants for Domestic Purposes, Widows', Sickness, Invalids' and training benefits from August 1, 1991.
- The maximum period of temporary absence from New Zealand without affecting benefit entitlement will be reduced from 26 weeks to four weeks. Recipients of Guaranteed Retirement Income and the War Veterans' Pension are excluded from this provision.
- The minimum qualifying age for Sickness and Invalids' Benefits will be increased from 15 to 16 years old from August 1, 1991.
- The minimum qualifying age for the Domestic Purposes Benefit will be increased from 16 to 18 years old from August 1, 1991. This provision will not apply to those currently under the age of 18 receiving a Domestic Purposes Benefit.
- The Government is considering new benefit phase-down arrangements to encourage beneficiaries, who are able to work, to return to employment. These arrangements will not be developed until employment prospects improve and job opportunities increase.

National Superannuation

- Guaranteed Retirement Income is the largest single cost the Government faces. It is difficult to sustain now. Unchanged, it would become more difficult, if not impossible, to sustain in the future.
- A revised National Superannuation scheme will replace Guaranteed Retirement Income, as of April 1, 1992.
- At the same time, the GRI earners' surcharge will be repealed and replaced with a new abatement scheme.
- Under the abatement scheme, only 50 percent of a pension paid by a registered superannuation scheme and annuities paid by a life insurance company will be counted as private income.
- Couples or individuals with private incomes of less than \$80 a week will receive 100 percent of their National Superannuation when they reach the age of eligibility.
- Couples or individuals with private incomes above \$80 a week will have their gross National Superannuation payments reduced at a rate of 90 cents for every additional dollar of gross income earned after the first \$80 of private income earned each week. This is generally equivalent to a net phase-out rate of 65 cents for every dollar of gross income.
- At the age of 70 and over, couples or individuals with private incomes of more than \$80 a week will receive 50 percent of the National Superannuation paid to a married person, regardless of the level of their other income.
- The age of eligibility for National Superannuation will rise from 60 to 61 on April 1, 1992, and, after that, it will rise from 61 to 65 years at the rate of three months in age every six months in time.
- As of April 1, 1993, the purchasing power of National Superannuation will be protected, and the after-tax rates will be adjusted on that date in line with the cost of living over the preceding year, and annually thereafter.

Social services

- The Government is developing an integrated approach to providing targeted assistance with access to social services.

- The level of assistance will depend on a family's total needs across a range of social services according to income, number in the family, health and education status.
- Assistance will be phased out, service by service, with a single phase-out rate being applied across all forms of assistance.

Housing assistance

- A new and fairer system of housing assistance - the Accommodation Supplement - will be introduced.
- Over time, clients of the Housing Corporation will begin to pay market rental or commercial interest rates for their accommodation.
- Future assistance will be given in the form of financial assistance with the cost of accommodation. The current, arbitrary maximum rates of assistance will be replaced with new ceiling rates based on "fair market rental" values.
- The Department of Social Welfare will be responsible for providing an Accommodation Supplement to those with a housing need and inadequate resources to meet that need.
- The Government plans to have the new system and Accommodation Supplement in place by July 1, 1993.
- There will be equal assistance for purchasing and renting, and it will be available whether the need is met by the public or private sector.
- Assistance with accommodation costs will reflect regional differences in the cost of accommodation and will be based on a fair market rent.
- More details of the policy changes are provided in the supplement on accommodation assistance - which is being released at the same time as this document.

User charges for health services

- A new system of user charges for health services will be introduced on February 1, 1992.

- People on the lowest incomes will face lower health care costs when the new system of charges is introduced and there will be no increase in costs for those who are chronically ill.
- The new charges will not be applied to the retired until April 1, 1992, when the new National Superannuation scheme comes into effect.
- The new charges will be graduated so that the highest charges are applied to people on the highest incomes.
- Three groups will be established for the purpose of providing targeted assistance with health care costs.

GROUP ONE:

- recipients of income-tested benefits;
- recipients of National Superannuation on an income below the level at which National Superannuation entitlement will phase out for those under 70;
- recipients of student allowances;
- recipients of unabated family support; and
- childless, non-beneficiary, low income families and individuals on an income below the level at which National Superannuation entitlement will phase out for those under 70.

GROUP TWO:

- recipients of partly abated family support.

GROUP THREE:

- families who do not receive any family support;
- childless, non-beneficiary, higher income individuals and families; and
- people in the National Superannuation age group with incomes

above the full abatement point.

- Entitlement cards will be issued to people from Groups One and Two to show the level of their entitlement to assistance. The cards are referred to as Kiwicards in this paper.
- Current provisions for classifying some people as chronically ill will continue. The chronically ill from all three groups will be treated the same, facing lower charges or no charges at all.
- The Department of Social Welfare will be responsible for issuing the Kiwicard.

User charges for education services

- The Government acknowledges the importance of education as a national investment for the future.
- Primary and secondary schooling will be universally free of charge.
- The Government will abolish the \$1300 fee for tertiary education.
- It will introduce "Study Right" - a subsidy on tuition costs to a level of 95 percent of the assessed course cost for the first three years. All other students will receive a subsidy of 75 percent of tuition costs.
- Student allowances will continue to be family income-tested with family testing applying to all students aged under 25.
- A student financing scheme is being developed to be available from 1992 to provide advances to students facing extra costs.
- The Government will announce a fuller policy on early childhood education later this year. However, as an interim move, it has reduced the level of subsidy for those aged under two in early childhood education. Those rates were greatly in excess of comparable amounts paid for the care and education of other children.
- The Government wants to ensure low income households have access to early childhood education. This is likely to be considered in conjunction with the wider policy of targeting social assistance.

Support services for the vulnerable

- The Government recognises that special measures are required to provide adequate support to vulnerable people who, for a number of reasons, do not have the resources to ensure they receive their entitlement to assistance.
- Funding for the range of agencies catering for emergency needs in the community will be co-ordinated through the Department of Social Welfare to achieve a clear division between the funders and providers of such services.
- In the separate area of continuing care, the Government will determine, after appropriate consultation, the most effective funding agency to provide assistance to people who require continuing care - the frail elderly, and those with physical, intellectual or psychiatric disabilities.
- Consultation on funding services for those requiring continuing care will end in time to begin implementation in July 1992.

Implementation issues

- There will be a managed and progressive implementation of the reforms of social assistance outlined in this statement of Government policy.
- To prevent fraud and abuse of the new system of targeted assistance, exchanges of information between a number of state agencies will be required.
- To prevent abuses of these exchanges of information, new provisions for the protection of the privacy of individuals will be contained in a wider Information Privacy Bill to be introduced by the Minister of Justice.

Conclusion

- The reforms being introduced by the Government are designed to ensure that the safety net of social assistance is adequate, fair, affordable and sustainable today, and on into the 21st century.

THE PROBLEM

- system not sustainable in the long term
- creating a culture of dependency
- wasteful use of the state's social resources
- limited freedom of choice
- system not designed to meet all social needs on an integrated basis
- system not preparing New Zealand for economic recovery



THE REFORMS

BENEFIT REFORM

- safety net only
- tighter eligibility
- progressive introduction

HOUSING

- Accommodation Supplement
- Fair market rent
- administered by DSW

NATIONAL SUPERANNUATION

- staged increase of age of eligibility
- universal after 70

HEALTH

- new schedule of charges
- the Kiwicard
- 3 income groups
- low income group pays less

THE VULNERABLE

- funder/provider split
- central funding agency

ACCESS TO SOCIAL SERVICES

- move from universal to targeted system
- all needs considered together

EDUCATION

- Study Right
- financial scheme
- family targeted student allowance



THE RESULT

- survival of the system
- building opportunities and encouraging self-reliance
- better use of the state's resources
- increased freedom of choice
- meeting needs on an integrated basis
- assisting New Zealand in its economic growth

3

OVERVIEW

The 1991 Budget signals the first steps in a reassessment of the obligations of the state and the responsibilities of the individual.

The impact of this shift will, in time, affect the lives of present and future New Zealanders. The policy direction outlined in the 1991 Budget and detailed in this document provides the foundations for a welfare system that works.

This reassessment involves a significant move away from the universal provision of social assistance by the state to a more targeted form of assistance with access to social services for New Zealanders in genuine need.

This is the most significant reform of social policy since the introduction of the social security system more than 50 years ago. However, it does not signal a removal of the machinery of the welfare state, or a change in its goals. The changes are needed because the current system is unsustainable. If we do not fix it, we risk serious harm to the economy and a total collapse of our welfare systems.

The need for change

Social welfare, as we have known it in New Zealand, has aimed to protect all people from unavoidable adversity and to provide access to good quality social services. However, over the past 20 years in many important areas the goals have expanded to the point where they impose an unsustainable cost on society.

For example, the hospital system in many districts has been characterised by growing waiting lists and ward closures. Commonly, the Area Health Boards have provided inadequate community service. Health system reform which is described in the accompanying paper on reform in the health sector is designed to address these problems. Other changes are occurring in the rules for accident compensation, housing and education. These too will increase the sensitivity of the policies and improve the return on the money that the taxpayer invests in these areas.

The growth in cost of social spending is a further concern. Total spending on social security and age benefits, including Family Support, has risen from 5.7 percent of Gross Domestic Product in 1970 to 12.3 percent in 1990. Spending on state-provided pensions has increased from \$1.5 billion to \$4.8 billion (in 1990 prices) in the same period.

The social welfare system has been developed over a period when the economy was buoyant and there was little demand for welfare support because most people were in paid employment. That same system cannot be sustained at a time when changing economic fortunes, both at home and overseas, place considerable stress on the state's ability to continue with an open-ended social policy.

The costs have added to our national debt. New Zealand has tried to provide support at a generous level, but we have used other people's money. The debt these policies has caused is a major factor inhibiting economic growth.

New Zealand has been borrowing consistently and heavily for many years to sustain a standard of living and programmes of social assistance that we have not been able to afford on our own earnings. International lenders have required higher and higher interest margins to compensate for the risk of lending to a heavily indebted country.

The programmes that are designed to meet the social needs of New Zealanders - the generous provisions of the welfare state - are now damaging our economy and blighting the lives of many people, because the cost of supporting them is hampering growth and, consequently, prolonging high levels of unemployment.

The reform of welfare spending is a central element of our economic growth policy as well as being essential to protect the viability of the welfare state.

Past benefit levels have had a negative effect on the lives of many New Zealanders, in particular those they are intended to assist. For many people the generosity of the benefit system has become a poverty trap. Benefit payments have been high enough compared to wages that for many people there has been little financial encouragement to take on paid work and employers have been unable to attract workers at rates that would maintain the viability of their businesses.

Our changes to benefits and the reforms of the labour market through the Employment Contracts Act are setting the scene for a new and more effective approach. People now face real choices between benefits that are set at more realistic levels and an increasing range of employment options.

The process of rebuilding a welfare system that works will take time. We began with the announcement in December 1990. We are continuing with the announcement now of:

- benefit reform;
- a revised National Superannuation scheme;

- assistance with social services;
- accommodation assistance;
- assistance with health charges;
- support for those in tertiary education; and
- protection for those most at risk.

Together, these changes will reform social welfare. We are setting out the main points here. The specifics will be constructed in a careful and managed style over the next few years. These changes are too important to rush. Some that can be put in place early will proceed. These include the revised superannuation and the first steps towards rationalised health charges. Others that take more time, such as integrated assistance with social services, will be developed in a controlled and ordered manner.

The “safety net”

The major shift in perspective of social welfare in New Zealand is simple. The state will continue to provide a safety net - a modest standard below which people will not be allowed to fall provided they demonstrate they are prepared to help themselves. Most people would recognise the safety net as the basket of benefits now known collectively as social security.

These are the measures that protect all those who can demonstrate that matters beyond their control threaten to force them into poverty. The Government reaffirms its commitment to protect those who are unable to protect themselves. It will provide sufficient assistance to maintain individuals and families in the daily essentials of food, clothing, power and housing at a decent level. Assistance will be closely targeted on genuine need and people will be expected to support themselves when they have the ability to do so.

Social services

Over and above the safety net provided by social security, there are a number of social services that are critical to individuals and the prosperity of the nation. They are our investments in education, health and the welfare of children. They are investments that society cannot afford to leave to chance.

It is part of our lives as New Zealanders that everyone has similar access to

health services when they need them. Everyone has a similar access to the education they need to be able to participate in society and earn a good living. We also aim to ensure that parents have enough resources to offer their children a decent life.

If people had to pay from their own resources for these services, inevitably, some would be forced to use second rate substitutes. The Government will not let a low income prevent people from having fair access to those aspects of life essential to living in New Zealand.

It has become part of the agreed understanding of our society that every New Zealander should have access to these social services at a level in line with the norms of New Zealand life in the 1990s. At present, many of these services are provided on a universal basis and free of charge. In some other cases, such as tertiary education (the tertiary students' allowance) and the welfare of children (Family Support), help is provided on a sliding scale for those who cannot help themselves. This is known as targeting. Simply, the state ensures the same level of services for everyone and makes sure everyone has access to them by helping the less fortunate.

Although the new initiatives foreshadow some changes of emphasis and increased use of targeting, in essence they all add up to a reaffirmation and protection of our understanding of the importance of providing access to services our society believes are of prime importance.

The essence restated

There has been a change in the extent of the state's responsibility and its role as a provider of social services but the essence remains unequivocally clear. Simply:

- the vulnerable in our society will receive quality care;
- those unable to support themselves financially for any reason will be supported to a decent level by the state, provided they demonstrate a willingness to help themselves;
- access to a uniform standard of essential social services for children, and the provision of education and health care for them will not be left to chance. It will be explicitly guaranteed by the Government as an essential investment for both individuals and the nation; and

- the state will assist those who genuinely cannot afford all or some of the cost of the provision of those services and, in return, will expect the better-off in the community to meet their own costs and contribute to the costs of those less fortunate.

Underlying principles of the reforms

Although the policy emphasis might change according to social and economic circumstances at any one time, the Government has identified several fundamental principles it believes must be embodied in a welfare system, whether the year be 1938, 1991, or 2038. They are:

- **Fairness.** The Government believes it is important, as a principle of fairness, that people whose needs are genuine should have adequate access to state assistance. Those who are in a position of being able to look after themselves should be encouraged to do so. This means that we all accept our share of the responsibility for social protection and social services.
- **Building opportunities.** The Government wants New Zealanders to believe in themselves and their ability to look after themselves and their families. In that way, individuals take greater control over their own lives and futures. Although the state's role is to care for those who, for different reasons and lengths of time, are unable to care for themselves, it must not cut across the normal incentives existing for people to exercise personal responsibility. Social services should be efficient in providing assistance for those who need it and providing incentives for people who can work, to work.
- **Value for money.** Because the state's assistance programmes make up such a large part of the Government's spending, it is important that social services should be efficient. As little money as possible should be spent on the administration needed to deliver the assistance effectively.
- **Greater personal choice.** Social services and social protection are not simply matters of policy or organisation; they affect people living their daily lives. Respect for people is the reason for the policy, and that means people should have as much independence and choice as possible. The Government wants all New Zealanders, including those receiving social assistance, to be able to have a choice of where they go for health, education, housing and other social services. That means they should be able to select from a wide range of organisations providing those services - not just public or state-funded organisations.

- **Realism.** Simply, the state must be able to set a level of social security and social services that is economically sustainable in the long term.
- **Management of change.** Any changes to the social contract raise a wide range of very important issues, touching the lives of all New Zealanders, often at critical periods in their lives when they are being educated, cared for or supported for any reason. It is vital the introduction of these changes is managed carefully, without haste and with sensitivity. Consideration of the needs of the users of social services and the recipients of assistance will need to be paramount in the process of managing that change.

Developing the building blocks

Using these six principles as a measurement, the Government reviewed the existing system. The review looked at ways in which:

- those who were in real need of state assistance would continue to receive it;
- the costs of social services would be carried mainly by those who were relatively well off; and
- the Government could reduce excess spending on social assistance by making sure those who could afford to, would meet their own costs and, also, by making sure the most was made of available funds by setting up efficient ways to deliver assistance to those in need.

Areas included in the review

The review focused on three main elements of social assistance in New Zealand:

- income support - social welfare benefits and Guaranteed Retirement Income;
- access to social services (Family Support, housing, health and education) - a fair means of working out who has assistance with access to social services and at what levels; and
- methods of ensuring that those in society who, because of their circumstances or life skills, have difficulty accessing the social services to which they are entitled, receive those services, and those who have special needs not catered for in the main structure are also cared for.

Outcome of the review

The basic change is that we are moving from a position of looking at people's needs service by service, to taking an integrated approach; looking at the total needs of people across the entire range of services and the ability of people to have access to those services.

Several key elements make up this integrated approach.

A TARGETED SYSTEM

A major element in the new policy involves a reduced use of a universal system where everyone, regardless of income, is entitled to the same level of state assistance in retirement, health, education and other social services, and increased use of a targeted system where incomes are assessed and individual and family assistance is based upon that assessment. Universal systems are fine in the good times but they are deeply regressive when the economy demands cuts in the bad times, because the sacrifices hit both rich and poor equally.

SELF-RELIANCE

A targeted system requires a tighter test of eligibility for social welfare benefits to make sure only those who need basic state assistance receive it and to encourage people to move from state dependence to personal and family self-reliance.

THE CORE FAMILY

The new policy direction demands a core family test of need to encourage family responsibility for individuals before the state accepts responsibility. The core family has been defined as any of the following:

- single adult with no dependent children;
- sole parent, with children;
- a couple with no dependent children; or
- a couple with children.

This, in itself, is not a new approach because it already applies to the areas of social assistance and access to social services that require an assessment of means to determine level of support. What is new is that the approach is being extended into other areas of social services, such as health. This reflects the

view that spouses do contribute to family resources and it is important for society that sharing responsibility in a family is the right thing to do.

INCENTIVES TO EARN

Although any targeting system involves a reduction of total support as family income rises, the system will be designed in such a way that people are better off earning additional income and moving from dependence to independence.

The reduction in assistance will not be in sudden steps because that would mean some people might be discouraged from earning more if the final result is a drop in the total of earnings and income assistance. (This is sometimes known as a "poverty trap".) Instead, assistance will be phased out over a range of income so the effects of the drop in assistance on total earnings will be less severe. Support for different services will be phased out service by service.

ADJUSTMENT TO REALITY - FISCAL AFFORDABILITY

The reality New Zealanders now must face is that past tax levels have failed to pay for the degree of social assistance provided by the state and demanded by the public. The costs that individuals would face in any new approach to the provision of social services in New Zealand may appear high to many New Zealanders on average incomes. However, the reality is that past tax levels have failed to pay for the level of state-provided social assistance demanded by the public.

The current level of Government debt is, in large part, a reflection of the attempts by New Zealand to deliver higher levels of social assistance than we could ever afford. Simply, as a nation and individuals, New Zealand and its citizens are not as wealthy as people believed.

Any new system of social assistance will need to maximise the individual's personal control of his or her use of social services, while minimising the cost to the state and, therefore, reducing fiscal pressure.

EASE OF ACCESS

The efficiency of any targeting system for social assistance depends on its ability to carefully discriminate between the needs of all individuals seeking access to it. However, the same system must be easy for people to use. It is intended that the Department of Social Welfare will administer a single annual application for all forms of social assistance wherever possible. The department will also

investigate the use of family accounts which would offer a simple means of accessing assistance.

THE "KIWICARD"

An important tool both to help people gain assistance with access to social services and to aid the Department of Social Welfare in the administration of the new welfare system will be the introduction of a plastic card, referred to here as the Kiwicard. These cards perform much the same function as the existing certificate of entitlement cards in that they will show the holder is entitled to discounts on access to some social services. However, the cards will improve administration both from the Government and the public's point of view. The card will only be used as a means of securing assistance for those who are entitled to it. Use of the card will be voluntary: those who do not wish to receive extra assistance will not be under any obligation to produce the card.

AVOIDING ABUSE

Any social assistance system, particularly one that focuses on individual need, provides considerable incentive for fraud and other abuse. A comprehensive use of information systems will be used to discourage, as far as possible, fraud and abuse, and to identify those involved in it.

PROTECTING AN INDIVIDUAL'S PRIVACY

The use of sophisticated information gathering and exchange systems has an impact on the rights of individuals to their privacy. Clearly, a move from total assistance to selected assistance requires the Government to know more about the individual circumstances of people requiring help to assess whether assistance should be provided and at what level. The state needs to have sufficient information to make sure those who need assistance receive it and those who can afford to meet the costs on their own - all or in part - do so. This requires a careful balance between the rights of the individual to privacy and the needs of the state.

The Government is introducing legislation on privacy to maintain that important balance between the rights of the individual and the needs of the state.

This legislation will protect people against the indiscriminate use of information. This initiative represents a major advance as there is little legislative protection for personal privacy. However, it will also ensure that, when a person applies for assistance on the grounds of low income, the state will be able to check the truth of the information provided against other information it holds about that individual.

The scope of this document

The principles outlined in this introduction underlie all the information covered in next chapters which describe the reforms to be implemented in each of the following areas:

- benefit reform;
- National Superannuation;
- assistance with social services;
- Accommodation Supplement;
- assistance with health charges;
- support for those in tertiary education; and
- assistance for the vulnerable.

Each chapter details the specific changes, reasons for them, how they will affect individual New Zealanders and how individuals can reach each service where assistance is available.

Practical examples

Throughout this document we have used graphs with concrete examples to show how the revised welfare systems will work in a practical sense.

The amount of support available for different families depends upon the number of people in the families and the number of social services to which they need access.

Some case studies show alternative approaches in areas where the Government is considering different options.

For example, in the accompanying paper on health reform there is a discussion of the possible introduction of a compulsory health premium for all New Zealanders. The paper suggests that there would be targeted assistance with the costs of the premium. If the Government decides to introduce some form of health premium, it will have a significant impact on the entitlement of people who fall into the targeting area. If it does not proceed, then the levels of entitlement

in this area of targeted social assistance will be smaller. Instead, health costs will continue to be met on a more universal basis through taxation.

However, we have made some assumptions and presented a range of options in the case studies, so that people can see for themselves how the revised system will work. It is important to recognise that these are assumptions. They are not signalling the final decisions the Government might make.

One area of interest in these case studies is the income levels at which families will be eligible for assistance. This would vary between families of different sizes. In each area we look at a range of family types likely to be requiring access to those particular social services.

For those who wish to compare these possible policies against the distribution of family incomes in New Zealand, it is important to realise that the relevant measures include not only the overall distribution of incomes, but also the distribution for each family type. In a “family” that consists of only a single person, that person is commonly a young person (often in study), or an elderly person owning their own home, and their average incomes are lower than others, but so are their needs. Families with children, especially couples, tend to have higher family incomes but they are also more intense users of social services.

For those who wish to compare possible policy approaches with the current range of incomes, a table showing the distribution of incomes in New Zealand is attached at the end of this document. It identifies the different income distributions for different family types.

Managing the changes

This document ends by looking at how the Government will manage the reforms and what organisations will administer the new systems, in particular, the role of the Department of Social Welfare, the creation of a system of family accounts and initiatives designed to collect and store information while preserving the privacy of individual New Zealanders.

Outcome of the reforms

The most important outcome of these reforms is greater fairness. People will be secure because those who do not earn enough will still have access to social services of a level and standard wanted by all New Zealanders.

Those who can afford to pay will pay only for their own services and, through income tax, will contribute to help those who cannot pay.

People will no longer be expected to pay taxes to provide free social services to those who can afford to pay for themselves.

Finally, all New Zealanders will be more secure with these new policies as they are designed to take account of the realities that face us now. With these more realistic policies in place, one of the barriers to economic growth will be removed. This will offer a double gain for us all through improved security as well as improved jobs and incomes as the reforms affect economic performance.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

BENEFITS

Reform of the benefit system

Key points

- *the growing cost of benefits has been one of the factors depressing the economy, and a generous benefit system that has required constant borrowing has added to the problem it was meant to solve;*
- *the benefit reforms will still provide a safety net - sufficient income to maintain a modest standard of living;*
- *they are not intended to provide a standard of living better than is enjoyed by New Zealanders who work in paid employment to support themselves and their families;*
- *tighter eligibility criteria will be introduced for two reasons -to encourage people to move as quickly as possible from dependence to independence and to protect the integrity of the benefit system. That is, the system does what it is designed to do - make sure only those in need of a benefit receive a benefit;*
- *there will be a progressive introduction of the reforms as the labour market improves; and*
- *the introduction of reforms will go hand in hand with a major organisational and structural change that will improve the effectiveness and efficiency of the Department of Social Welfare.*

The present benefit system

Social welfare benefit policy has an important role in protecting New Zealand families from destitution. It is an accepted belief that those who are unable to provide for themselves, for reasons beyond their control, should be supported at a decent standard of living.

When there are relatively few people on benefits, it is easy to maintain a generous benefit system. However, with the growing number of people on benefits the social and economic costs of an indiscriminating and over-generous system become apparent.

The cost of paying benefits, including age benefits and family assistance, has risen from 5.7 percent of Gross Domestic Product in 1970 to 12.3 percent in 1990. This means benefits have become one of the main contributors to our fiscal and debt problems, one of the main reasons for our low growth and, consequently, one of the contributors to unemployment. The generosity of our benefit system has turned out to be misguided because it is contributing to a vicious spiral of uncontrolled fiscal costs and low growth.

The costs have also emerged at a more personal level. Benefits were at a rate where many people stood to gain very little by taking a job. Past governments tried to protect beneficiaries from the effects of our economic slide but, as a result, they were effectively locking beneficiaries out of work.

The other cost of an unrealistic benefit system is a loss of trust in the integrity of welfare. Ordinary New Zealanders need to feel that benefits are only going to those in real need. There are too many stories of beneficiaries who appear to be reliant on benefits when they could provide for themselves. This is largely because of the rules of eligibility and their implementation.

Benefit reform is intended to be a steady process of adjustment. It began with the December announcement and will proceed steadily with a series of ongoing reforms. Overall, the changes will address the issues of the credibility and realism of our benefit system, while continuing to protect those in real need.

Protecting the integrity of the system

Taxpayers have a right to expect that the machinery of government preserves its integrity. That is, the system delivers what it is supposed to. With the benefit system, taxpayers need to be confident that those who are eligible to be assisted by the safety net are supported by it, and those who are capable of supporting themselves cannot abuse the system.

The reform to the benefit system involves a number of important changes, including:

- tightening eligibility to make sure only those who need the support are receiving it;

- introducing a new obligation that all adults capable of working, actively seek employment as a condition of eligibility;
- streamlining the complex set of rules that has resulted in a confusing array of different benefits;
- using the staff of the Social Welfare Department effectively to make sure individual circumstances can be assessed accurately; and
- clarifying the goals and priorities of benefits to make sure they are focused on true needs.

Tightening eligibility does not mean those in need are more likely to miss out on a benefit. What it does mean is that tighter rules will make sure only those entitled to the benefit will receive it. Those who have wrongly received a benefit in the past while not being eligible will be identified and stopped through the application of tighter procedures. In addition, the rules of eligibility will be clarified and tightened to make sure assistance focuses on those in real need.

Overall, the prime objective is to attack the causes that increase the number of people on benefits. The main problems are the economic disarray the Government has inherited and concern from employers about the costs and risks of offering more jobs.

The Government is already addressing these problems. The stronger Government direction that is signalled in the difficult decisions in the 1991 Budget will add to the pressure to push interest rates down. This is the most important factor affecting growth, employment and benefit numbers.

The responsible fiscal decisions of December 1990 and the passage of the Employment Contracts Act this year have been followed by an increase in business and employer confidence. The reforms outlined in this chapter are designed to be integrated with the wider economic issues, thus complementing the Government's overall strategy.

There has already been a reduction in the number of people on benefits, following the December 1990 initiatives. The Government is beginning to attack the dependency culture in the interests of all present and future New Zealanders.

Tightening the rules also emphasises the importance to those administering the system of the need to protect the system's integrity. Tightening the rules clarifies the logic behind the scheme, making it easier to identify those in real need - those who are entitled to the protection of the state's safety net.

The scope of change

The changes that will evolve in the benefits area will be significant, but the focus will continue to be on assisting those with the greatest need. People will continue to be assisted through a system of benefits and the level of those benefits remains as it was after the adjustment in April 1991.

This chapter does not contain a detailed blueprint for reform. The Government has decided to develop benefit reforms progressively over a period of years. However, the overall shape is clear. The Government intends that benefits will be more closely restricted to those who have no opportunity to help themselves. Benefits are not intended to provide people with a means of avoiding individual and family responsibilities. Instead, they exist to protect people from the consequences of unavoidable loss of income.

Similarly, this chapter does not set out a precise timetable for the change because some changes, involving tightening eligibility for benefits, will not be introduced until the labour market improves.

Tighter eligibility for benefits

Moves towards tightening the rules for eligibility began under the previous administration and were continued with the Government's announcement of the extended stand-down period - the time between applying for the Unemployment Benefit and receiving the first payment. Eligibility was further tightened at that time with the decision to extend the age of youth rates for unemployment from 20 to 25 years old.

Both these initiatives were designed to decrease the attractiveness of moving from work to welfare by creating a greater margin between benefit income and workforce earnings.

The benefit reforms announced in the 1991 Budget will further tighten eligibility criteria.

The core family will be the unit of support. For the Unemployment Benefit, this means that where both partners in a family are well and have no childcare responsibilities, both will be assessed for work. It will mean neither partner will receive the Unemployment Benefit unless they both pass the work test of being available for work and actively looking for a job.

Other reforms include:

- extending the higher earner stand-down provisions to recipients of the Domestic Purposes, Widows', Sickness, Invalids' and training benefits from August 1, 1991;
- reducing the maximum period of temporary absence from New Zealand without affecting benefit entitlement from 26 weeks to four weeks. Recipients of the Guaranteed Retirement Income and the Veterans' Pension are excluded from this provision;
- increasing the minimum qualifying age for Sickness and Invalids' Benefits from 15 to 16 years old from August 1, 1991; and
- increasing the minimum qualifying age for the Domestic Purposes Benefit from 16 to 18 years old from August 1, 1991. However, that provision does not apply to those currently under 18 receiving a Domestic Purposes Benefit.

Simplifying the structure

Benefit reform will also simplify the system to preserve its integrity and make it more easily understandable to its users.

The six existing categories of income-tested benefits will be regrouped into three main categories:

- unemployed;
- health-related; and
- sole parent.

In addition, there will be a small category for the domiciliary care of invalids and a "widow/women alone" group for older women without dependent children currently receiving a Widows' or Domestic Purposes Benefit.

The three main categories, along with retirement, account for the legitimate reasons adults are unable to earn a living. It is sensible, therefore, to construct our benefit system around these factors. Currently, there is a range of detailed rates that apply slightly different criteria and assistance to beneficiaries in very similar circumstances. In the process of regrouping the benefits, there will be

a review of the rates to remove the anomalies. These changes will improve the accuracy of the system and assist Department of Social Welfare staff and applicants to understand much better the rationale and detail of the new procedures and conditions.

Changing incentives

Another possible change the Government is considering is a more careful assessment of the employment prospects of individual beneficiaries (in each benefit area). The development of these possibilities will proceed as the labour market improves. Some beneficiaries could not be expected to take on fulltime work, but part-time work would be feasible if available. The difficulty is that under the current benefit phase-out system, it is not attractive to take part-time work for more than a short time each week because most additional earnings are balanced by a cut in the benefit.

One possible way to address this would be to conceive of three “streams” of beneficiaries.

The first stream might be regarded as fully work ready. They are able bodied and have no commitments that prevent fulltime work. This group would receive a modest benefit to provide adequate support while they looked for a fulltime job. The rate of phase-out of benefits for those with some income might remain around the present fairly steep rate. This ensures that for most people who find a fulltime job the income it would offer could carry them beyond the relevant range for which benefit phase-out might apply.

A second stream might be regarded as “work ready - part-time”. They suffer some mild disability or have older children needing some home care. It would be reasonable to expect such people to take a part-time job if it were available. The basic benefit for this group would be lower than for other groups, but it could be topped up to a fulltime rate if the beneficiary can show that jobs are not available. However, though the basic rate of benefit would be lower, a relatively high level of earnings could be allowed before phase-out of benefits would begin. An alternative approach would be to offer a full benefit with an initial phase-out over relatively low earnings. This phase-out might be suspended over the range of earnings that are most likely for a person engaged in regular part-time work, but resume at earnings any higher than that. Either of these approaches would mean that someone offered 20 hours of work would have a strong incentive to accept, and could be in a better position than a beneficiary offered 20 hours of work under the present rules.

A third group might be regarded as fully work exempt. They suffer significant illness or disability or have a young child needing substantial home care. For this group, there are fewer options and a clearer long-term need. Therefore, the level of support would be higher than that offered for the other groups. This is similar to the logic that sees the Invalids' Benefit being higher than the Unemployment Benefit. The rate of phase-out would be steep because those in this group who are lucky enough to have adequate income from other sources have no need of state support, and the issue of disincentives to work is of less relevance.

Reality of the labour market

As we have said, the rate at which the reforms are implemented must reflect the reality of the labour market. The Government acknowledges the futility of introducing an excessive focus on the ability to work as a measure of eligibility when there are high levels of unemployment.

The most important need is to put in place processes that will speed up the method of getting beneficiaries back into the workforce as the economy improves.

International experience shows that consumption and investment are in the forefront of any economic recovery followed by a rise in employment rates. However, that does not mean that unemployment rates decline as employment rates increase. A fall in unemployment rates is sometimes slow to occur, often because a long-term unemployment social environment is difficult to turn around.

International experience has shown that the unemployed and, to a lesser extent, those who administer assistance to the unemployed, find it difficult to move their perceptions of the state of the job market. The despair of long-term unemployment can be disabling. As job prospects improve, policies and practices will be modified to help and encourage beneficiaries to re-enter the workplace.

One important point is that those who analyse or comment on labour market and other demographic statistics would need to appreciate that the introduction of a streaming system would have a considerable impact on the manner in which unemployment statistics are presented and analysed. A larger number of people would appear to be unemployed than is apparent under existing arrangements.

The Government is planning now for the future. The policy direction outlined in this chapter reflects the Government's resolve to reduce the time lag between the upturn in the economy and the decrease in unemployment rates to as little as possible.

Planning only after the upturn occurs is not planning at all.

The system in practice

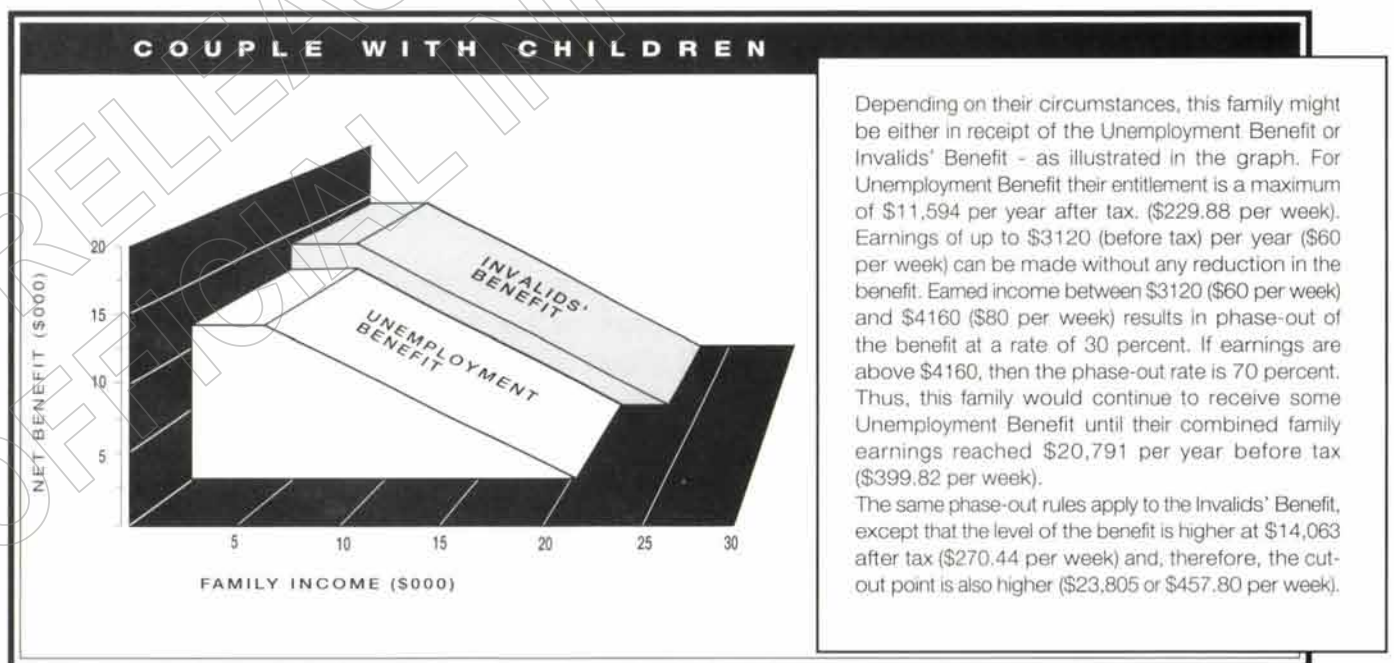
The effect of the current benefit system on families is shown in the accompanying graphs in this chapter.

Separate graphs have been prepared to show the effect on families of different size. They show the effect of the different benefits to which people may be entitled.

The height of the graph shows the total amount of benefit that may be paid for the family. The level of benefit that may be paid varies with income. The impact of levels of income on the amount of benefit may be seen by reading along the income line at the bottom of the graph.

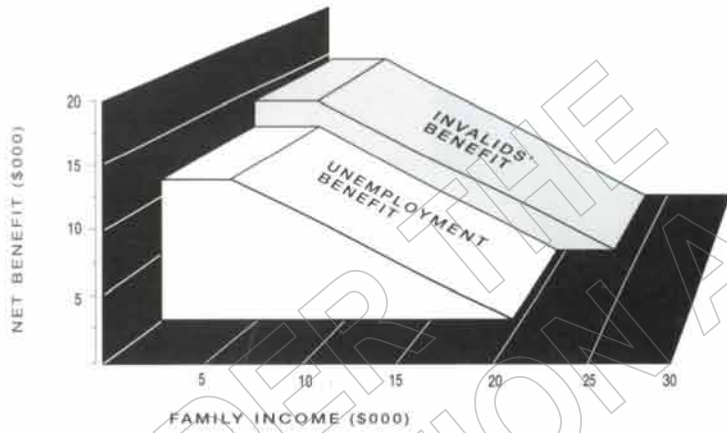
In addition, the possible shape of an employment streaming option is shown in graphical form to show the way it may work for the families involved.

Those examples will link to graphs in later chapters which will show the impact on households of other areas of social assistance.



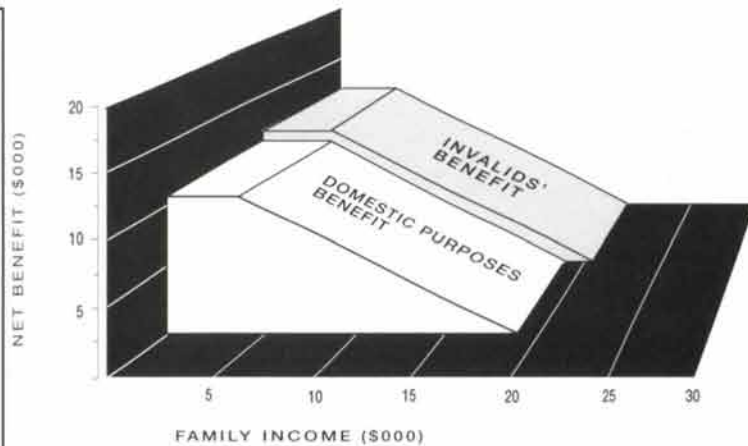
COUPLE, NO CHILDREN

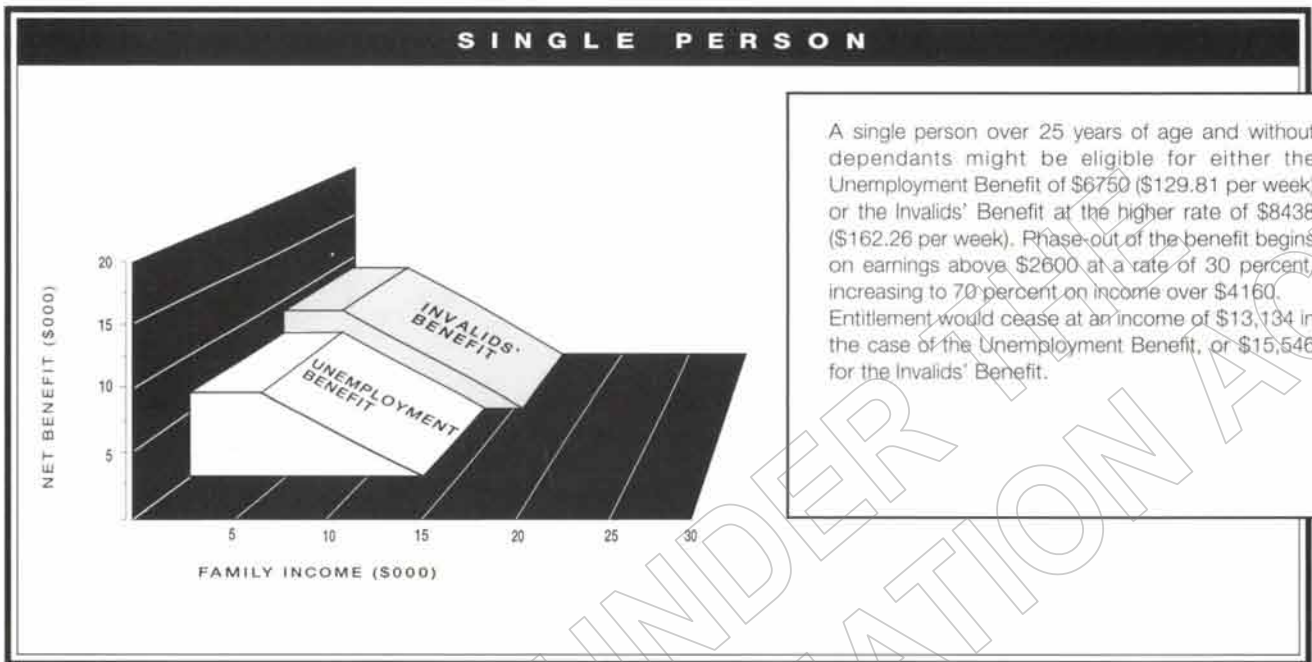
This couple may be eligible for either Unemployment Benefit or Invalids' Benefit. However, since they have no dependants, the level of the Unemployment Benefit is lower than for the couple with children (\$11,250 per year or \$216.34 per week). In each instance, the level of earnings which is allowable before phase-out begins is lower (\$2600 per year or \$50 per week). Therefore eligibility for the Unemployment Benefit stops at an income of \$19,563. In the case of the Invalids' Benefit, the figure is \$23,582.



SOLE PARENT

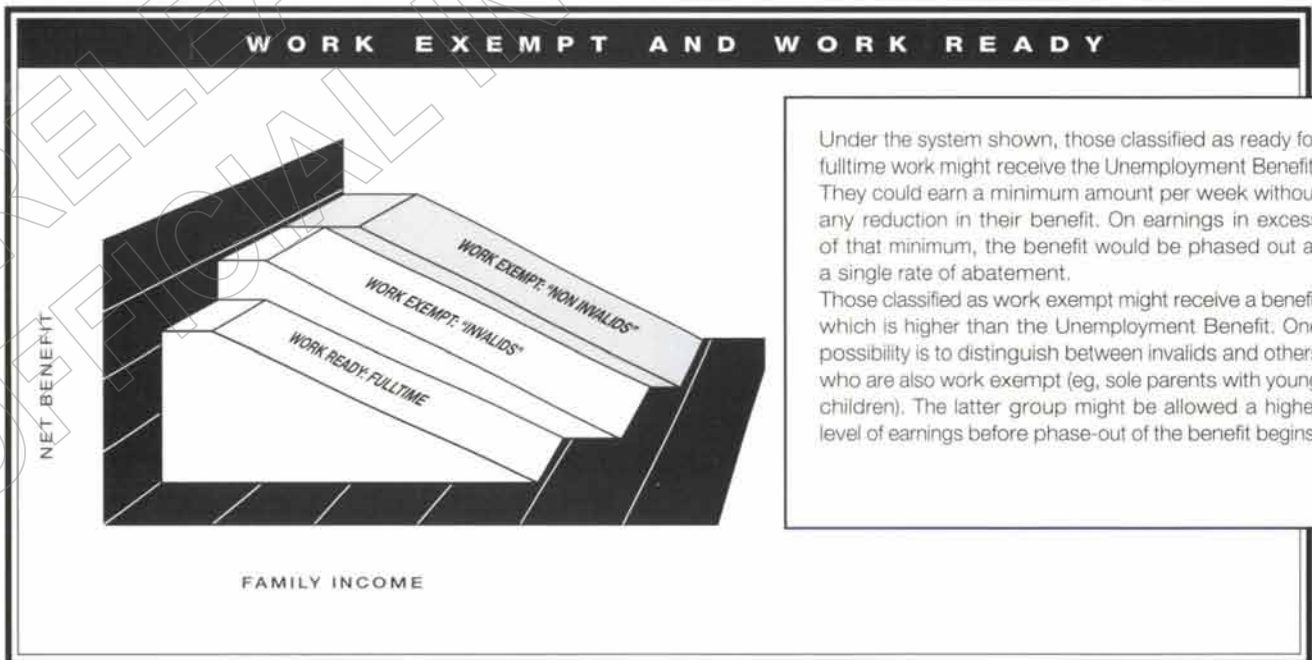
A sole parent with two children could be eligible for either \$10,547 (\$202.83 per week) in Domestic Purposes Benefit or \$11,961 (\$228.87) if on an Invalids' Benefit. Earnings of up to \$2600 (before tax) per year (\$50 per week) can be made without any reduction in the benefit. Earned income between \$2600 (\$50 per week) and \$4160 (\$80 per week) results in a phase-out rate of 30 percent. If earnings are above \$4160, then the rate is 70 percent. Eligibility for the Invalids' Benefit stops at \$20,716. The comparable figure for the Domestic Purposes Benefit is \$18,559.





Alternative benefit system

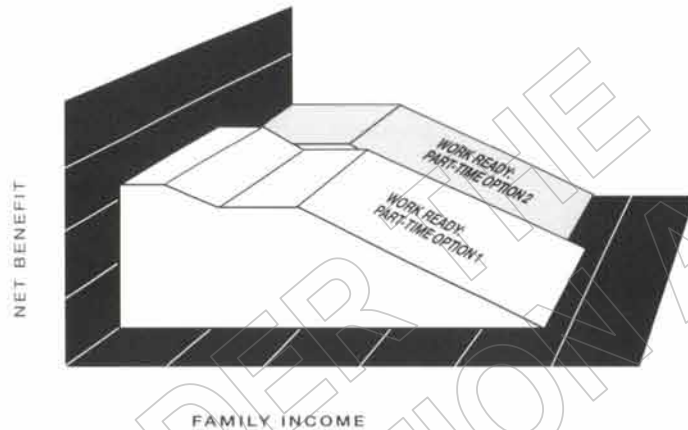
These figures illustrate some alternative benefit systems to that which currently operates. They relate to the possibilities of streaming beneficiaries according to their availability for paid work.



PART-TIME WORK

Two possible approaches to those classified as ready for part-time work are illustrated. In the first instance, the recipient is eligible for the full Unemployment Benefit. A low level of earnings is initially allowed after which phase-out of benefit would begin. This phase-out is then suspended across a level of earnings which is likely for a person engaged in regular part-time work. Above that level of earnings, the benefit would again begin to phase out.

An alternative approach is to pay a lower level of benefit, but allow a higher level of earnings before phase-out begins.



Meeting the Government's objectives

The reform of the benefit system means benefit levels will be maintained at the level set in April 1991. Tighter eligibility will be fairer to those people genuinely in need of a safety net and it will mean New Zealand taxpayers will be helping those in genuine need, and not contributing to the lifestyles of those who can work but are not prepared to do so.

Tighter eligibility and a focus on work status in the reformed system will encourage beneficiaries to move from dependence on the state to reliance on themselves and their families. This is a tangible contribution to building real futures for beneficiaries and helping them take charge of their own lives.

Value for money objectives will be met through the progressive streamlining of the system and a more simple and understandable approach to administration.

The lower benefit levels that have already been introduced and the tighter eligibility rules will reduce costs in the provision of benefits. This will make a major contribution to our adjustment to economic reality and will be a step towards growth.

The sensitive management of change will be achieved in two ways:

- a reorganisation of the Department of Social Welfare in a way that best meets the new requirements demanded by the change; and
- the progressive development of the reforms, proceeding as the economy expands and employment opportunities grow.

Implementation

The implementation of these reforms began with the adjustment in benefit levels in April.

The Department of Social Welfare is progressively reorganising itself to enable it to meet the requirements of the new system. The adjustment will include a review of management systems to help the department react to changing needs and improved flexibility and accountability. It is proceeding with a major upgrade of its computer system, SWIFTT (Social Welfare Information for Tomorrow Today), which will enable the department to run the new system efficiently and quickly. Part of that technology will include a system of information exchange designed to limit the possibility of social security fraud. This issue is dealt with in more detail in the chapter on implementation.

Further announcements will be made in the next month or so, as the Department of Social Welfare is restructured to better administer the new social assistance environment created by the revision of the welfare system.

Other aspects of benefit reform will be implemented progressively over the next few years in tandem with an improving economy and labour market.

SUPERANNUATION

The state's role in providing retirement income

Key points

- *Guaranteed Retirement Income is the largest single cost the Government faces. When it was introduced in 1989, it was calculated that the cost would not exceed 7.5 percent of the tax base right up to the year 2020. Already, less than two years later, it accounts for 8.2 percent. Future growth in the number of those aged over 60 means a scheme that is already taking a larger share of revenue than expected and is difficult to sustain now, will, if left unchanged, become more difficult - if not impossible - to sustain in the future;*
- *the GRI earners' surcharge will be removed from April 1, 1992, and a revised National Superannuation scheme will be introduced;*
- *the age of eligibility for National Superannuation will rise from 60 to 61 years on April 1, 1992 and, after that, it will rise from 61 years to 65 years at the rate of three months in age every six months in time;*
- *there will be a universal payment of National Superannuation to those aged 70 years and over at 50 percent of the standard rate for a married person;*
- *the gross amount of National Superannuation will be reduced at a rate of 90 cents for every additional dollar of gross income earned after the first \$80 of private income earned each week by the couple or individual. This phase-out rate is generally equivalent to reducing the net amount of National Superannuation at the rate of 65 cents for each additional dollar of income; and*
- *the purchasing power of National Superannuation will be protected from 1993. The after-tax rates will be adjusted each year in line with the cost of living. The first adjustment will take place on April 1, 1993.*

Impact of the changes

The changes to GRI will have a significant impact on individuals and the nation.

On an individual level, it means retired people with adequate private income of their own will receive less in retirement support from the state.

For the nation, the same changes represent a net fiscal saving of more than \$1 billion per year by the year 2001- 2002.

On a more complex level, these changes represent a fundamental shift in the way society views the balance between the state's obligations and the individual's responsibilities in providing retirement income. We are now facing the reality of an unsustainable scheme and its central role in New Zealand's economic problems.

The scheme already accounts for 8.2 percent of the tax base. This means GRI is a major factor in our fiscal problems and a significant contributor to our increasing national debt. To protect the future of the New Zealand economy, including the contribution of the state towards the welfare of the retired, action must be taken now.

The GRI is not sustainable because of changes in the population. Already, those aged over 60 account for more than 15 percent of the population. In 1966 they were only 12 percent. By 2030 we expect this group to be more than 26 percent of the population. Simply, relatively fewer numbers of income earners will be supporting increasing numbers of retired people on a very expensive scheme.

Past decisions have left us with a legacy of debt and some widespread misconceptions about superannuation and the Government's level of contribution towards retirement income. Many believe they are entitled to a retirement income because they have "paid" for it. They point to their past contributions of one shilling and sixpence in the pound (7.5 percent) into a social security fund. It is important to understand that:

- the contribution made in any past year was spent in that year. It was a "pay as you go" scheme, not accumulating funds for the future. Later, to sustain levels of retirement income the nation could not afford, it became a "borrow as you go" scheme;

- the concept of a separate fund was cosmetic. As long ago as 1958, social security tax was paid directly into the consolidated fund. It did not enjoy a separate and special status of its own; and
- the amount of social security tax did not meet the amount of expenditure on social security. In the years 1960 to 1967, expenditure on social security outstripped the tax contribution assigned to social security by nearly 40 percent.

It may be a difficult point to accept, but today's GRI recipients have not paid for their superannuation on some contractual basis. Their belief cannot be supported by the facts.

We have an unsustainable scheme and are left with difficult choices.

Those of retirement age are important, but so are the nation's children. Is it appropriate to regard GRI as sacrosanct and to put all the pressure of living within our means on other areas like health and education? Is it justifiable to impose additional taxes which must be paid by many families with modest incomes to fund state payments to retired people with private incomes of their own?

All groups are important but some have greater needs than others. It is the Government's job to determine priorities based on genuine need. All retired people with no other, or very low incomes, will continue to be supported by National Superannuation, but the changes will affect payments to people who have more substantial private incomes.

Options facing the Government

The options facing the Government include:

- continuing the status quo. That is, borrowing to sustain current levels of GRI. This is not an option the Government will exercise. Already, New Zealand's net public debt is more than 50 percent of GDP. This compares with an average of 31 percent for OECD countries. The Government will not continue to increase our debt servicing costs by using other people's money to pay for a superannuation scheme we cannot afford;
- increasing taxation and, as a result, undermining confidence in the Government's ability to contain its costs. The loss of investor confidence it would cause would have a serious and negative impact on our growth prospects. This would damage our ability to support GRI in the future.

Also, to sustain current GRI levels would require a significant increase in taxation. The Government has rejected this option;

- making a harsh and universal cut to GRI - a measure affecting both those who can afford it and those who cannot. The Government has rejected this approach because it is unfair on all those who were not in a position to provide an income for their retirement;
- making the GRI the same as other benefits with the same rates and income tests as other benefits. The Government has rejected this option in recognition of the limited opportunities many older people face in earning extra income; and
- a combination of progressively increasing the age of eligibility, decreasing the fiscal cost by holding the Consumer Price Index increase, and introducing a greater element of targeting. Broadly, this was the option proposed by the Royal Commission on Social Policy in 1988.

The Government has chosen the last of these options. It offers protection for all low income retired people and gives an element of universality at the age of 70 in recognition of the contribution the retired continue to make to society and the difficulty they face in planning to meet their own needs in a rapidly changing environment.

However, in practical terms the Government's reforms in this area are more generous than the Royal Commission's recommendations.

Main elements of the reforms

INCREASING THE AGE OF ELIGIBILITY

The main change is in the staged increase in the age of eligibility, rising from 60 to 61 on April 1, 1992 and, after that, rising three months in age to every six months in time, until the age of eligibility reaches 65 on April 1, 2001.

THE PHASE-OUT/ABATEMENT RATE

The current surcharge will be removed and be replaced with a phase-out, or abatement rate, of the gross amount of National Superannuation at a level of 90 cents for every additional dollar after the first \$80 of private income earned each week by the couple or individual. This confirms the concept of targeting

National Superannuation. To be introduced from April 1, 1992, the abatement rate will have no impact on those with an annual private income of \$4160 or less.

THE "UNIVERSAL" ENTITLEMENT

The Government has reintroduced a degree of universality in National Superannuation by deciding that a universal entitlement to 50 percent of the married person gross rate will be paid from the age of 70. This is also to be introduced from April 1, 1992. This means the same abatement rate will apply to those over 70, but that half the National Superannuation will be paid regardless of levels of private income. The effect is that a couple aged under 70 years of age who received no National Superannuation because their private income was more than \$24,000 a year, will upon turning 70, receive half the National Superannuation in addition to their private income.

SETTING THE RATE

The next adjustment to National Superannuation, which will be in relation to the CPI, will take place in April 1993, with annual adjustments after that.

The single sharing rate will continue to be set at 60 percent of the married couple rate and single people living alone will continue to receive 65 percent of the married rate.

INCOME TESTING

Income testing will take effect from April 1, 1992. The income of couples will be jointly tested. Only 50 percent of a pension paid by a registered superannuation scheme and annuities paid by a life insurance company will be counted as private income for the income test. This applies both to assessing the income threshold and to all income beyond that point.

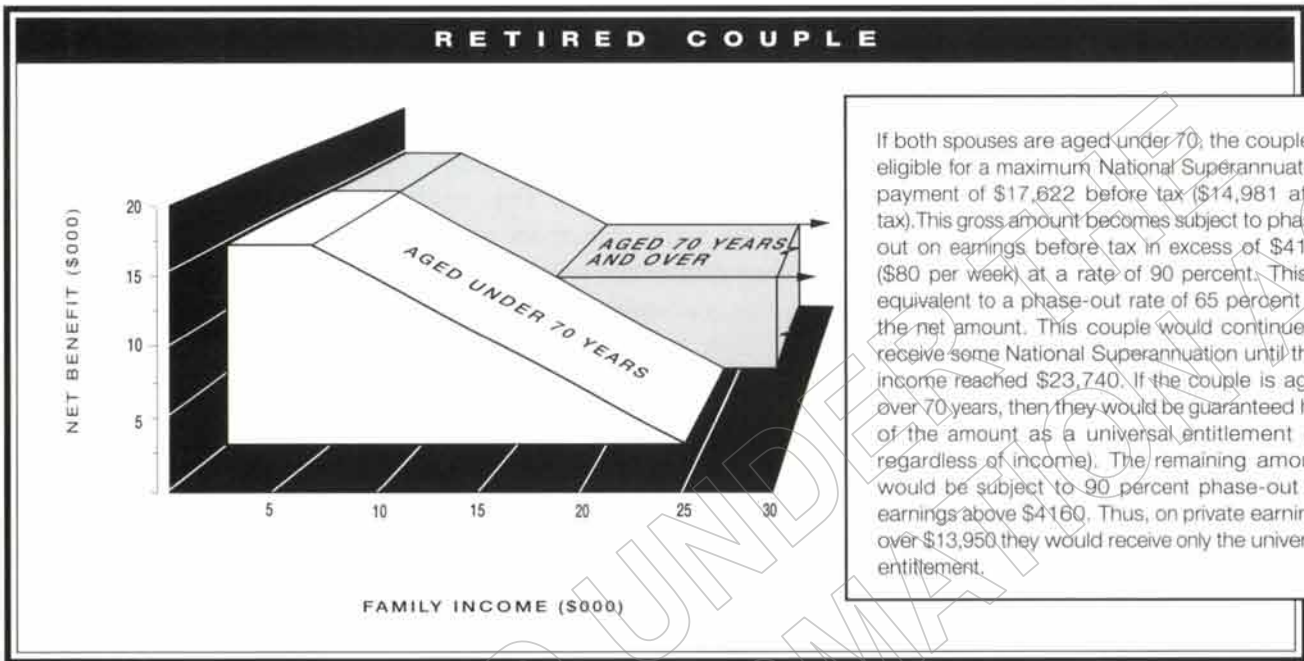
SPOUSES UNDER THE AGE OF ELIGIBILITY

With effect from October 1, 1991, there will be a reduction in the rate payable in cases where an eligible spouse is claiming for a spouse who is not eligible in their own right to receive National Superannuation. The rate will be reduced from \$288.10 to \$273.86 per week for new applicants only.

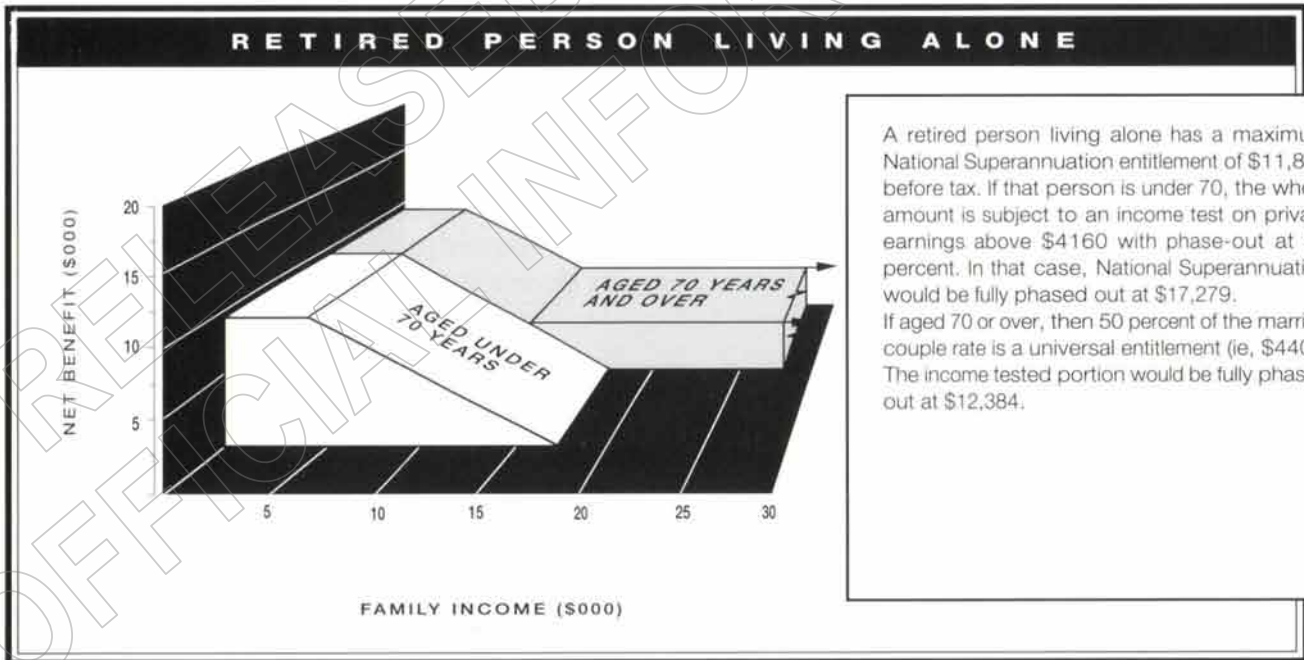
The system in practice

There are two points that need to be shown. The first shows the effect on recipients of the new targeting arrangements. The second shows the date at which different people will be eligible for National Superannuation during the progressive adjustment to the higher age.

The graphs in this chapter show the amounts of National Superannuation for couples and single recipients aged under 70 and over 70 years of age.



If both spouses are aged under 70, the couple is eligible for a maximum National Superannuation payment of \$17,622 before tax (\$14,981 after tax). This gross amount becomes subject to phase-out on earnings before tax in excess of \$4160 (\$80 per week) at a rate of 90 percent. This is equivalent to a phase-out rate of 65 percent on the net amount. This couple would continue to receive some National Superannuation until their income reached \$23,740. If the couple is aged over 70 years, then they would be guaranteed half of the amount as a universal entitlement (ie, regardless of income). The remaining amount would be subject to 90 percent phase-out on earnings above \$4160. Thus, on private earnings over \$13,950 they would receive only the universal entitlement.



A retired person living alone has a maximum National Superannuation entitlement of \$11,807 before tax. If that person is under 70, the whole amount is subject to an income test on private earnings above \$4160 with phase-out at 90 percent. In that case, National Superannuation would be fully phased out at \$17,279. If aged 70 or over, then 50 percent of the married couple rate is a universal entitlement (ie, \$4405). The income tested portion would be fully phased out at \$12,384.

Because the new age will be introduced progressively, it is useful to demonstrate in detail the dates at which people will become eligible for National Superannuation.

Schedule for age of eligibility for national superannuation income

Those born in the period:	Age of eligibility	Qualify in the period:
Up to 31.3.32	60	Up to 31.3.92
1.4.32 - 30.6.32	61	1.4.93 - 30.6.93
1.7.32 - 30.9.32	61/3 mths	1.10.93 - 31.12.93
1.10.32 - 31.12.32	61/6 mths	1.4.94 - 30.6.94
1.1.33 - 31.3.33	61/9 mths	1.10.94 - 31.12.94
1.4.33 - 30.6.33	62	1.4.95 - 30.6.95
1.7.33 - 30.9.33	62/3 mths	1.10.95 - 31.12.95
1.10.33 - 31.12.33	62/6 mths	1.4.96 - 30.6.96
1.1.34 - 31.3.34	62/9 mths	1.10.96 - 31.12.96
1.4.34 - 30.6.34	63	1.4.97 - 30.6.97
1.7.34 - 30.9.34	63/3 mths	1.10.97 - 31.12.97
1.10.34 - 31.12.34	63/6 mths	1.4.98 - 30.6.98
1.1.35 - 31.3.35	63/9 mths	1.10.98 - 31.12.98
1.4.35 - 30.6.35	64	1.4.99 - 30.6.99
1.7.35 - 30.9.35	64/3 mths	1.10.99 - 31.12.99
1.10.35 - 31.12.35	64/6 mths	1.4.2000 - 30.6.2000
1.1.36 - 31.3.36	64/9 mths	1.10.2000 - 31.12.2000
1.4.36 and later	65	1.4.2001 and later

Meeting the Government's objectives

The reform of National Superannuation recognises that the current level is unsustainable. The changes introduce a system which, as far as possible, minimises the impact on individuals with few resources, while ensuring those who most need assistance receive it and those who have resources of their own are encouraged to support themselves.

The new approach encourages self-reliance, particularly among those who have yet to retire. The message is clear: those people must start planning for their own financial security in retirement. The state will provide them with an adequate minimum level of retirement income but the resources for anything over and above that are their own responsibility.

The reform reflects a necessary realism. The current scheme is not fiscally affordable. The reform will ensure it is. The reduction in its costs and its impact on the reduction in the Government's deficit will contribute to the growth in the economy that is required to make sure it is sustainable in future years as the number of retired people grows in relation to our working age population.

The sensitive management of change will be achieved through the phased introduction of the changes in a manner that impacts as little as possible on current recipients of GRI and those about to receive National Superannuation, while at the same time encouraging younger people to plan now for their future retirement needs.

Implementation

The revised National Superannuation scheme will be introduced in April 1, 1992.

Implementation will be the responsibility of the Department of Social Welfare. The Inland Revenue Department will assist with income assessments.

SOCIAL SERVICES

Protecting access to social services

Key points

- *the provision of social services on a universal basis and free of charge has led to over-use of some services and an unresponsive delivery system;*
- *under the new approach, there will continue to be guaranteed access to health, education and other essential social services, with assistance for those who cannot afford to meet part or all of the costs. The quality of the service will be the same for all because the service that people use will be the same irrespective of whether the state or the family pays for it;*
- *financial assistance with access to social services will be on a selected rather than a universal basis. Those who need it will receive it, those who can afford it will pay for it, and those who need it most will not be contributing to the costs of those who need it least;*
- *assistance with accessing social services will not be based on income alone. It will depend on a family's total needs across the whole range of social services according to income, number in the family, health and education status;*
- *to encourage people to move from state dependence to personal and family independence, assistance will be phased out in stages, service by service. For example, the phasing out of assistance in the form of Family Support will not begin until any income-tested welfare benefit has been fully phased out;*
- *a single phase-out rate will apply across all forms of assistance to social services;*
- *a single family income test will apply for all forms of assistance; and*
- *the system will not be introduced immediately. Existing arrangements will continue for at least the next year. It may be a couple of years before the arrangements described in this document take effect. The timing depends on decisions in other areas, especially health funding.*

The “universal” concept

For the past 50 years, New Zealanders have enjoyed subsidised provision of essential social services - such as education and health - on a universal basis. Apart from Family Support and the tertiary students' allowance, everyone, regardless of income, had access to subsidised social services on the same basis.

The state can no longer afford that level of support. It has led to growing costs and to inappropriate use of services. Health costs, for example, have risen as patients have used hospital services free of charge when equally effective and lower cost services have been available. Any revised system of assistance with access to social services must preserve the quality of the services, make sure they continue to be available to all regardless of income, while reducing the cost to the state by making those who can afford the cost pay for them.

A system to provide targeted support raises the inevitable difficulty that an increase in income leads to a drop in assistance. That acts as a disincentive to extra earnings. When there are several schemes all phasing out independently such as occurs now with benefits, state house rents, childcare subsidies, tertiary allowances and Family Support, there is a risk that the effect of these different schemes will accumulate, leading to a drop in real income if earnings increase. This is a poverty trap. There has been some difficulty with such unco-ordinated schemes in the past. If there are now to be extra schemes, including assistance with possible health premiums, the problems of poverty traps could be greatly increased.

An integrated approach

It would be difficult to institute a system that is sensitive to family needs by merely looking at each service individually. For example, the ability to pay for health care depends on what the family must pay for other social services. It is impossible to gauge the impact each service has on a family's total circumstances without taking an integrated approach.

This section describes a new approach to determining entitlement for support. Its central feature is that it offers an integrated approach in which support for one social service is no longer worked out without reference to other services. Once that point is fully appreciated, the method involved in working it out is simply a matter of administration and detail.

The new administrative rules covering the provision of targeted assistance across a range of social services is one of the areas that will be implemented in the longer term. Changes will not be in place for at least a couple of years. Meantime,

the rules that are being announced elsewhere in this document and other supplementary papers (such as the rules for the tertiary students' allowances) will continue to apply.

Guidelines

An integrated approach to guarantee access to social services requires an administrative system, or a set of rules, that allows:

- the phasing out of access to social assistance to begin only after the relevant income-tested benefit has been phased out;
- the phasing out of one form of assistance to a social service to begin only after the previous assistance has been fully phased out;
- a single phase-out (or abatement) rate to apply across all forms of assistance to social services included in the scheme; and
- a single test of means to apply for all forms of assistance.

The following sections provide detail on those rules.

Impact of future decisions

The shape of the new social assistance structure is clear. There are three critical factors that will define its scope and impact. They are:

- at what point will assistance with access to social services start to be reduced (the threshold). Families with the lowest income level will continue to receive full assistance. However, the Government will decide a point (beyond the phase-out of the relevant benefit) at which assistance with access to social services will begin to reduce;
- at what rate will assistance decrease as income increases (the abatement rate); and
- which social services will be included in the targeted scheme and which of the services will remain universal.

These are critical policy variables which may well change from time to time in the future. It is important to understand their impact from the outset.

SERVICES INCLUDED IN THE ABATEMENT SCHEME

The concept of abatement based on family income is not new. It already applies, and will continue to apply, for Family Support and the student allowance scheme.

However, those two schemes now operate in isolation to one another. They cut in and out and abate at different rates. As a result, the impact of one or both schemes on the resources of some families may be contrary to what was intended in assisting those families with access to social services.

Introducing new categories where people are expected to contribute to the cost of that service, such as health for example, would have a significant impact on a household budget. The larger the number of social services included in the scheme, the more important it is to be able to consider the impact of all the schemes together, in a global sense.

The Government has decided the administrative rules of the global arrangement will apply to Family Support and tertiary allowances. It has also decided any other targeted schemes will also be run in line with these global arrangements. For example, the chapter on education explains that it is possible that targeted assistance may be developed for early childhood education. If this is introduced it would be part of this global system.

However, not all forms of assistance are capable of being included in the one scheme.

Some forms of services and their annual costs cannot be predetermined. Therefore, assistance with these costs cannot be fully integrated into an annual abatement scheme. For example, it is an easy enough exercise to calculate the annual cost of Family Support, but the annual cost of going to the doctor will vary according to the number of visits made. Similarly, some assistance (such as the Accommodation Supplement) is specifically designed as an adjunct to benefit support and is intended to focus solely on lowest income groups. For this reason the Accommodation Supplement will not be included in the global scheme.

HEALTH PREMIUM

The Government is canvassing several options in the health area. Two involve the payment of an annual health premium charge. All these options are discussed in the separate document on health reform. Although the Government has not committed itself to any of the options, the introduction of such a premium would constitute a significant charge on many New Zealand households.

If one of the premium schemes proceeds, targeted assistance will be offered as one of the elements in the global social assistance scheme. We have included such a possibility in the range of calculations for our case studies.

ABATEMENT ORDER

An important issue is the order in which state support for targeted social services is phased out, or abated. The order is intended to be benefits first, followed by Family Support, assistance with the health premium, any other services to be included at a later date (such as early childhood education if targeting is introduced there) and, finally, the (tertiary) student allowance scheme. The latter is outlined in greater detail in the chapter on education.

The order reflects three considerations:

- it phases out most cash benefits first. This is because, although cash support is potentially attractive to all households, it is intended to focus on those with the lowest incomes;
- it phases out the services required by the least number of people last; and
- because of that, the scheme is easier to administer.

THE THRESHOLD

Setting the threshold - or the point where abatement starts - is an important element in the scheme.

As discussed in the chapter on benefit reform, there will continue to be a range of benefits designed to meet the specific needs of particular beneficiary groups. This has implications on the setting of both the rate and the threshold.

For example, at present the Invalids' Benefit is larger than the Unemployment Benefit. This means the point at which this benefit phases out, or abates, to nothing as earnings increase, is higher than the point where the Unemployment Benefit phases out. Thus, a decision on which benefit to use as the basis for setting a threshold at which abatement starts is critical.

For example, if the threshold for abating support for social services is determined by the Unemployment Benefit, then the phasing out of assistance for social services will be complete at a lower level of private income.

However, the lower the threshold, the less incentive there is for people to move out of dependence towards independence. This is because a lower threshold leads to a lower level of assistance for those in work and so narrows the gap between the effective income of workers and beneficiaries.

THE PHASE-OUT RATE

The other factor in this equation is the rate at which the assistance is phased out. The issues here are similar to those involved in considering rates for income tax.

A high rate of tax, or abatement, is effective because of its potential to target accurately but it may cause costly incentive and avoidance problems. For example, suppose the rate is 50 percent - that is, a cut of 50 cents in assistance for every extra dollar earned. Adding that to the income tax rate of 33 cents for every extra dollar earned means the incentive to move towards independence by earning more is small for those whose incomes are in the abatement range. However, on the other hand, a high abatement rate means that the range of incomes affected is reduced, so fewer people are affected by the phase-out. An abatement rate of 20 percent increases individual incentive, but also increases cost to the taxpayers funding the benefit because the phase-out period has been lengthened.

STRIKING A BALANCE

The setting of the threshold, the rate of abatement and the range of social services included in the reforms have important implications for fairness, access to social services for all New Zealanders regardless of circumstances and the ability of the Government to make a significant impact on its spending.

The Government has deliberately delayed decisions in these areas because these three factors interact. Until a decision is made on whether to use health premiums it is not possible to set these factors. However, the fundamental policy direction has been established. That is, state-assisted access to social services will be more selective through a system of targeting that ensures those who need assistance receive it and those who do not need assistance meet the costs of their own demands on those services, and at the same time, contribute to the costs of those services for the less fortunate.

The system in practice

The amount of support that will be offered to different families depends on the number of people in the family and the number of areas covered by the targeting system to which they need access.

The assumptions we have made in creating these practical examples are:

- the threshold level for the beginning of the phase-out of assistance is set in line with the higher of possible benefits currently in place. This implies a threshold towards the upper end of the possible range; and
- three different rates of abatement of assistance with social services:
 - 20 percent
 - 35 percent
 - 50 percent.

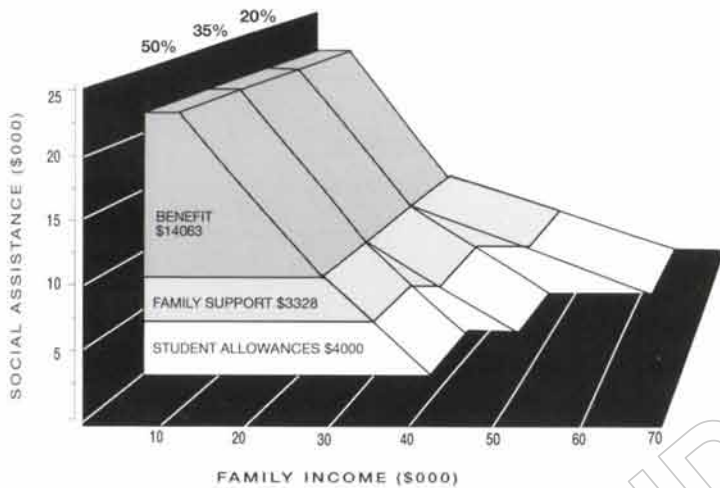
The best way of looking at the impact of alternative schemes is to consider different family types across a range of incomes.

The income of each family may be read along the bottom line of the graph. By looking up from that bottom line it is possible to broadly work out the amount of support being offered for that family type at each family income level.

In each case, the lowest income families are shown receiving their social security entitlement (in this case it is their income-tested benefit) as well as the full entitlement to assistance with Family Support and tertiary student allowances. For those above the range where benefits apply, the assistance can be seen to phase out. The families beyond the level where all assistance has finished may be regarded as capable of paying for their own services in these areas.

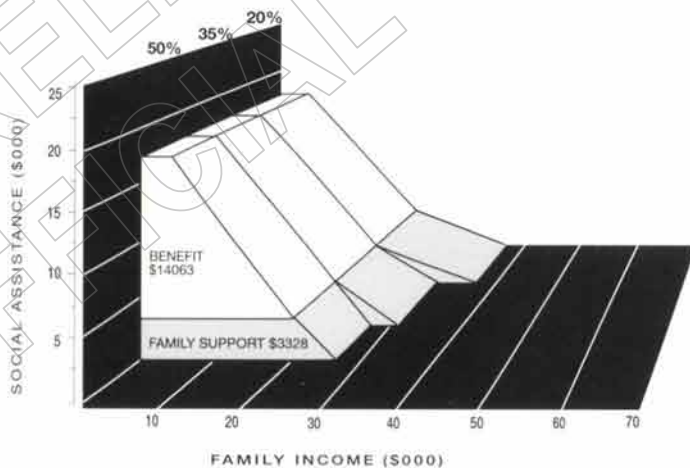
Another possibility is that the Government could introduce a system of compulsory health premiums to be paid by all families. This option is explained in the separate paper on reforms in the health sector. If this option were adopted,

COUPLE WITH CHILDREN



This family is a couple with three children, one of whom is attending a tertiary institution. They may be eligible for Family Support (of \$3328 annually) for the two school-age children and the eldest child could be eligible for student allowance payments (around \$4000 at the "away from home" rate). Family Support would begin to phase out at an annual family income of \$23,805. This particular threshold reflects the point at which the current Invalids' Benefit for a couple with children would have been fully phased out or abated. At an abatement rate of 50 percent, Family Support would have fully abated by about \$30,500, at which point student allowances would begin to be income tested. Phase-out of student allowances would end at a family income of about \$38,500. At lower phase-out rates the thresholds are higher. For example, at 35 percent, this family would face phase-out of student allowances at about \$33,300. Phase-out would be complete at \$44,700. In comparison, a 20 percent phase-out rate would result in student allowances becoming income tested at \$40,500. At an income of around \$60,500, phase-out would be complete. It should be noted that even when other forms of assistance have fully abated, the family receives substantial assistance with social services. The children have access to free primary and secondary education (at a value of at least \$3,800 per child) and the family receives heavily subsidised health care services.

SOLE PARENT



A sole parent with two children could be eligible for Family Support. This would begin to be income tested at an income of \$20,716. It would be fully phased out at an income of about \$27,400, if the phase-out rate was 50 percent. In comparison, a phase-out rate of 35 percent would make this family ineligible for Family Support at an income of \$30,200. With a 20 percent phase-out rate, the cut-out point is around \$37,400. Again the family receives universal access to primary and secondary schooling and subsidised health care.

targeted assistance with premiums would be offered. These graphs show the impact of different abatement rates, if targeted premiums are introduced.

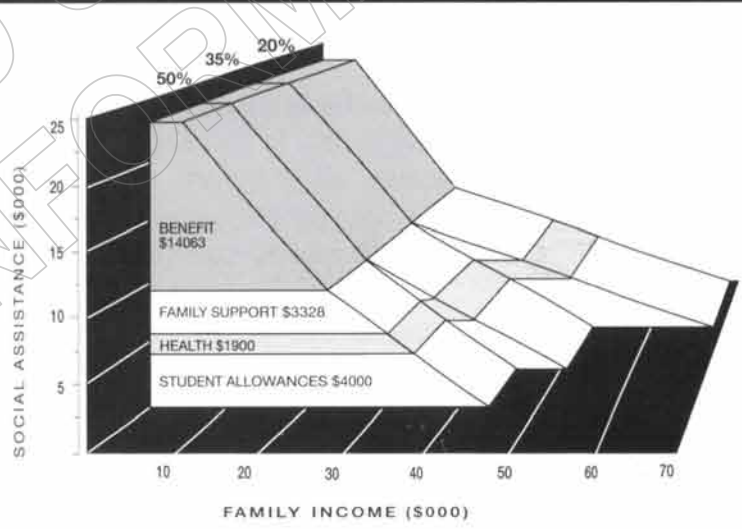
Some further assumptions have been made in these graphs. They are:

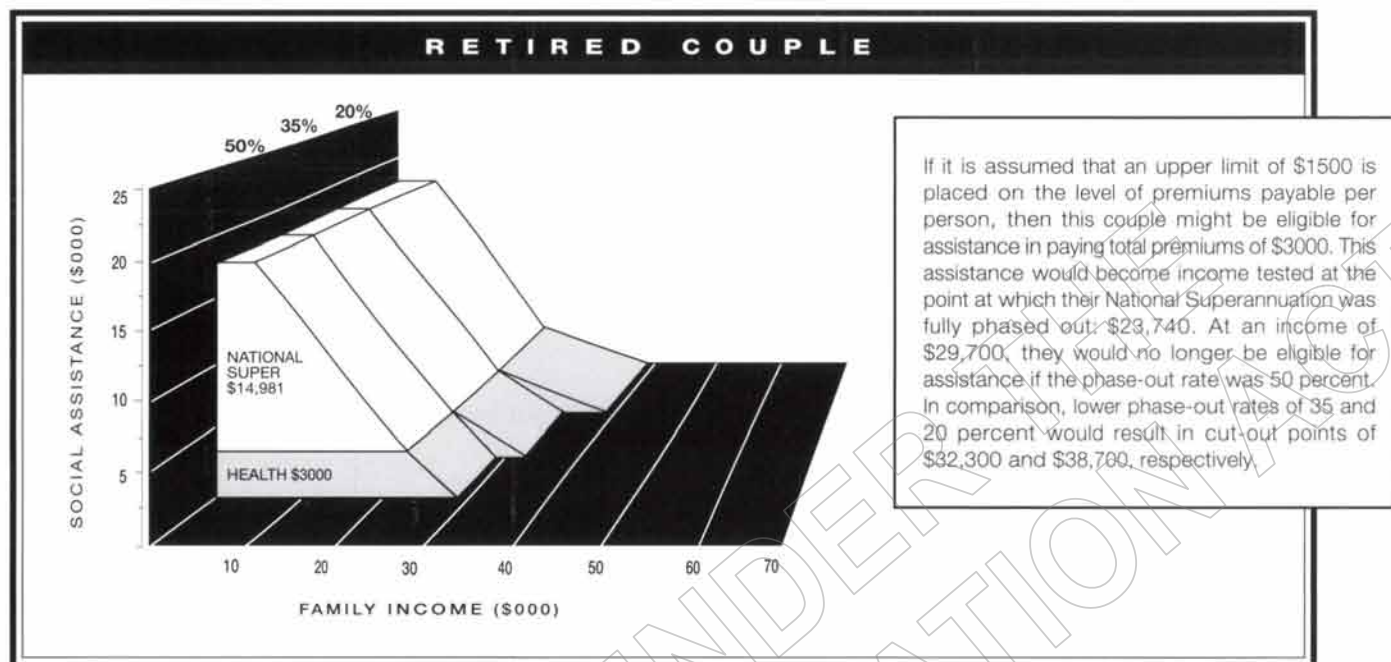
- the health premium is set at levels which broadly meet the current hospital and non-hospital health care costs of people at different ages;
- free health premiums for all children; and
- a limit on the size of health premiums so the retired do not face excessive bills.

COUPLE WITH CHILDREN

If health premiums were included as part of the phase-out scheme for assistance with access to social services, they would become income tested only after Family Support had been fully phased out. With a phase-out rate of 50 percent, this point would be about \$30,500. Assuming that the premiums payable for the two adults totalled \$1900, then the family would no longer be eligible for premium assistance at an income of \$34,300. At that point the eldest child's student allowances would begin to be phased out. When the parents' income reached \$42,300, phase-out would be complete.

At lower phase-out rates, the thresholds or cut-in points are higher. For example, at 35 percent, this family would face phase-out of health premiums at about \$33,300, of student allowances at \$38,700, and phase-out of assistance would be complete at \$50,200. In comparison, a 20 percent phase-out rate would result in health phase-out beginning at \$40,500 and student allowances at \$49,900. At an income of around \$70,000 all assistance with access to social services would be fully phased out. Regardless of income level, the children receive free primary and secondary education.





Meeting the Government's objectives

These rules for administering assistance with social services mean all people will have access to social services and if they are unable to meet the cost of that access - all or in part - the state will assist them. On the other hand, it is fair that those people who are in the position of being able to help themselves can meet the cost of access to their own social services.

The phasing out of assistance with access to social services as individual circumstances improve encourages people to move quickly from state dependence to independence, and so contribute to building opportunities for people.

The introduction of more targeting assists the extension of personal choice in social services. This system is not so much about who delivers the social services, but making sure everyone, regardless of circumstances, has access to it. Some services, such as Family Support, are delivered only by the state, but there are others - health and education - where there are a choice of organisations, both in the private and public sectors, offering a service. This system, because it focuses on assistance with access to the services rather than the services themselves, enables people to have greater personal choice in deciding where they are going to purchase those services. An emphasis on targeting and reducing payments for those who can pay for themselves is a major component in constructing a sustainable welfare state.

The fiscal savings resulting from the changes to social assistance depend on a number of decisions - such as the threshold, the phase-out rate and the introduction of some form of health premium. For example, if the thresholds were relatively low, the abatement rate gradual and health excluded, savings of around \$200 million per year might be possible. On the other hand, if health premiums were introduced, the income thresholds might be higher and the abatement rate faster. This regime could save as much as \$900 million per year when fully implemented.

It is important the changes outlined in this document are sensitively managed. The Department of Social Welfare will be responsible for the implementation of these changes progressively as decisions are made and the economy provides the environment for change.

It is intended that this reform, because it is the most significant change in New Zealand's social welfare system for more than 50 years, will be introduced in stages over two to three years. The introduction of the new initiatives is critical to the future direction of the Government's role in the provision of social services in New Zealand. It cannot be rushed.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

ACCOMMODATION

Assistance with accommodation

Key points

- *the present forms of accommodation assistance are unfair because those lucky enough to be Housing Corporation or Iwi Transition Agency clients receive more assistance;*
- *the Department of Social Welfare will be responsible for providing the Accommodation Supplement to those with a housing need but with insufficient resources to meet that need;*
- *state-owned housing and mortgages will be managed commercially to encourage competition, investment and choice in housing. Future assistance will be given in the form of financial assistance with the costs of accommodation;*
- *reforms will ensure all people seeking assistance with housing costs are treated equally;*
- *there will be equal assistance for purchase and renting, and for needs to be met by either the public or private sector;*
- *assistance will reflect regional differences in the cost of accommodation and will be based on the concept of a fair market rent;*
- *a transition period will ensure the new policy will not disrupt people and their current housing arrangements; and*
- *policy issues in this area are the responsibility of the Minister of Housing.*

Housing Corporation of New Zealand

Major changes to the Housing Corporation of New Zealand are covered in the separate supplement on housing. The most important change in housing assistance is that, over time, clients of the corporation will begin to pay full market rental

or commercial interest rates for their accommodation. If those same clients need any assistance in meeting those costs, that assistance will come from the Department of Social Welfare.

This represents a substantial change to the current situation where Housing Corporation clients receive state-subsidised assistance, often in houses substantially bigger and, therefore, more costly, than they need, and those who are not Housing Corporation clients but still need assistance with accommodation costs, receive a lower accommodation benefit from the Department of Social Welfare.

Not only is that system discriminatory, it also prevents the development of a carefully targeted system of social security support directed at those who are in genuine need. It is wasteful.

It is also important to note that, under the present system, most beneficiaries are able to meet their accommodation costs using only up to 25 percent of their relevant benefit, thus not requiring additional support in the form of accommodation assistance or subsidised Housing Corporation rents. This underlines the point that the current system acts like a lottery. Those who are lucky enough to get a state house enjoy considerably more assistance than others. But most beneficiaries demonstrate that, although they use private accommodation, their benefit payments are sufficient to meet their accommodation costs without the need for extra accommodation assistance.

However, not all households can manage that, so that is why an Accommodation Supplement is needed. However, the new system delivers that additional assistance on a uniform and fair basis.

The Accommodation Supplement

The Accommodation Supplement will be part of the integrated approach to the delivery of social security in New Zealand.

In practical terms, the supplement will be much like the current Accommodation Benefit. It will continue to be a rent or mortgage subsidy for any costs exceeding 25 percent of the relevant benefit or, if in employment, 25 percent of income up to the level of the Invalids' Benefit. However, the supplement will be an improvement over the former Accommodation Benefit in three important respects. They are:

- the subsidy rate of 50 percent for costs over and above the 25 percent level will be increased to a 65 percent subsidy;

- the maximum rate of assistance is currently set at an arbitrary \$41 per week for single people and \$68 for sole parents and those who are married. It does not bear any relationship to the realities of the marketplace. The new maximum will be based on a fair market rent; and
- the fair market rent will reflect regional variations in the cost of accommodation. People living in areas where the costs of accommodation are high will receive additional support.

Furthermore, the supplement will not abate as one of the social service items included in the global scheme described in the previous chapter. Instead, it will be treated as a social security safety net item and will abate at the same time as Family Support. The rate of abatement will be determined in relation to the rate set for other social services.

There are some people receiving support equivalent to Housing Corporation assistance through the Iwi Transition Agency. The needs of people receiving accommodation assistance under these schemes will also be met by the new Accommodation Supplement.

Reforms in practice

The graphs in this chapter show how the Accommodation Supplement will fit in with the other forms of targeted assistance. The rate of abatement, or phase-out, that is finally determined for the Accommodation Supplement will depend upon the rate of abatement used for other social services.

This is because the supplement will be phased out at the same time as Family Support and the two schemes together are intended to phase out at the same rate as income-tested benefits. This means the phase-out rate for the Accommodation Supplement plus the phase-out for other social services would add up to 70 percent.

The following examples assume that the Accommodation Supplement pays a subsidy equivalent to 65 percent of the difference between actual housing costs and 25 percent of the Invalids' Benefit. The maximum level of actual housing costs that are taken into account are limited to a "fair market rent" which varies by region.

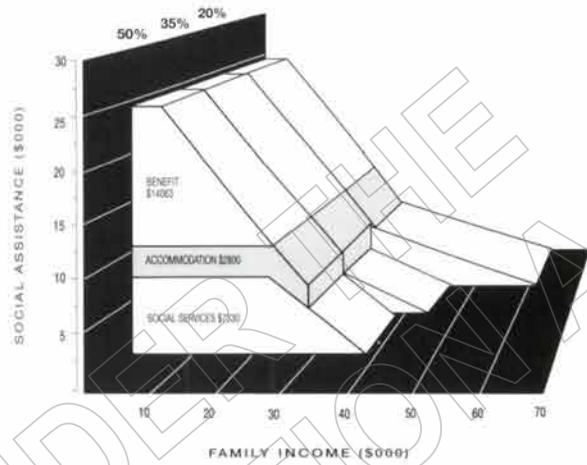
To avoid the possibility of having the supplement phase out over a very wide range of income, it is assumed that the income at which eligibility stops can never exceed 1.25 times the income at which the relevant benefit will have been fully phased out.

COUPLE WITH CHILDREN

This family faces mortgage payments of \$190 per week. The maximum amount of costs which can be taken into account would be the fair market rent for a three-bedroom house in their region. In other words, if actual costs exceed the fair market rent, then it is the latter figure which would be used when calculating the level of accommodation assistance they might be eligible for.

If the fair market rent is assumed to be \$160 per week, they could apply for a maximum Accommodation Supplement of \$54 per week (\$2800 per year). This would become subject to phase-out at an income over \$23,805. It would be phased out at the same time as Family Support. For example, if Family Support is phased out at 50 percent then the Accommodation Supplement would abate at 20 percent giving a combined phase-out rate of 70 percent - the same as the benefit phase-out rate at lower income levels. In this instance eligibility for the Accommodation Supplement would stop at an income of \$29,756 (1.25 times the benefit cut-out).

If Family Support abates at 35 percent then so too would the Accommodation Supplement. Again the cut-out would be \$29,756. Alternatively, 20 percent phase-out of Family Support would imply 50 percent phase-out of the Accommodation Supplement. The cut-out would be \$29,407.

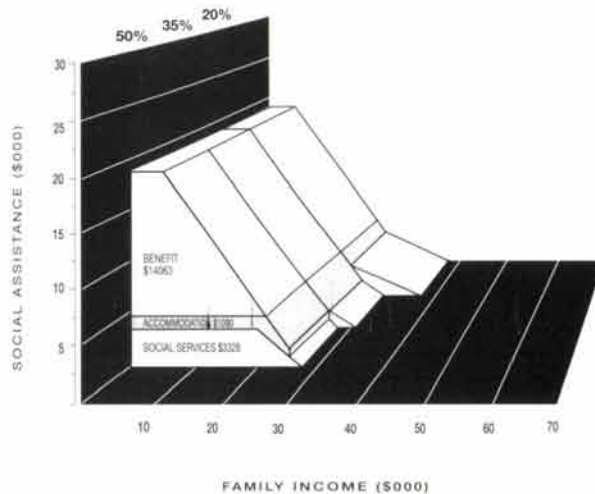


SOLE PARENT

This family has rental payments of \$100 per week. Assuming this amount does not exceed the local fair market rent, then this family could be eligible for a maximum Accommodation Supplement of \$21 per week (\$1090 per year). This would become income tested on earnings over \$20,716.

If Family Support is phased out at 50 percent then the Accommodation Supplement would abate at 20 percent, and entitlement for the Accommodation Supplement would stop at an income of \$25,895 (1.25 times the benefit threshold).

If the Accommodation Supplement phased out at 35 percent then the cut-out would be \$23,830. Alternatively 20 percent phase-out of Family Support would imply 50 percent phase-out of the Accommodation Supplement and the cut-out would be \$22,898.



Meeting the Government's objectives

This reform brings fairness to assisting those in need with accommodation costs in that it treats all people the same. Clients of the Housing Corporation are entitled to the same assistance as others, but no longer will they receive more assistance because of their status as a corporation client.

Administratively, the supplement represents value for money because it clearly directs that assistance will be delivered by the organisation best positioned to do that - the Department of Social Welfare. Also, it allows accommodation assistance to be viewed as part of a wider social security issue.

By providing equal assistance for purchase and rent, and equal assistance for public or private providers of accommodation, the new system encourages a greater degree of personal choice.

Changing the role of the Housing Corporation by putting it on a commercial status will ensure a more realistic approach to the management of its resources. Overall, the new system will be more sustainable and promote a more effective approach to housing investment.

Finally, a staged transition period meets the need for sensitive management of the change.

Implementing the changes

These changes will not be put into effect immediately as they are dependent on two factors:

- the need to ensure existing clients of the Housing Corporation and the Iwi Transition Agency have time to adjust to their new levels; and
- the time needed to restructure the Housing Corporation of New Zealand and the Department of Social Welfare to administer the new system.

Taking those factors into account, it is likely the reforms in this area will take two to three years to be fully implemented.

However, it is intended the Accommodation Supplement will be paid from July 1, 1993. A more detailed account of the transition is included in the separate supplement on housing.

HEALTH

Assistance with user charges for health services

Key points

- *rationalising the basis of charging for access to health services will mean a more even spread of use across both primary (general practitioner/pharmacy) and secondary (hospital) health sectors;*
- *the Government has set different charges for different income groups;*
- *rationalising charges means Government assistance will be better directed towards ensuring those on lower incomes are able to use health services;*
- *there will be an improvement in assistance available to those on lower incomes;*
- *new cards, referred to here under their working title of "Kiwicards", will be issued to people from lower income groups to show the level of their entitlement; and*
- *the policy and implementation of the reforms (other than the issue of cards) in this area are the responsibility of the Minister of Health.*

Rationalising the system

Part charging for health services is not a new concept. For example, New Zealanders have always had to make a contribution towards the cost of a visit to their general practitioner.

The fact some services were provided free of charge led to excessive use of those services. Users made decisions based on cost rather than the suitability of the particular service to fix a specific problem. For example, before the introduction of accident compensation in 1970, only 5 percent of visits to a general practitioner were classified as accidents. After 20 years of ACC subsidies, that percentage has now risen to 20 percent - a trend described as "cost shifting".

Part charges for hospital services will halt the trend of users viewing hospitals as a cheap alternative to a visit to the doctor.

The problem is that the range of part charges has been extended piecemeal by governments over the years without reference to the impact of an increase in one charge on another health service, or the impact of assistance in the health sector on social security and other social services.

Rationalised charges are critical in strengthening the incentives for patients and doctors alike to take account of prices when making decisions about the use of health services. Not only does that promote the better use of health services, but more importantly, it will encourage New Zealanders to focus on healthy living rather than medical treatment.

Charges also mean both doctor and patient are aware of the cost of the service at the time the service is contemplated, thus making it easier for the patient to participate in the decision about whether that particular service is used or not. Clearly, if important charges are set at a level that does not act as a barrier to necessary care.

In response to these concerns, the Government has decided to introduce a new range of part charges for health services. These will take effect from February 1, 1992. Charges for the retired will take effect from April 1, 1992 when the new National Superannuation scheme is introduced. These are a first step in the reform of health services and will be overtaken as the regional health authorities become responsible for the purchase of health services. The new charges, and targeted assistance, will also be applied to accident costs as that becomes possible.

Delivery of assistance

A major objective in the reform of assistance to social services is to ensure that those who are unable to contribute to the cost of a social service still have access to it, and those who can afford to contribute towards the cost of services used, do so.

Not everyone can afford to pay the full charge or the highest level of part charge. Therefore, the Government has set different levels of assistance for different groups. None of the charges faced by the lowest income group will be increased. Some will be reduced. As a result, people in this group will make considerable savings in their health bills.

The Government has also set annual limits on the cost any family may have to face for certain types of health services. That means heavy users, at any income

level, will be protected by a limit on their contributions towards the cost of those particular services, after which the Government will assume responsibility for the total costs.

The limits will be 15 pharmaceutical items per family per year and, for those groups liable for hospital charges, 10 inpatient nights in hospital per family per year and five outpatient visits per family per year.

Assistance groups

The targeting of assistance will be based upon three income groups. The eligibility for each group is based on the following criteria:

GROUP ONE:

recipients of income-tested benefits;

recipients of National Superannuation on an income below the level at which National Superannuation entitlement will phase out for those under 70;

recipients of student allowances;

recipients of unabated Family Support; and

childless, non-beneficiary, low income families and individuals on an income below the level at which National Superannuation entitlement will phase out for those under 70.

GROUP TWO:

recipients of partly abated Family Support.

GROUP THREE:

families who do not receive any Family Support;

childless, non-beneficiary higher income individuals and families; and

people in the National Superannuation age group with incomes above the full abatement point.

Existing records already show the groups most people are in based on present social security benefits, Family Support or National Superannuation. In addition, the Department of Social Welfare will run an application scheme for low income, childless people.

Chronically ill

The Government has decided that the current provisions for classifying some individuals as chronically ill will continue. Chronically ill people from all three groups will be treated the same, facing the same charges as they face now. This policy reflects the Government's concern that those who need ongoing care are not prevented from securing the services they need.

However, the classification provisions will be reviewed.

Schedule of user charges

(In all cases, a child 5+ is a child aged five and over but under 16, or a child aged five and over and under 18, if the child is not financially independent).

GP SERVICES

	New Subsidy	Likely Patient Charge*	Present Subsidy
Group 1:			
Child 0 - 4	25	6	25
Child 5+	20	11	20
Beneficiaries	15	16	12
Elderly	15	16	12
Chronically ill (adult)	17	14	17
Adult	15	16	0
Group 2:			
Child 0 - 4	25	6	25
Child 5+	20	11	20
Chronically ill (adult)	17	14	17
Adult	12	19	0

	New Subsidy	Likely Patient Charge*	Present Subsidy
Group 3:			
Child 0 - 4	0	31	25
Child 5+	0	31	20
Elderly	0	31	12
Adult	0	31	0
Chronically ill (adult)	17	14	17
Chronically ill (child 0 - 4)	25	6	25
Chronically ill (child 5+)	20	11	20

Note: * Based on assumed consultation fee of \$31.

LABORATORY SERVICES

	New Charge	Present Charge
Group 1:	0	0
Group 2:		
Not chronically ill	2	0
Chronically ill	0	0
Group 3:		
Not chronically ill	2	0
Chronically ill	0	0

PHARMACEUTICALS

Group 1:		
Child 0 - 4	5	5
Child 5+	5	5
Beneficiaries	5	5
Elderly	5	5
Chronically ill (adult)	5	5
Adult	5	15

	New Charge	Present Charge
Group 2:		
Child 0 - 4	5	5
Child 5+	5	5
Chronically ill (adult)	5	5
Adult	7.50	15
Group 3:		
Child 0 - 4	20	5
Child 5+	20	5
Elderly	20	5
Adult	20	15
Chronically ill (adult & child)	5	5

OUTPATIENT SERVICES

Group 1:		
Child 0 - 4	0	0
Child 5+	0	0
Beneficiaries	0	0
Elderly	0	0
Chronically ill	0	0
Adult	0	0
Group 2:		
Child 0 - 4	6	0
Child 5+	11	0
Chronically ill (adult & child)	0	0
Adult	19	0
Group 3:		
Child 0 - 4	31	0
Child 5+	31	0
Elderly	31	0
Adult	31	0
Chronically ill (adult & child)	0	0

INPATIENT SERVICES

Group 1:	0	0
Group 2:		
Not chronically ill	35	0
Chronically ill	0	0
Group 3:		
Not chronically ill	50	0
Chronically ill	0	0

These charges mean that nobody in Group 1 (the lowest income group) will face any charge higher than they are currently charged for health services. Adults in the lowest income group will receive more assistance with doctor visits and prescription charges than they do at present.

There are some new charges for services that previously have been provided without a charge. These include a contribution towards the costs of hospital stays, outpatient services and laboratory charges. People who are chronically ill will continue to receive these services free of charge.

The system in practice - the Kiwicard

All people in Groups 1 and 2 will be issued with a personal card - like a credit card - which will be used to allow the provider of the service to charge the user the appropriate amount based on his or her family income grouping. This entitlement card will demonstrate the person holding it is entitled to a particular level of assistance or discount on charges. Cards will not be issued to those families in Group 3.

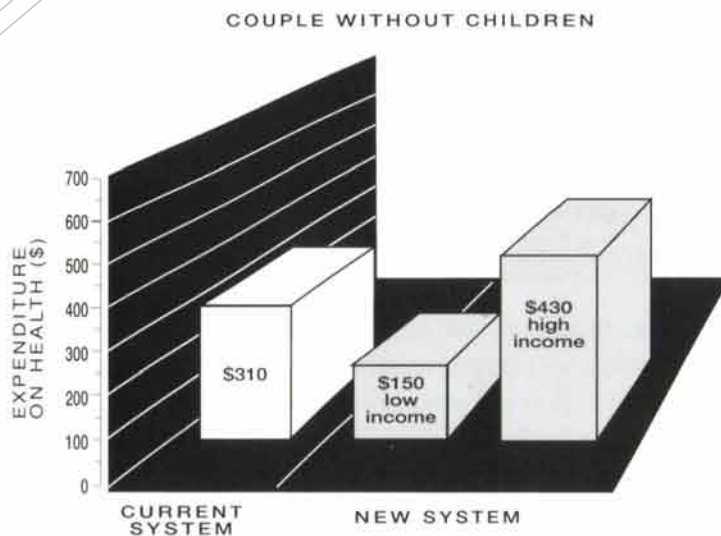
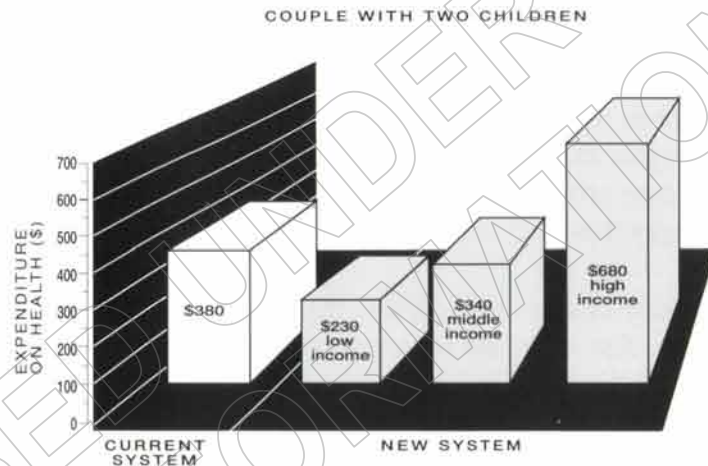
The graphs in this chapter show the effects of the new charges on some typical families. The examples used all show fairly intensive health use without including serious illnesses.

The following case studies provide an indication of the impact of the user charges in health on the three user categories when compared with the current situation. In each instance the following assumptions have been made: adults under the age of 60 and children each have three visits to a general practitioner per year. Each family has one adult and one child outpatient visit and one inpatient night. In the case of adults aged over 60, seven GP visits, one inpatient night and two

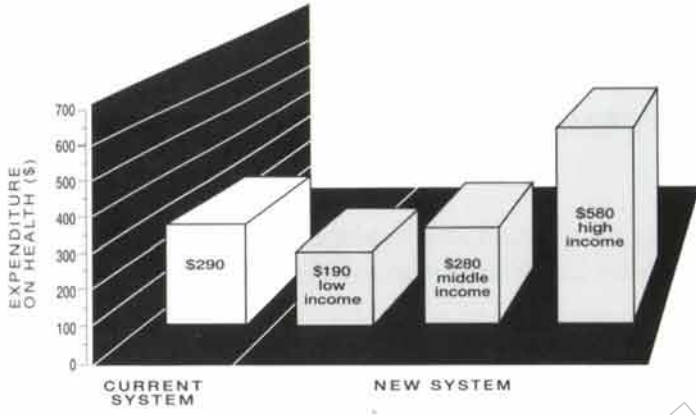
outpatient visits per year are assumed. For both groups it is assumed a GP visit has associated with it one medical laboratory test and two prescription items.

These assumptions are not necessarily intended to be representative of actual usage of health services because this can vary greatly from year to year and among different groups in the community. When applied to different family types they provide the indicative comparisons that are shown in the graphs.

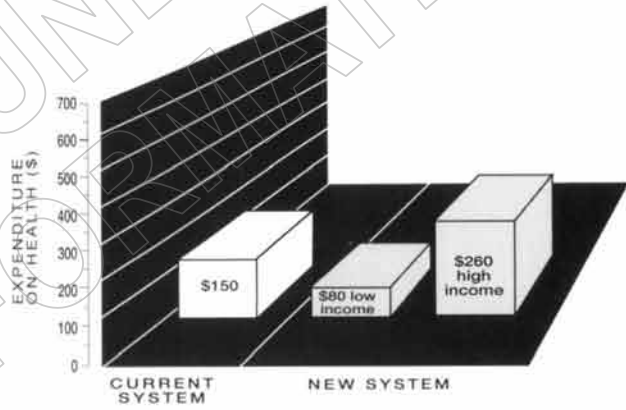
It is clear from the graphs that the cost of these new health charges will only be



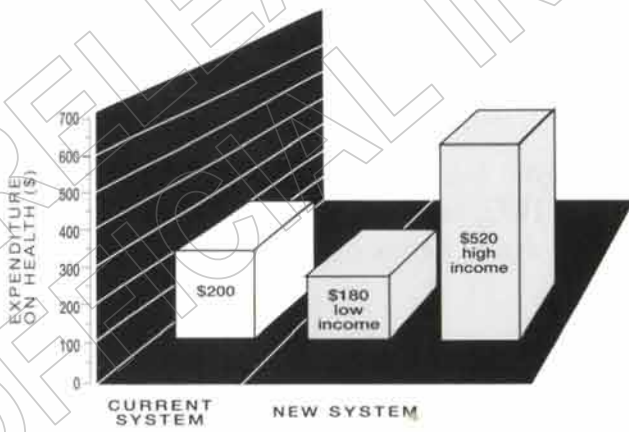
SOLE PARENT WITH TWO CHILDREN



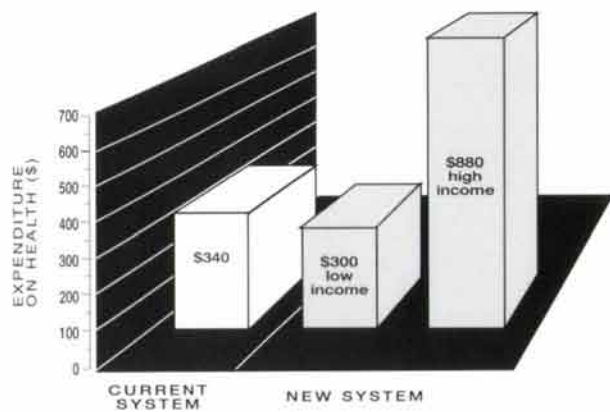
SINGLE PERSON



RETIRED PERSON



RETIRED COUPLE



felt by families in a position to pay them. The lowest income group in each category is better off than they are now.

Meeting the Government's objectives

The new scheme maintains access to normal health services for low income earners, while requiring those who can afford it to pay for the use of those services.

It shares the burden of adjusting to our economic realities by encouraging the better-off to take more responsibility for meeting more of the costs of the nation's health care services.

Gains will be made as users and health professionals are encouraged through the presence of part charges to take account of costs when making decisions about the use of those services. This will promote a focus on value for money and opportunities for cost shifting will disappear.

The saving to Government costs in the health area - estimated to be around \$100 million - assists the Government to meet its wider economic objectives.

Sensitive management of change will be achieved by the Department of Social Welfare which will be responsible for the Kiwicards. The department is currently conducting its own reorganisation to make sure it is in a position to manage an easily understood and efficient system in the interests of patients from the first day of the introduction of the new schedule - February 1, 1992.

Implementation

The new schedule will take effect from February 1, 1992. Charges for the retired will take effect from April 1, 1992, to coincide with the new National Superannuation scheme. The scheme will be further extended to cover accident costs as that becomes possible.

The overall reform of this area fits in with the progressive development of regional health authorities and the introduction of targeting assistance for social services.

EDUCATION

Protecting access to education

Key points

- *the Government acknowledges the importance of education as a national investment for the future;*
- *primary and secondary schooling will continue to be universally available free of charge;*
- *the Government will abolish the \$1300 fee for tertiary education;*
- *it will introduce "Study Right" - a subsidy on tuition costs to a level of 95 percent of the assessed course cost for the first three years;*
- *student allowances will continue to be family income tested with family testing applying to students aged under 25;*
- *a student financing scheme is being developed to be available from 1992 to provide advances to students facing extra costs;*
- *the Government will fund more than 8000 additional fulltime places in tertiary education for the 1992 academic year and 5300 additional students in the Training Opportunity Programme and Traineeships;*
- *the Government will announce a fuller policy on early childhood education later this year. However, as an interim move it has reduced the level of subsidy for those aged under two in childhood education. Those rates were greatly in excess of comparable amounts paid to other children;*
- *the Government wants to ensure low income households have access to early childhood education. This is likely to be considered in conjunction with the wider policy of targeting social assistance; and*
- *the implementation and development of policies for assistance in education are the responsibility of the Minister of Education.*

A critical investment

Education is one of our country's most important investments. It is essential to the growth of the nation. Productivity improvements and the development of a caring society are both dependent on a successful education system.

Education is even more important at an individual level. The time and effort put in by young people in acquiring knowledge and skills is vital to their future lives. It can also be the means by which beneficiaries can make their way back into the paid labour force. This can be particularly important for sole parents who have spent time caring for children and other dependants. For all these people, education can open gateways to a more satisfying and productive life.

The most important area of education is the school years. The Government will continue to provide education in primary and secondary schools without charge. This is in recognition of the vital public importance of having children learn the basic skills needed to survive in a modern society. The Government is also continuing its assistance for early childhood education on broadly the current basis. Some minor changes are discussed later in this chapter.

The area requiring greatest change is tertiary education. The Government has decided to abolish the \$1300 per year student fee. The fee is an arbitrary payment which acts as a barrier to study for many students while disguising the actual costs of tuition. In its present form it is little more than a tax on tertiary education. The Government is determined to introduce arrangements which encourage and assist access to education.

The main description of education policies is contained in the separate Budget supplement on education. In this chapter, there will be a focus specifically on the assistance that will be provided to ensure access is available. Overall, the new policies will enable more people to use tertiary education and will improve the efficiency and flexibility of the tertiary education system.

Study Right

The primary focus of the Government's initiatives is Study Right. This is designed as a system for assistance with education and is particularly targeted to those who have the most to gain from education.

Study Right will be a subsidy on tuition costs. It will be available to any young student starting a course of study up to (and including) the age of 21. It will

also be available to long-term beneficiaries and some Domestic Purposes beneficiaries. The Study Right subsidy will be available for any of those groups for a course of study of up to three years. It will offer a subsidy of 95 percent of normal tuition costs, depending on the type of course.

In addition, there will be an extra "scholarship" scheme to assist postgraduate study. A number of places will be available for students undertaking research-based study. These also will attract a 95 percent subsidy.

All other students will be subsidised at the rate of 75 percent of the normal cost of their course.

Student allowances

Student allowances are important to ensure people have access to tertiary education, regardless of their circumstances. Assistance in this area is already paid based on need. The student's income is assessed to see whether support is needed. For individuals who do not have sufficient funds, a family assessment is used.

This approach is already broadly consistent with the family-based assistance strategy the Government is moving to adopt. However, the details need to be brought more in line with the youth income support strategy the Government is using in other areas, including benefits.

From the 1992 academic year, student allowances will be subject to a family income test for all students up to (and including) 24 years of age, and the level will be aligned with the appropriate Unemployment Benefit.

This change affirms the Government's commitment to the family as the primary source of support for individuals. It ensures those in real need get assistance. It also asserts society's expectation that parents will support their children if they are in a position to do so.

The administration of the student allowances in 1992 will continue on the same basis as at present. This means tertiary institutions will continue to run the scheme in conjunction with the Ministry of Education.

The family income from which assistance will start to abate will be \$27,872 per year, which is the rate currently applicable to 18 and 19 year old students. The level of assistance will phase out at a 25 percent abatement rate as family income rises.

In the longer term, the tertiary student allowance scheme will be incorporated into the overall assistance for social services described earlier in this paper. At that time it will take its place as the last item to be abated in the phase-out system. Details on its administration will be determined at that time.

Financing

Any fee system can impose costs that some students may have difficulty paying. The current tertiary fee acts to exclude some of those who cannot raise the money to pay it. Though Study Right will reduce fees for most students, it is possible students on the 75 percent subsidy level, and even Study Right students on very expensive courses, will find it difficult to raise the necessary cash to pay their fees. The Government has decided to develop a student finance scheme for introduction from the beginning of the 1992 academic year. This will offer the students a means of raising funds to pay fees.

The financing scheme is not intended to be a further subsidy. Instead, it recognises the fact that cash cannot always be raised at the time it is needed. As with any other advance, students would be expected to pay interest for any finance provided. Similarly, repayment would be required and enforced.

There are several options by which a financing scheme can be developed. The Government has not finalised which of these it will pursue. It is possible more than one financing scheme could be available. It is also possible the scheme would not be run entirely by the Government.

Discussions are continuing on the possible shape of a financing scheme and an announcement will be made in October 1991.

The system in practice

The process of accessing tertiary education will continue to be relatively simple and will be substantially administered at an institution level. The student will enrol at the institution. Instead of facing a uniform Government-imposed fee the institution will quote its fee for the course. Students will be subsidised at either 95 percent of the normal cost or 75 percent. The actual level of fees they will pay will depend on the course. The accompanying Budget supplement on education policy outlines some of the possibilities in this area more fully.

The financing scheme will be available on application for those students facing costs beyond their ability to pay. The system for administering these funds is to be determined and will be announced in October.

The process of applying for a student allowance essentially will be similar to that which is in place now. Those students aged 24 or under who are seeking assistance will be required to produce evidence of their parents' income to demonstrate eligibility for support.

A very important practical implication of these changes is that the Government will be able to fund a larger number of places in tertiary institutions next year. It is a pleasing development that there is an increase in the number of people seeking to take on tertiary training and education. Under the current policies, even with the assistance of the tertiary fee, the Government could not have funded an increase in enrolment. The changes will more closely direct funds to the most important areas.

More effective funding means the Government will be able to pay for more than 8000 additional fulltime student places in tertiary institutions and 5800 additional students in the Training Opportunity Programme and Traineeships.

Early childhood education

New Zealand's system of early childhood education is a source of pride to us all. The community effort that has gone into developing playcentres, kindergartens, daycare centres and kohanga reo all over the country represents an enormous commitment to the future of our people. The Government is determined to maintain that commitment. Early childhood education raises issues to do with the well-being of young children but also to do with the employment opportunities of their parents. It is an area that requires a continuing focus of Government policy to address the social and economic aspirations of New Zealanders.

The Government has not completed its consideration of early childhood issues. However, some interim changes will be made. In particular, the level of subsidy for those aged under two in early childhood education will be reduced. From last year, the hourly rate was increased to \$7.25 per child. This rate is greatly in excess of any comparable amount paid for other children. There is evidence that it is sufficiently generous for some institutions to be able to use the money received for children under two to assist the support of all children at the institution. This was never the purpose of the subsidy.

In recognition of the anomaly that this over-generous subsidy has created, and to avoid an excessive dependency developing, the Government has decided to reduce the subsidy level to \$4.50 per hour. This is twice the hourly rate available for over twos and is therefore more closely in line with the comparable cost of early childhood care and education for other children.

More generally, the Government is concerned to ensure low income households have adequate access to early childhood education. It has decided a targeting arrangement will be investigated for introduction in the near future. This could be either as an extra user charge assistance alongside the health charge system, and recipients would be identified using the "Kiwicard", or it might in the longer term be incorporated as one of the areas of assistance in the overall abatement system for social services. The Government will be considering these issues further.

Meeting the Government's objectives

The main thrust of the Government's education policy on access to educational services is that it provides a quality education for all who want it provided they meet the standards imposed by the institutions themselves.

The reforms in this area encourage and assist access to education rather than penalise study and, specifically, they do away with the arbitrary student fee. The fee in its current form is seen as a barrier to study for many students while disguising the actual costs of tuition.

Students at the tertiary level will receive the financial support they need to continue their study. The Government believes this is one of the most important investments any nation can make.

In its consideration of early childhood education, the Government wants to make sure that all New Zealanders, regardless of circumstances, have access to this important stage of the education process. It will also ensure, as it has with other reforms in the area of social services, that those who can afford to, will make a contribution to the education of themselves or their families.

Implementation

Study Right, which is the responsibility of the Ministry of Education, will be phased in over a three-year period.

This phase-in period means there will be no sudden jump in fees for the vast majority of students. Any taking expensive courses for which there is a significant increase in fees will be able to have access to student financing.

The extended family income testing arrangements will operate from the beginning of the 1992 academic year.

SOCIAL SUPPORT

Helping those who cannot help themselves - the vulnerable

Key points

- *no matter how comprehensive the reform of social security, the Government recognises that there will always be people who will have difficulty adjusting to the changes, who will have difficulty getting access to assistance to social services, or whose genuine and particular needs are not met by the mainstream system. They are the vulnerable in our society;*
- *the Government is committed to ensuring that adequate support is available for the vulnerable, to make sure they do not become the forgotten members of our society;*
- *the funding for this support will be centralised within the Department of Social Welfare; and*
- *the agency funding the services will not be providing the services.*

The need

The current system of social security and assistance to social services is not perfect. The assistance and services do not always reach those people they are intended to benefit - the system fails some people.

The increased emphasis on self-reliance and individual responsibility underpinning reforms detailed in this document increases the risk that some people will miss out on access to social services or assistance for which they are eligible.

Simply, the more a system demands people to be self-reliant, the more likelihood there is that a greater number of people will miss out because their vulnerability is increased as the system requires more of them than they are capable of delivering. This may be because of their limited life skills, for example, limited literacy, or immediate circumstances, for example, family break-up or a recent bereavement.

The mainstream system will continue to need supplementing by special provisions to meet the needs of the vulnerable that the mainstream does not cover. For example, the Accommodation Supplement detailed in this document does not cover the immediate or emergency shelter needs of those who are trying to escape violence in the home. Similarly, the victims of sexual assaults may need assistance with the costs of the counselling required to help them recover from their ordeals.

It is important to note that being vulnerable is not necessarily a permanent condition. It can arise through extraordinary circumstance and disappear equally as quickly through the provision of the appropriate social service.

Centralisation of funding

At present, there is a range of agencies catering for emergency needs. As part of its reform, the Government has decided to co-ordinate the funding of these services through a single agency responsible for the purchase of services, but not their provision. This approach will mean that:

- it will be easier to plan for all of the many services needed by the vulnerable;
- it will be easier for the Government to ensure that funds in this area are accounted for;
- duplication of effort will be minimised; and
- there will be a clear distinction between the role of the state as the funder of the services and those agencies, both in the public and private sectors, providing those services.

The Department of Social Welfare is already responsible for funding many support activities for the vulnerable. For example, it funds the Citizen's Advice Bureau which in turn offers a range of services, such as budget advice, to people in need. This enables those people to better function in society.

Now that the role of the Housing Corporation has changed, it will no longer be responsible for funding emergency housing. This means there will be an agency required to take up this responsibility. This might well involve contracting with the corporation or with other owners of suitable houses.

The responsibility for co-ordinating services for vulnerable people will be placed with the Department of Social Welfare. The department will continue to be

responsible for its existing funding of community services and will also take over the funding of community housing services, previously the responsibility of the Housing Corporation. Activities, such as the provision of women's refuges and similar personal services, will be funded by the department.

Division between the funders and the providers

The division between the funders of the service and the providers of the service is already a feature of the funding of many of these services. This approach has several advantages, including:

- improved accountability from the providers of services as the funder must explicitly write a contract for services before the funds are released;
- increased competition for funds from providers of services, leading to an increase in the efficiency with which those funds will be used;
- an improved basis for ensuring the system is oriented towards making the best decisions to meet both the Government's goals and the needs of those requiring support, because the funding agency is better able to switch its funding if the service deliverer fails to meet the standard of services demanded by the contract. Those decisions are not so easy to make if the agency provides both funds and services;
- greater personal choice for users of the service because, where an agency is both funder and provider, the user is inhibited from seeking the services elsewhere; and
- improved flexibility, creating a basis from which those representing particular groups can seek to have services tailored to meet their specific needs.

Meeting the need for continuing care

As well as those people who are made vulnerable through particular circumstances or conditions for a given period, it is also necessary to provide resources for those who will always need assistance - those who need continuing care services. They are:

- the frail elderly;
- the physically disabled;

- the intellectually disabled; and
- the psychiatrically disabled.

The Government has already announced that decisions in this area will be made in time to permit implementation to begin from July 1992.

The requirements of an agency to fund services for continuing care is discussed in the separate paper on health reforms. Some basic points are clear:

- all funding for a particular person should be located in one agency. The advantages of this are that problems created through attempts to shift costs will be minimised as will duplication of effort. Also, it will be clear who is responsible for funding care of that person; and
- there should be a separation of the funders or purchasers of the services from the providers. This will allow different service options to develop and create greater choice of providers for people using the services.

The Government has considered two main options for the location of the funding for continuing care. These are:

- within regional health authorities (RHAs). Those needing continuing care would be given the option of taking their share of continuing care funding to different approved care plans. This is discussed in more detail in the separate paper on health released by the Minister of Health; and
- funding both continuing care and services for the vulnerable through the Department of Social Welfare, in association with other departmental functions.

The key issues will be:

- the ability of the assistance to meet the needs of people and to encourage self-reliance;
- the need to set clear objectives for the agency responsible;
- the ability to control expenditure efficiently; and
- the capability to prevent the shifting of costs and responsibility between agencies.

The Government's plan is to look at these options after decisions on wider issues of health care funding and access to social services have been resolved.

Clearly, those decisions will impact upon the ways in which the Government will ensure support for the vulnerable and those in need of continuing care. The Government will also be reviewing international experience and seeing whether New Zealand can gain from those experiences.

This process will be ended in time for decisions to begin to be implemented from July 1, 1992.

Meeting the Government's objectives

The Government's objective for assisting the vulnerable and those requiring continuing care in our society is simple: the Government is resolved to care for those who cannot care for themselves. The approaches outlined here ensure that those least able to support themselves receive the care they need.

The split of funder and provider will promote both value for money and also an increased element of personal choice. Like the other policies, the changes in this area are integrated into the Government's overall approach to economic and social policy.

Implementation

All services for those with special needs - the vulnerable - will become the responsibility of the Department of Social Welfare. The future location of this function will be determined in the light of the organisational reforms of the department and decisions on how best to provide for continuing care. The Housing Corporation will cease to have responsibility for community housing from July 1, 1992. The Government has decided that the process for finalising the management of continuing care will involve :

- the Minister of Social Welfare being responsible for the development of proposals in close consultation with the Minister of Health;
- the Office of the Minister of Social Welfare co-ordinating policy development and liaising with the Health Policy, Regulation and Implementation Directorate and other groups, and accessing other services and advice within New Zealand and from overseas;
- close consultation with the groups most affected, in which the Associate Ministers of Social Welfare and Health will be closely involved; and
- finalising the policy in time to begin implementation in July 1992.

IMPLEMENTATION

The implementation of reform

Key points

- *there will be a managed and progressive implementation of the reform of welfare in New Zealand as outlined in this document. The shape is clear. The detail in each case will be determined as the reforms proceed;*
- *critical to the successful management of the process is a review and reorganisation of the structure of the Department of Social Welfare - the Government agency responsible for implementing the bulk of the changes outlined in this document;*
- *because the reforms will be introduced on a progressive and developing basis, their total impact may not be fully appreciated for some time. Also, much of the current system will remain in place with the Department of Social Welfare continuing to administer it; and*
- *the targeted systems will be put in place as an integrated development, using information sharing to ensure the right people receive the right assistance and that fraud is prevented. Privacy will be protected through the provisions of an Information Privacy Act.*

Implementation issues

Changes do not make up a plan. On the contrary, unco-ordinated changes can undermine the direction of reform. There are a number of changes demanded by the policies outlined in this document and they will be implemented over time. The responsibility for effecting these policies will rest largely with the Department of Social Welfare. This chapter looks at some of the implementation issues associated with that change, in particular, the sharing of information.

Reorganisation of the Department of Social Welfare

While it will be “business as usual” for the department in that it will continue to administer the benefit system and National Superannuation and provide social

work services, its portfolio of responsibilities has expanded significantly. Its additional responsibilities include:

- implementing the new system of targeting social assistance;
- responsibility for the vulnerable;
- management of the card system for assistance with access to health and other services; and
- administration of the Accommodation Supplement.

The department is in the process of reviewing its organisational procedures in the light of these issues and management decisions will be announced progressively over the next few months.

It is important to note the review is not focusing simply on the management restructuring and tasks involved in efficiently implementing and administering the reforms. The review is also looking at the culture of the department and how it can best put in place a simple, reassuring and “user friendly” system in the interests of all those who may need to use it and the taxpayer who funds it. The development of the department’s new computer system will be integrated as one aspect of this overall improvement in the department’s operations.

The “family account”

One area that the Department of Social Welfare has been specifically directed to address is the means of adjusting assistance in line with a family’s use of services. One option under review is the introduction of a family account.

A family account would work rather like a credit card or a bank account. All transactions involving social service charges would be recorded and debited against an account in the name of the family. The records in that account would also show whether the family had reached their maximum level of contribution for any particular service. Use of the service beyond that limit would be entirely paid for by the state.

The account could also record the family’s income level, or income group. This would be of great assistance in operating the system of targeted part charges for health and any other social services. To provide targeted assistance, the regional health authorities that will be set up as a result of the health reforms will need some means of tracking a family’s use of health services and its income. This will require close liaison with the Department of Social Welfare and may

be best administered through a family account system. The department will be investigating these possibilities in co-operation with the officials developing the regional health authorities.

Essential to the development of the family account is the issuing of the plastic "Kiwicard" which will make both access and administration easier and more efficient. The cards will be issued towards the end of this year, well in time for the introduction of the new health part-charge schedule on February 1, 1992.

Information sharing, fraud and abuse

Taxpayers must have confidence in the integrity of any system delivering social security or assistance with access to social services for two reasons:

- they need to be assured that those needing the assistance are receiving it; and
- they need to be assured the opportunity for and incidence of fraud and abuse is minimised.

A system with large elements of universality is less likely to be subject to fraud and abuse than a targeted system, because the boundaries set by universality are wide and, thus, there is little incentive or reason for individuals to defraud or abuse the system.

On the other hand, the very nature of a targeted system invites fraud and abuse because its boundaries are more restricted. This means a larger number of people are tempted to defraud or abuse the system because the targeting has specifically, and correctly, excluded them, usually on the grounds of income, work or conjugal (partnership) status.

Therefore, the Government, in introducing a greater degree of targeting into social security and assistance, has an obligation to taxpayers to minimise their concerns about the integrity of the system created as a result of these reforms.

This will be by a form of personal information sharing between Government agencies.

Clearly, that has considerable implications for issues of privacy, but in this case, the rights of the individual have to be balanced against the needs of society and the protection of a fair system of assistance.

To make this kind of assessment of the balance of interests, it is important to have some indication of the amount of fraud and abuse likely to be inflicted on the system.

Under the current system, it is difficult to estimate the amount of money lost each year through social security fraud and abuse. The most conservative estimate comes from the Department of Social Welfare's quality control programme that uses a random sample to estimate the amount of error (caused by users or administration) across three social security benefits - Unemployment, Domestic Purposes and Sickness.

In the 1989/90 year, those surveys indicated that \$60 million may have been lost over those three programmes in 12 months due to client "error". The two biggest categories of error were:

- failure to disclose income or employment by unemployment beneficiaries amounted to \$32 million, or 80 percent of the total "lost" in Unemployment Benefit; and
- failure to advise a change in conjugal status (entering a relationship in the nature of a marriage with another person) amounted to nearly \$10 million, or 60 percent of the total lost in Domestic Purposes Benefit.

These estimates are thought to be very conservative. By way of comparison, we might look at the amounts of overpayment detected by current control methods. The Department of Social Welfare's benefit control programme uses a different approach to detecting and stopping conjugal-status related abuse of the Domestic Purposes Benefit.

In the 1990/91 year, this programme returned about \$80 million in gross savings, most of which resulted from detection of conjugal status-related benefit abuse. This is many times higher than the rate of abuse estimated by the more conservative sampling process. It is likely that the estimate of losses through undisclosed work income are similarly understated. The true cost of fraud is very substantial.

That is the level of fraud and abuse happening now. Without controls, a targeted system has the potential to encourage that level of abuse to increase.

The Government believes that, even without the reforms, that level of fraud and abuse places considerable stress on the system's integrity and credibility, raising questions of fairness to taxpayers funding the system and those many thousands of honest New Zealanders who, through circumstances often beyond their control, are forced to use the system.

In the interests of all those people, the Government is determined to restore integrity and credibility to social security and the assistance to social services. To avoid and catch fraudulent claims, the Government has decided to allow Government agencies to exchange relevant personal information.

The Government believes:

- the level of benefit fraud - perhaps as high as \$100 million a year - justifies this information flow;
- the need to target a greater proportion of Government spending - \$5 billion in GRI alone - increases this need; and
- upgraded privacy legislation will preserve the delicate balance between the rights of the individual and the needs of the state.

There is very little protection now for information privacy in New Zealand. The Government is correcting that in the Information Privacy Bill being prepared by the Minister of Justice.

This legislation, which is planned to be introduced into the House around the time of the Budget, will also provide for controls on the conduct of information exchanges, including review procedures for those people who are the subjects of information exchange.

Also, the legislation will protect the information so it is only used for the purpose for which it is intended.

The area of assessing eligibility for income targeted benefits and assistance will be identified as a separate area where information sharing will be permitted. There will not be generalised exchanges of information. A tight circle will be drawn around the information to determine entitlement, and individuals applying for such entitlement will be made aware that by applying, they are initiating a checking process.

The Government intends that specific information exchanges, detailing which organisations are entitled to access what type of information from which agencies, will be provided for in the wider Information Privacy Bill.

INFORMATION EXCHANGES

There are a number of information exchanges, or matches, between Government agencies that will be permitted. They are:

- access by the Department of Social Welfare and the Accident Compensation Corporation to Inland Revenue Department income and employment information;
- access by the Department of Social Welfare to information of the Department of Labour on “overstayer” and temporary resident status;
- access by the Department of Social Welfare and the Accident Compensation Corporation to Department of Justice information on deaths and imprisonments;
- access by the Department of Social Welfare to Accident Compensation Corporation information on earnings-related compensation recipients;
- access by the Department of Social Welfare to Ministry of Education information on student allowance recipients; and
- access by the Department of Social Welfare to information held by the Customs Department on individuals departing New Zealand.

One important change is that employers will be required to inform the Inland Revenue Department of the start and finish dates of the employment of each of their employees. The notification will be sent monthly as PAYE payments are made.

This information will be used to check on the employment status of social welfare and Accident Compensation beneficiaries. Similar information sharing systems between government agencies are operated in several other countries, including Australia.

It should be noted that the Department of Social Welfare and the Accident Compensation Corporation will not have direct access to tax information. Instead, information on welfare claimants will be sent to the Department of Inland Revenue to be checked against the IRD’s records. The checking will only involve applicants for income-tested benefits and social assistance and will only relate to information specifically related to that benefit. As such, it is simply a means of checking eligibility and not a comprehensive investigation into any person’s personal affairs.

The benefits of allowing these exchanges are not only fiscal. More importantly, they will play a major role in protecting the integrity and credibility of the system of social security and assistance with access to social services.

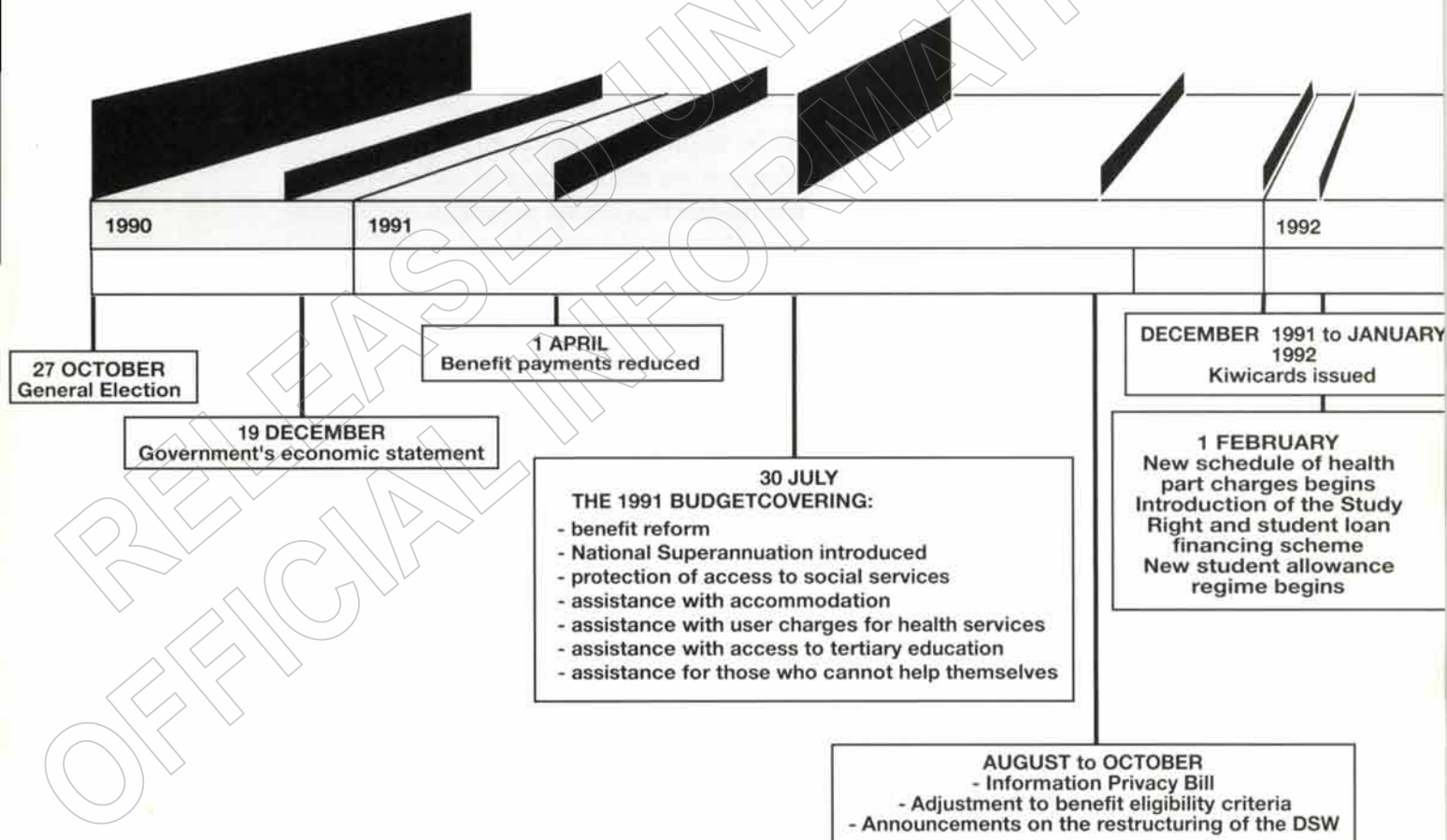
Timetable for implementation

A constant theme throughout this document has been the determination of the Government that this will be a managed and progressive reform.

The scope of the reform is substantial and decisions made now will determine the nature of decisions to be made later in the process.

This is the most substantial review in more than 50 years. The Government is determined it will be carried out properly and that the process of change will not be compromised by premature decisions made in haste.

The time-line diagram gives an effective summary of the reforms and the timing for their introduction.



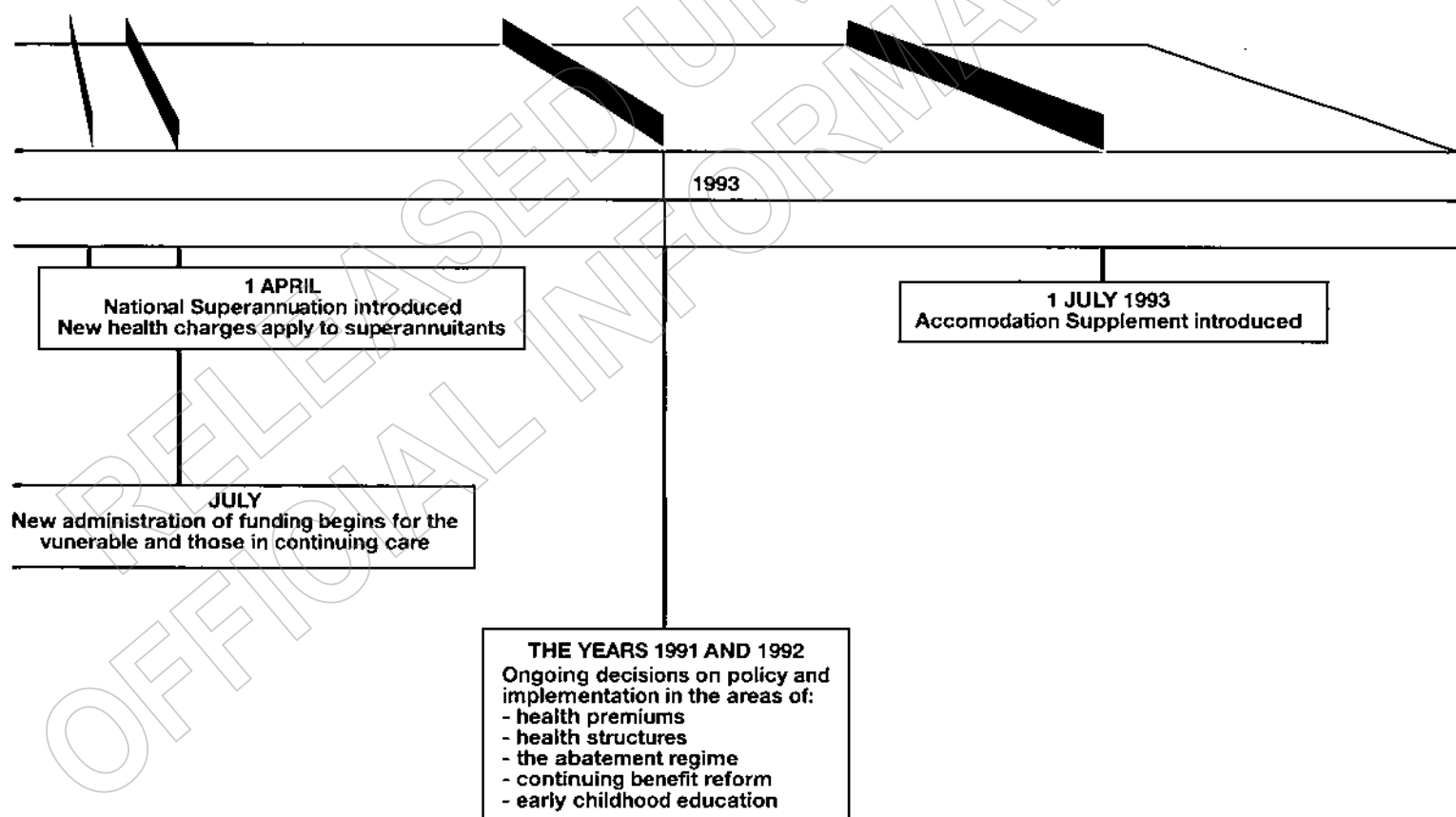
Conclusion

The reforms detailed in the preceding chapters amount to far more than tinkering or fine-tuning.

They are reforms that fundamentally change the way New Zealanders will view social security and assistance to social services.

They are reforms that are important to the attitude of New Zealanders. As a nation, we must foot it on our own terms in a highly competitive global marketplace.

As one of the world's least affluent industrialised nations, we have tried to sustain one of the world's most generous social welfare and pension systems. We have been failing.



The safety net of the welfare state is becoming perilously frayed and the cost of maintaining it is hampering our efforts to develop the growing economy that will generate the jobs New Zealanders need to be self-sufficient as individuals and as a nation.

That safety net can no longer sustain us and we, or more importantly our present and future economy, can no longer sustain it.

This document is about planning now for our future needs - as individuals and as a nation.

For individuals, it says they must take a greater degree of responsibility for their own progress in this world and, through its reform of social welfare, the Government will actively encourage the self-reliance so important to every person's development and dignity. However, it also says there are times in many people's lives when they need help from the state. This Government will see they get it.

For the nation, this document encompasses a package of measures to meet our economic and social needs today so there will be a bright future for New Zealanders.

Above all, this is a story about balance - balance between the role of the state and the responsibilities of its citizens.

The Government does not act in a vacuum, nor can it determine the future on its own. It will need commitment from each and every New Zealander - a commitment to far-reaching changes needed to put in place a system of WELFARE THAT WORKS.

**CUMULATIVE DISTRIBUTION OF FAMILY
MARKET INCOMES (1991/92)**

Annual Market Income	Single Persons, over 60 years		Couples, over 60 years		Single Persons, under 60 years	
	Number	Cum%	Number	Cum%	Number	Cum%
\$0-4,999	136066	73.5%	79929	39.1%	96785	28.5%
\$5,000-9,999	18323	83.4%	22835	50.3%	46146	42.1%
\$10,000-14,999	10568	89.1%	14682	57.4%	30077	50.9%
\$15,000-19,999	6490	92.7%	10604	62.6%	37612	62.0%
\$20,000-24,999	4672	95.2%	15030	70.0%	37335	73.0%
\$25,000-29,999	2743	96.7%	11426	75.6%	26945	80.9%
\$30,000-34,999	2763	98.2%	9912	80.4%	23006	87.7%
\$35,000-39,999	1667	99.1%	6927	83.8%	13626	91.7%
\$40,000-44,999	218	99.2%	3129	85.3%	13632	95.7%
\$45,000-49,999	0	99.2%	6640	88.6%	4699	97.1%
\$50,000-54,999	212	99.3%	3576	90.3%	3120	98.0%
\$55,000-59,999	153	99.4%	2226	91.4%	1013	98.3%
\$60,000-64,999	0	99.4%	1739	92.3%	1713	98.8%
\$65,000-69,999	1091	100.0%	3424	93.9%	1393	99.2%
\$70,000-74,999	0	100.0%	1995	94.9%	211	99.3%
\$75,000+	73	100.0%	10421	100.0%	2415	100.0%
	185039		204495		339728	

Source: Derived from Household Expenditure and Income Survey data,
updated to 1991/92.

RELEASSED UNDER
OFFICIAL INFORMATION ACT

Single Parents		Couples, no children		Couples with children		All Families	
Number	Cum%	Number	Cum%	Number	Cum%	Number	Cum%
27302	69.5%	15851	8.6%	32805	7.0%	488738	31.2%
4568	77.4%	1804	9.6%	15197	10.2%	118873	38.8%
707	81.6%	2707	11.1%	10752	12.5%	76493	43.7%
419	85.1%	4114	13.3%	16989	16.1%	82228	48.9%
722	88.2%	8693	18.1%	28459	22.1%	99911	55.3%
127	89.9%	7045	21.9%	35196	29.6%	86482	60.8%
188	93.3%	13704	29.4%	33183	36.6%	88756	66.5%
812	96.0%	10428	35.1%	37853	44.7%	75313	71.3%
442	97.8%	12926	42.1%	36510	52.4%	69857	75.7%
907	98.9%	14744	50.2%	35096	59.9%	63086	79.8%
61	99.1%	18355	60.2%	34331	67.2%	59955	83.6%
24	99.3%	14183	67.9%	24526	72.4%	42525	86.3%
	99.3%	11360	74.1%	15840	75.8%	30652	88.3%
96	99.4%	9960	79.5%	22134	80.5%	38198	90.7%
91	99.7%	8107	83.9%	16821	84.0%	27725	92.5%
00	100.0%	29453	100.0%	75236	100.0%	118098	100.0%
<hr/>		<hr/>		<hr/>		<hr/>	
83266		183434		470928		1566890	
<hr/>		<hr/>		<hr/>		<hr/>	