

Regulatory Impact Statement

Youth Package

Agency Disclosure Statement

- This Regulatory Impact Statement has been prepared by the Ministry of Social Development.
- It provides an analysis of options to improve social outcomes for current teenage welfare recipients and future generations.
- The analysis has been informed by the work of the Welfare Working Group. As numerous factors external to the social assistance system impact on long term social outcomes, there are significant constraints on our ability to make precise predictions on what outcomes will occur for beneficiary teens and their children after the measures are introduced. Regular evaluation and monitoring of the package will provide evidence of its impact, and refinements can be made to the package on the basis of this evidence.
- Policy proposals were developed within the parameters set out by Cabinet in August 2011 [SOC Min (11) 16/3 refers], and opportunities to provide further or qualifying advice were limited in the pre-election period. However, options were considered where appropriate, taking into account a number of constraints including IT limitations, budget constraints and the feasibility of implementing the option by July 2012.
- Officials are still working through the issue of whether any functions need to be delegated, and if so, which functions, and whether any administrative provisions in the Social Security Act 1964 also require amendment to support Service Providers and provide protections for young people working with Service Providers.
- We consider that the policy options are not likely to impose additional costs on businesses, impair private property rights, market competition or the incentives on businesses to innovate and invest, or override fundamental common law principles.

Sue Mackwell, Deputy Chief Executive Social Policy and Knowledge

Date

Status quo and problem definition

Current benefit assistance for teens

1. Benefit assistance for teens is provided in a social and legal context where parents are responsible for their welfare. Most teenagers live with their parents who support them with some financial assistance from the government through Working for Families Tax Credits.
2. Eligibility requirements for benefits, rates payable and the obligations for recipients are set out in the Social Security Act 1964. A relatively small group of teens cannot receive support from their parents. Some of these teens are cared for by another adult who may receive Orphans Benefit or Unsupported Child Benefit.
3. In some circumstances a teen may be paid benefit assistance directly. Currently, depending on their circumstances and in their own right:
 - 16 – 17 year olds without dependent children may receive Independent Youth Benefit¹ (IYB), Domestic Purposes Benefit – Care of Sick or Infirm² (DPB-CSI), Unemployment Benefit (UB), Invalids Benefit (IB), Sickness Benefit³ (SB), or Emergency Benefit (EB).
 - 16 – 18 year old teen parents may receive Emergency Maintenance Allowance⁴ (EMA), Domestic Purposes Benefit – Sole Parent (DPB-SP), UB, IB, SB or EB.
4. Extra financial help, such as Disability Allowance, is available to teens on benefit with recognised additional costs. The Working for Families Tax Credits, including the Family Tax Credit, are available to teen parents. MSD may pay, on behalf of Inland Revenue, the Family Tax Credit to beneficiary parents along with their benefit payments.
5. Few additional support services are provided to teens on benefit to achieve social outcomes and some of these teens lack positive adult guidance. There is no proactive provision of budgeting help to assist a teen on benefit to meet costs (those who frequently seek emergency assistance are supported in this way). Requirements to attend education, training or job seeking are not comprehensively backed by sanctions for failures.

Context for policy change

6. The Welfare Working Group (WWG) was tasked by the government to undertake a wide-ranging fundamental review of New Zealand's welfare system, with a primary focus on addressing issues of long-term benefit dependency. In August 2010, WWG released a paper identifying welfare issues in New Zealand, and on 22 February 2011 reported to Government with recommendations for change. The WWG:
 - recommended changes to benefits for 16 – 17 year olds and teen parents that would aim to ensure these young people are linked to responsible adults, their benefit income is well managed, and they improve their future prospects through education, training or paid work
 - urged the government to give high priority to work on prevention of teen pregnancies

¹ 16 - 17 year olds can receive IYB where there has been a serious family breakdown or their parents are absent or not supporting the young person and they are unable to financially support themselves. To receive IYB young people must be in school, training or looking for work, and face main benefit sanctions for not meeting obligations.

² 16 - 17 year olds can receive DPB-CSI if they provide full-time care and attention to a person (other than their spouse or partner) at home, who would otherwise receive hospital, rest home, residential or similar care, and no other caregiver is reasonably available.

³ Single 16 - 17 year olds who are pregnant and undergoing treatment, and 16 - 17 year olds that are married, in a civil union or de facto relationship and have one or more dependent children (and meet the other eligibility criteria of the SB) can receive SB. Obligations include attending meetings with Work and Income, and developing and showing a commitment to an employment plan. Sanctions for non-compliance are the same as for main benefits.

⁴ 16 - 17 year olds can receive EMA if they are a sole parent (or parent with a split custody care agreement) and they cannot be supported by their own parents. Conditions of grant vary, and the sanctions for not meeting these are the same as for main benefits.

- noted that teenagers are a small group of entrants each year but, because they stay for long periods, they represent a considerable proportion of those on a benefit.
7. At the end of August 2011, there were around 3,060 16 - 17 year olds and 18 year old parents on benefit, and around 247 16 - 17 year olds and 18 year old parents who receive benefits indirectly as partners of main beneficiaries. These figures exclude young people on IB who are not affected by the proposals covered by this Regulatory Impact Statement.
 8. The Youth Package is a prescribed investment approach for 16 - 17 year olds without children, and 16 – 18 year old parents – and investing now will reduce future liability.

Problem definition

9. Entering welfare at 16 - 17 is associated with the highest likelihood of long-term benefit dependency of any age group.
 - Over 50 per cent of people who first enter the benefit system at 16 or 17 years old go on to be long-term benefit dependent (ie spending at least five of the next 10 years on benefit), which is considerably higher than for people entering welfare at any other age.⁵
 - Persistent periods of low income from long-term benefit dependence are associated with high levels of social deprivation (financial stress, low standards of living, underinvestment in consumer durables and poor housing).⁶
 - Entering welfare at a very young age has particularly negative outcomes, with evidence linking unemployment at a young age with negative outcomes including suicidal ideation, substance abuse and criminal behaviours.⁷
10. In addition to these social costs, the high rate of long-term benefit dependency of young people entering onto benefit has a direct cost to the Crown. The estimated average future liability of 16 or 17 year olds entering onto benefit (excluding those on IB) is \$113,000 and for 18 or 19 year olds the estimate is \$108,000. These costs are significantly higher than the estimated average liability for all unemployment (\$58,000) and sickness (\$105,000) beneficiaries.⁸ Long-term benefit dependency by young people on benefit also has a cost through the lost employment and resulting economic contribution that they would make if not on benefit. The Ministry of Social Development (MSD) has estimated the lifetime cost of benefit receipt for 16 – 19 year olds currently on benefit is \$2.7 billion.⁹
11. There is also compelling evidence that children of teen parents are at greater risk of a range of poor outcomes,¹⁰ and that long-term benefit dependency for teen parents has negative implications for their children. Long-term benefit dependency leads to prolonged periods of low income and poverty. Children raised in benefit-dependent families are at increased risk of a number of poor socio-economic outcomes, such as joblessness and of themselves becoming

⁵ Ministry of Social Development Benefit Dynamics Dataset.

⁶ Berthoud, R; Bryan, M and Bardasi, E (2004); *The Dynamics of deprivation: the relationship between income and material deprivation over time*; Department for Work and Pensions, Research report 19.

⁷ Fergusson, D. M., Horwood, L. J. & Woodward, L. J.) "Unemployment and psychosocial adjustment in young adults: Causation or selection?", *Social Science and Medicine*, 2001; 53(3): 305-320.

⁸ Values are total income support costs (main benefit, supplementary and ad hoc) at present value (2011 dollars, with a 3.5% real discount rate). This liability is estimated using a point in time calculation and its based on Work and Income data only. The liability may be different if calculated using the methodology proposed as part of the Investment Approach.

⁹ This estimate is based on point in time Work and Income data, the result may differ if a different calculation approach is used (for example an investment approach calculation).

¹⁰ Jaffee, S., Caspi, A., Moffitt, T.E., Belsky, J., Silva, P.A. (2001), Why are children born to teen mothers at risk for adverse outcomes in young adulthood? Results from a 20-year longitudinal study, *Development and Psychopathology*, 13, 377-397.

benefit dependent as adults.¹¹ This is partly because as a group, teen parents tend to have few educational qualifications, poorer mental health, and higher rates of smoking, alcohol and drug use than the rest of the population.¹²

12. Evidence shows that educational attainment is one of the best pathways to lowering the likelihood of being unemployed, earning a higher income and improving social outcomes. This is particularly important for teen parents because early parenthood places young mothers at risk of disconnecting from education and New Zealand teen parents' participation in education is low when compared with participation in other countries.

Objectives

13. The overall objective of the Youth Package is to improve outcomes for current and future teen beneficiaries, and their children. As education and training is key to improved outcomes for teens on benefit, the primary focus for beneficiary teens is to be in education or training.
14. In August 2011, Cabinet agreed that welfare assistance for 16 – 19 year olds needs to be redesigned to:
 - discourage an early reliance on welfare receipt
 - require teens to remain in education or training, or to be in work, in return for assistance
 - ensure that they learn good budgeting skills so that they are better able to manage their money, and have the strategies to cope when resources are limited;
 - support the development of their parenting skills (teen parents only)
 - ensure that cost is not a barrier to children of teen parents accessing childcare
 - support teens to access services including, where appropriate, family planning services, to address a range of needs that will enhance longer-term outcomes
 - provide wrap-around support to improve social outcomes for teens and their children.

Regulatory impact analysis

Legislation involved

15. Proposals involve benefit redesign and require changes to the Social Security Act 1964, which sets out the specifications for benefits. Regulation-making powers are proposed in the Social Security Act 1964 to allow technical detail to be specified in regulations on: information sharing with contracted Service Providers; the scope of services to be provided by contracted Service Providers; money management; obligations; exemptions; and incentive payments.
16. The Tax Administration Act 1994 and the Income Tax Act 2007 need to be amended to authorise the Chief Executive of the Ministry of Social Development to redirect any Family Tax Credit for a teen parent receiving Young Parent Payment.

Policy process

17. On 10 August Cabinet Social Policy Committee (SOC), with Power to Act, agreed to a package of changes to redesign welfare assistance for 16 – 19 year olds, as the initial focus of an Investment Approach to welfare reform. SOC agreed that the package would cover:

¹¹ Maloney, T., Maani, S. and Pacheco, G. (2008), 'Intergenerational Welfare Participation in New Zealand'. *Australian Economic Papers*, 42: September p346-362.

¹² Ministry of Social Development (2010), 'Sole parenting in New Zealand' <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/sole-parenting/index.html>; Loxton, D., Williams, J. and Adamson, L. (2007), Barriers to service delivery for young pregnant women and mothers: Report to the National Youth Affairs Research Scheme (NYARS). Australian Government Department of Families, Community Services and Indigenous Affairs. Retrieved 5 July 2010 from www.deewr.gov.au/Youth/Programs/NYARS/Pages/06-09Publications.aspx.

- the provision of a payment that will be similar to the level of financial assistance currently provided, but with changes in access to, and use of, the payment
- increased obligations in return for financial support, including that teens be in education, training or looking for work, participating in a budgeting education programme, and, if they have a child, in a parenting education programme
- sanctions for non-compliance with obligations
- incentives for compliance with obligations
- financial support so teen parents' children can access childcare
- access to existing payments (eg, the Disability Allowance) for recognised additional costs.

Design of the Youth Package

18. Policy proposals were developed within the parameters set out by Cabinet. Opportunities to provide further or qualifying advice were limited in the pre-election period. However, options were considered where appropriate, taking into account a number of constraints including IT limitations, budget constraints and the feasibility of implementing the option by July 2012.

Recommended package

19. The proposed Youth Package:

- removes eligibility for 16 – 17 year olds without children to IYB, DPB-CSI, UB and SB and for all 16 – 18 year old teen parents to EMA, DPB –SP, UB and SB
- establishes two new forms of assistance, a *Youth Payment (YP)* and a *Young Parent Payment (YPP)*, with their own obligations, sanctions, abatement regime, additional incentives and a new method of payment administration
- contracts Service Providers to support young people to achieve better outcomes.

Access to current benefits

20. The following options were considered in relation to access to current benefits for young people aged 16 - 17 years and 18 year old parents:

- *Status quo*: this option does not support the policy intent of the reforms. The status quo would remain for IB, however, as the new obligations are not appropriate for a person with a severe illness or disability receiving IB.
- *Remove access to DPB-CSI*: eligibility criteria for the YP and YPP will be based on recipients being in, or available for full-time activities. Caring for people full-time is not compatible with this core obligation. Removing access to DPB-CSI reflects the principle that education and training is the best outcome for young people of this age, in line with similar initiatives (ie Youth Pipeline and Youth Guarantee). This option is favoured with the proviso that a small number of young people currently providing full-time care are protected until their circumstances change.
- *Remove access to benefits paid to students over the summer break under a hardship provision of the Unemployment Benefit (UBSH)*: this option moves 16 - 17 year olds and 18 year old sole parents who have access to UBSH to the new payments when they enter the welfare system during summer holidays.
- *Retain access to UBSH*: this option is favoured as it avoids providing significant resources for a group that access assistance for a short or intermittent period and who do not need the wrap-around support to remain in study.
- *Retain access to EB but include some young people on EB within the Youth Package under a hardship provision*: this option is favoured as it brings a small number of young EB recipients into the Youth Package who are on EB because they do not meet the full

residential requirements (ie they are in New Zealand lawfully but have not resided in New Zealand continuously for two years). This option ensures that the YP or YPP, obligations and supports are available to this small group.

- *Removing access to SB*: this option is favoured as it would bring some young people who are currently granted SB into the Youth Package. These young people could, however, be exempted temporarily from some obligations, eg if they are pregnant (normally from 27 weeks), or in rehabilitation (if being treated in a recognised rehabilitation programme).

Incentives to comply

21. Two options were considered in relation to incentives:

- *Status quo*: this option contains incentives for the Service provider to support young people to meet their obligations and improve their outcomes.
- *Service provider incentives and financial incentives to encourage young people to comply with their obligations*: this option would provide \$10 per week for meeting each of the activity obligations (education, budgeting and parenting). Overseas evidence¹³ indicates that such incentives can change people's perception and experience of mandatory activities (from obligatory to participatory), but the option has fiscal implications.

22. The response to these incentives will be monitored and adjustments considered if necessary.

23. Ideally, incentive payments would be taxable and form part of the young person's main payment as they are part of the young person's income. However, due to system and time constraints to implement the package in July they will be paid as a tax-exempt allowance

Service Providers

24. The Youth Package includes wrap-around support for teens on benefit. Options considered for the role and functions of Service Providers were:

- *Contracted Service Providers provide wrap-around support to young people and manage the payment of financial assistance to young people in the Youth Package*. This option is similar to one of the WWGs' recommendations, that the Government consider whether welfare assistance for this group should be paid to, and managed by, an agent such as a community organisation. Delegating the payment of financial assistance under the Social Security Act 1964 would be a major shift and poses significant risks as many community organisations are not well placed to fulfil this role.
- *Contracted Service Providers undertake a range of functions to support young people to fulfil their obligations and improve their outcomes*: the option involves MSD contracting Service Providers to deliver wrap-around services to young people. This option is favoured as it manages risks and is aligned with the Service Providers primary role - supporting young people to achieve better outcomes. Risks are managed via contracts based on outputs (milestone payments) outcomes (success fees) regular reporting and close contract monitoring and auditing by MSD.

Impacts of the package

Fiscal impact

25. The Youth Package is a future liability approach. It is a prescribed investment approach for 16 - 17 year olds without children, and 16 – 18 year old parents – to reduce future liability of this population.

¹³ *Responsibility and Changing Behaviour: the state of knowledge and its implications for public policy*, The United Kingdom Prime Minister's Strategy Unit, 2004 publication.

26. Young people who come onto benefit stay longer – and their lifetime cost of benefit receipt is higher than for any other group. For example, the Ministry of Social Development estimated the lifetime cost of benefit receipt for 16 - 19 year olds on benefits at the end of June 2011 to be:

Table A: Lifetime cost of benefit receipt for 16 - 19 year olds on benefits at the end of June 2011

Group	Number	Total Liability	Average Liability (per person)
16/17 excluding Invalid's Benefit	1,800	\$0.2 billion	\$113,000
18/19 excluding Invalid's Benefit	13,200	\$1.6 billion	\$108,000
16-19 teen parents	3,700	\$0.9 billion	\$240,000

27. The Youth Package entails additional costs totalling some \$37.434 million in 2012-2013, \$56.454 million in 2013-2014, \$54.160 million in 2014-2015 and \$52.929 million in 2015-2016 and out-years.
28. Seven million dollars has already been provided for the IT system that will be required to support the implementation of the Youth Package. This funding was approved by Cabinet in October 2011 along with funding for the development of an IT system to support the Youth Pipeline [CAB Min (11) 39/8 refers].
29. The ongoing administrative costs of the Youth Package are considered to be cost neutral. Funding will also be required for staff training and communication costs for Work and Income to implement the Youth Package. These costs were noted in the 'Welfare Reform: Increasing the Work Focus of the Benefit System' paper considered by Cabinet in October 2011.
30. In the short-term, offsetting benefit savings of approximately \$14 million per year are expected to occur when the Youth Package is fully implemented. These savings arise as a result of fewer teens receiving a benefit as a result of the support provided through the Youth Package.

Who is affected

31. The Youth Package will affect two groups of young people: approximately 3,060 16 – 17 year olds and 18 year old parents in the welfare system; and approximately 247 16 – 17 year olds and 18 year olds who receive welfare support indirectly as partners of main beneficiaries.

Human Rights implications

32. The Youth Package makes a number of distinctions based on age and family status.
33. 16 - 17 year olds who receive the YP are treated differently under the Youth Package from other 16 - 17 year olds and anyone 18 or over who receives a benefit in that they:
- have to meet specific obligations in relation to education and training
 - have to attend compulsory budgeting advice
 - will not have independent control over the financial assistance they receive (money management)
 - will only be able to access hardship assistance under more stringent criteria
 - face a different abatement regime which discourages working.
34. 16 - 18 year old parents who receive the YPP are treated differently under the Youth Package from anyone 19 or over with a dependent child and anyone of the same age who does not have a dependent child and who receives a benefit. In addition to having to meet the requirements outlined above they also have to attend compulsory parenting education and meet parenting requirements.
35. The differences in treatment outlined may be inconsistent with the New Zealand Bill of Rights Act 1990 (NZBoRA) and the Human Rights Act (HRA) in relation to the right to freedom from

discrimination. However, the rights in the NZBoRA can be subject to reasonable limits so long as they are demonstrably justified in a free and democratic society.

36. Young people accessing benefits are amongst our most vulnerable. Treating this group differently from other young people is justifiable in terms of improved life chances for them. The increased expectations are balanced with increased support - together these offer the young person the opportunity to move away from the prospect of long-term benefit receipt and welfare dependency.
37. The young people that the Youth Package will assist are particularly vulnerable as they either lack parental support or are young parents themselves. Enhancing education obligations for young people in these circumstances is justified. Increased and strengthened education obligations for this particular group is important because it improves the chances of finding paid employment later in life and lessens the risk of long-term benefit receipt.
38. Managing money, particularly for those on low incomes, can at times be difficult and results in debt or non-payment of essential items. Direct payment of benefits to third parties could have positive benefits, assisting young people to manage their finances better, this coupled with attendance at budgetary training can prevent these young people accumulating debt or being evicted because of not paying rent. These positive outcomes justify the different treatment for this group of young people.
39. Different treatment of young parents can be justified on a number of grounds – there is evidence that shows that the younger a person is when they first receive a benefit the longer that they are likely to remain in receipt of state support. It has also been demonstrated that children of young parents, especially where the parents are receiving a benefit, are more at risk of negative outcomes than children raised by older and/or non-beneficiary parents. Compulsory parenting education for young parents is a means of promoting positive parenting practices for young parents with better outcomes for their children.

Consultation

40. The development of policy in this area has been informed by the recommendations of the WWG. Its final report, *Reducing Long-Term Benefit Dependency: Recommendations*, drew on the following consultation:
 - 27 workshops with key stakeholders in May/June 2010
 - a forum over 9-10 June 2010 in Wellington with over 200 participants
 - public submissions on its August 2010 issues paper, *Long-Term Benefit Dependency: The Issues*
 - public submissions on its November 2010 options paper, *Long-Term Benefit Dependency: The Options*.
41. The Treasury, Ministry's of Health, Education, Justice, Pacific Island Affairs and Women's Affairs, Te Puni Kokiri, the Department of Labour, Inland Revenue, the Office of the Privacy Commissioner and State Services Commission have been consulted on this paper.
42. The Department of Prime Minister and Cabinet has been informed.

Implementation

43. The Youth Package contains a number of components that require careful management during the transition, including new payment types, redirections and the wrap-around support provided by third party providers.
44. Implementation will begin from 2 July 2012. Following Cabinet decisions and announcements MSD will start working with potential providers to ensure provision of service from this date.

Monitoring, evaluation and review

45. MSD will evaluate the Youth Package as part of a wider strategy to evaluate the Welfare Reform policy changes. MSD anticipates the evaluation of the Youth Package will include:
- monitoring key measures using MSD data and data from other agencies, where appropriate
 - a process evaluation to support successful implementation and operation of the package
 - an impact evaluation to identify what difference the package made to outcomes (where possible MSD will estimate the impacts by comparing outcomes for cohorts affected by the package with previous cohorts).
46. The population groups targeted by the Youth Package and Youth Pipeline will overlap to some degree. Where appropriate, MSD will ensure integration of monitoring and evaluation between the two initiatives. This may include monitoring a common set of population level outcome measures (eg, rates of benefit receipt) or, where providers are participating in both initiatives, integrating provider interviews.
47. A more detailed monitoring framework will be developed in early 2012. Depending on the final shape of the package, resourcing, priorities, and technical feasibility, monitoring could track some of the following:
- *Real-time measures of how the package is operating and numbers affected, eg*
 - numbers receiving the new Payments¹⁴ and their characteristics
 - number and proportion meeting obligations with respect to:
 - education, training or work based learning
 - participation in and completion of a budgeting education programme
 - participation in and completion of a parenting education programme (for parents)
 - number and proportion sanctioned for non-compliance with obligations (by type of obligation and grade of sanction)
 - number and proportion with abated payments
 - number and proportion exiting payments due to employment or because their earnings are too high
 - referral to and participation in support services (eg. drug and alcohol and other mental health services).
 - *Measures of outcomes that the Package is seeking to influence (in some cases, these are only able to be monitored with a lag of a year), for example, the proportion of each birth cohort in education or training, or in work at ages 16 - 19.*
 - *Measures of trends in other outcomes that could potentially be influenced by the Youth Package (in some cases, these are only able to be monitored with a lag of a year), for example, the proportion of each birth cohort supported by the student loan and allowance system at ages 16 - 18 and are participating in education.*

¹⁴ YP, YPP and GCAP.