Background

The Australian Government has taken the first steps towards implementing a new ‘investment approach’ to welfare. Work on the approach has been underway for some time – the 2015-16 Budget included funding for an actuarial analysis, and the 2016-17 Budget included funding for the ‘Try Test and Learn Fund’.

The approach is based on similar reforms in New Zealand, and was recommended in the Final Report of the Reference Group on Welfare Reform to the Minister for Social Services (the ‘McClure Review’) which found that Australia’s current welfare system ‘is not providing some of Australia’s vulnerable groups with the level of support they need’. An ‘investment approach would prevent long term income support dependence through early intervention and targeted investment’.

However, some commentators have expressed some scepticism and believe that the approach results in ‘disinvestment’ and the creation of ‘administrative barriers to entry’ to prevent people becoming welfare recipients, rather than meaningful investment in programs of support.

In our Submission in response to the Interim Report of the Reference Group, Jobs Australia expressed support for the investment approach - while also noting some of the potential pitfalls.

This State of Play will summarise the background and issues around the Investment approach.

Origins

▪ Welfare Working Group

The NZ Government established a Welfare Working Group in 2010 and charged it with responsibility for finding new ways to reduce long-term benefit dependency in NZ. The Working Group included representatives from government and the community, including business leaders, representatives from community organisations and academics. It was required to conduct consultations as part of ‘an inclusive, independent, open, and public process.

▪ NZ Accident Compensation Corporation

In its first issues paper, the Working Group sought feedback on whether there were lessons to be learned from the insurance industry and made reference to the Accident Compensation Corporation (ACC), which is NZ’s government-backed, no-fault injury insurance scheme. It is similar to (and has its origins in) workers compensation insurance, but it also covers injuries suffered outside of the workplace. Because the ACC is an insurance scheme, it makes use of actuarial evaluations to project future liability (i.e.: the cost of supporting people who are injured) and uses those projections to calculate premiums. The ACC also invests in interventions to prevent accidents from occurring, provides assistance to help rehabilitate people as quickly as possible, and has a ‘work focus’ – which involves keeping people in work or helping them to return to work quickly in order to reduce the future liability and keep premiums low (just like workers compensation schemes in Australia).

The ACC is an insurance company but it is also a government monopoly. That is, instead of outsourcing injury insurance to competing insurance companies, NZ has one insurance company and it is owned and operated directly by the NZ Government. This means its actuarial assessments feed into the NZ Government’s budget processes – providing a transparent measure of the ACC’s success.

▪ Australia’s JSCI

The Issues Paper also made reference to Australia’s Job Seeker Classification Instrument (JSCI) – an assessment tool which allocates points to risk factors, so that job seekers can be provided different levels of resourcing on the basis of need, in a process known as ‘streaming’. Rather than being based on an actuarial assessment of long-term welfare liability, the JSCI is based on an analysis of factors that commonly appear in those who have been unemployed for more than 12 months. The JSCI score, therefore, is effectively a measure of an individual’s likelihood of becoming long term unemployed.

The Working Group appears to have combined the ACC’s insurance approach with the individualised risk ratings and streaming
approach from Australia. In its final report, the Working Group recommended using actuarial assessments to measure the performance of programs of assistance, while also using the actuarial analysis to develop an assessment tool. The tool produces a ‘Likelihood of Long Term Benefit Recipiency’ or ‘LLBTR’ score – much like Australia’s JSCI score, except that the JSCI score reflects only a likelihood of an individual becoming unemployed for more than 12 months, whereas the LLBTR takes a longer term, ‘lifetime’ view.

How the investment approach is used in NZ

The actuarial assessment provides (i) a means of assessing an individual’s Likelihood of Long Term Benefit Recipiency (LLBTR) for individual-level streaming; (ii) a means to measure the overall success of the Ministry of Social Development; and (iii) a means for testing and evaluating new approaches.

### Streaming

The LLBTR is derived from risk factors, which are identified by looking for consistencies in characteristics amongst those who the actuarial assessment identifies as long-term welfare recipients. This is a similar approach to that which underpins the points system used in the Australian JSCI. However the LLBTR has not, as yet, been used to allocate job seekers into streams with different levels of resourcing attached, as occurs in Australia.

The LLBTR score is made available to case managers in the Department of Work and Income NZ (WINZ), which is the agency that administers welfare payments and delivers employment assistance. WINZ case managers have access to flexible funding and can decide to provide greater or lesser support to individuals on their caseload at their own discretion. Access to the LLBTR scores provides case managers with an indication of where they ought to allocate the most resources, and case managers find it more intrinsically rewarding when they place a client with a high LLBTR into work. But there are no mandatory requirements for case managers to target their resources to clients with high LLBTR scores.

### Measuring success

The yearly re-valuation provides a firm basis to hold the Ministry of Social Development to account. Each re-valuation shows the extent to which the projected future liabilities for welfare have increased or reduced, and the extent that the change can be attributed to ‘management’.

For example, the 2015 assessment showed that overall, the Ministry’s programs have been successful. Once factors beyond the Ministry’s control were accounted for, there was a reduction in future liability of $2.2 billion between June 2014 and June 2015.

### Testing new approaches

The actuarial assessment can be used to test, measure and adjust programs and interventions for broad groups or cohorts that present the greatest future liability.

A number of interventions or reforms were also trialled and evaluated as part of the first actuarial re-valuation. For example, more work-focused case management services were trialled at 24 WINZ sites from October 2012, and the actuarial re-valuation showed that the trial sites reduced the future welfare liability greater (through improved outcomes) than the non-trial sites. On the basis of that evidence, the more work-focused service delivery model has been rolled out to all WINZ sites.

On the other hand, an Employment Related Training Assistance program was found to result in poorer outcomes for recipients than for a comparison group, prompting changes to the program and the way it is targeted. Future valuations will show whether or not the changes have improved the effectiveness of the program.

Other welfare reforms in NZ

The actuarial / investment approach was just one part of a broader package of reforms designed around the recommendations of the Welfare Working Group.

In its final report, the Welfare Working Group recommended a much greater focus on work, reciprocal obligation and activation. Much of these reforms mirror the experience in Australia in the last couple of decades. And, just as has been the case in Australia, many of these changes have been controversial.

These changes, although implemented at the same time as the investment approach, actually pre-date the first actuarial valuation and were not informed by its findings. This is clear enough from the cabinet papers and Regulatory Impact Statements released by the NZ Ministry of Social Development. Some commentators and politicians in New Zealand have, however, misleadingly attributed all of the reforms to the investment approach.
Criticisms / limitations to the model

It has been pointed out that the actuarial modelling looks at all welfare spending entirely as a ‘liability’, when in fact ordinary accounting principles would require an evaluation of the ‘asset’ that is acquired as well. In the case of welfare spending, the asset is essentially the presence of a safety-net, which has a value both to those who use it and to those who do not.

This could result in government designing interventions that reduce both the forward liability and the forward asset – that is, they may achieve the saving simply by chipping away at the safety-net rather than getting people into work. That might mean tightening eligibility or complicating applications so much that it dissuades legitimate claimants from making a claim.

It can also be difficult to reliably predict changes to the long-term future liability. The actuarial model needs to try and control a very large number of variables, and that introduces a significant degree of uncertainty in the modelling outputs.

These criticisms are valid, and need to be acknowledged and understood by policy makers. The investment approach is a useful tool for informing some (but not all) decisions about where to invest extra resources for programs, measuring success and quantifying savings so that further funds can be released for investment.

It is, however, ill-suited to informing decisions about changes to the rate, structure or conditions of benefit payments, because it will almost always suggest reducing them – even if that would make society worse off overall.

It could also lead to poor outcomes if the actuarial valuation becomes the primary justification for services. Consider, for example, what the actuarial assessment may reveal about the cost of providing employment services to older job seekers with a disability. If the cost is higher than the reduction in the future welfare liability, then the model would effectively suggest de-investing in services for those people.

It must therefore be remembered that we do not fund these services only to reduce the welfare bill. There are other considerations: some based on rights, some based on the community’s expectations around mutual obligation, and some based on the importance of the social outcomes which are not measured in the actuarial approach.

What has been announced?

The Minister for Social Service, the Hon. Christian Porter MP, released the baseline valuation of the welfare system on 20 September, 2016.

As expected, certain groups of young people feature prominently in the report. These include young carers, young parents and students (particularly those that transition straight from study to a working-age payment).

The groups highlighted by the report will be targeted for additional investment via the Try, Test and Learn Fund that was announced as part of the 2016-17 Federal Budget.

Already, there are signs that the report could be used to justify more punitive arrangements, rather than greater support. The baseline valuation report itself notes this risk, pointing out that, in addition to considering lifetime cost information, “it will be important to consider … qualitative impacts on people’s lives and their lifetime wellbeing”.

Despite these risks and the disappointing public discussion, Jobs Australia is optimistic that the new Try, Test and Learn Fund will allow non-government organisations (including Jobs Australia members) to develop innovative new early interventions to tackle disadvantage.

Will it work in Australia?

Jobs Australia believes the investment approach could be a useful tool in Australia. As explained above, the existing Job Seeker Classification Instrument (JSCI) allocates resources to job seekers in streams, based on their likelihood of remaining unemployed for more than 12 months.

Some people cycle in and out of the benefits system throughout their lives. On their first contact with the welfare system, the JSCI might assess such a person as having a very good chance of becoming employed within 12 months and allocate a relatively low level of resources, when it might be better to allocate a greater level of resources and set their life on a completely different course.

If used appropriately, the investment approach should mean that resources are better allocated, programs are better evaluated and that more resources are made available to invest in tackling persistent disadvantage. It could, however, be used to justify even more punitive arrangements for vulnerable groups than those that we already have – and if that is the case, then the benefits of the approach will be limited and an important opportunity will have been misspent.