Future Pathways

Fresh perspectives from actuaries of the future

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Auckland, 12 March 2015

An Actuarial Approach to Welfare

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Jacky Sung   Jonathan Valois

The views expressed in this presentation are the thoughts of the authors only and should not be taken as any indication of or recommendation for planned policy direction within the public sector.

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Context

Objective: Reducing long term benefit dependency in NZ

2011 Welfare Working Group recommended:

- A long-term view of welfare dependency
- An actuarial approach i.e. liability valuation

Forward liability is used as the proxy for 'long-term benefit dependency'

Liability = total expected future payments received up to age 65 (inflated/discounted)

Investment approach (IA) aims to invest spending in a way that reduces long-term benefit dependency (liability)

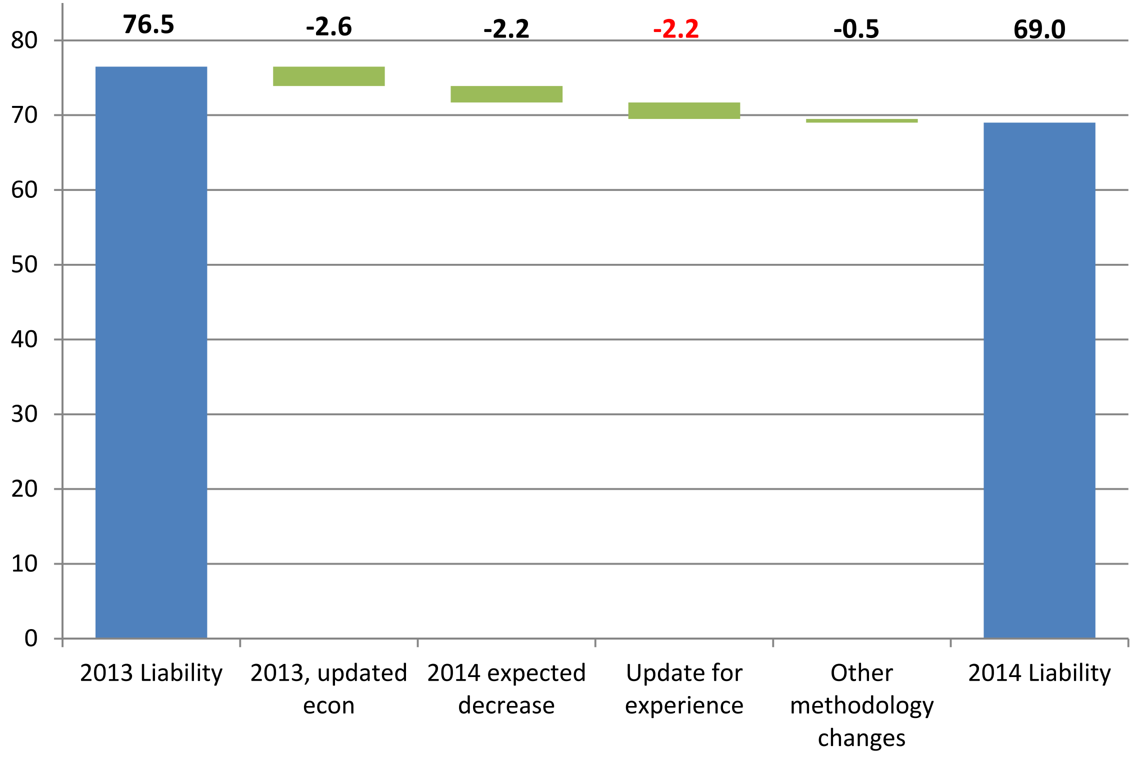
Just liabilities! No assets!

Since 2011 Taylor Fry have produced 4 annual liability valuations…

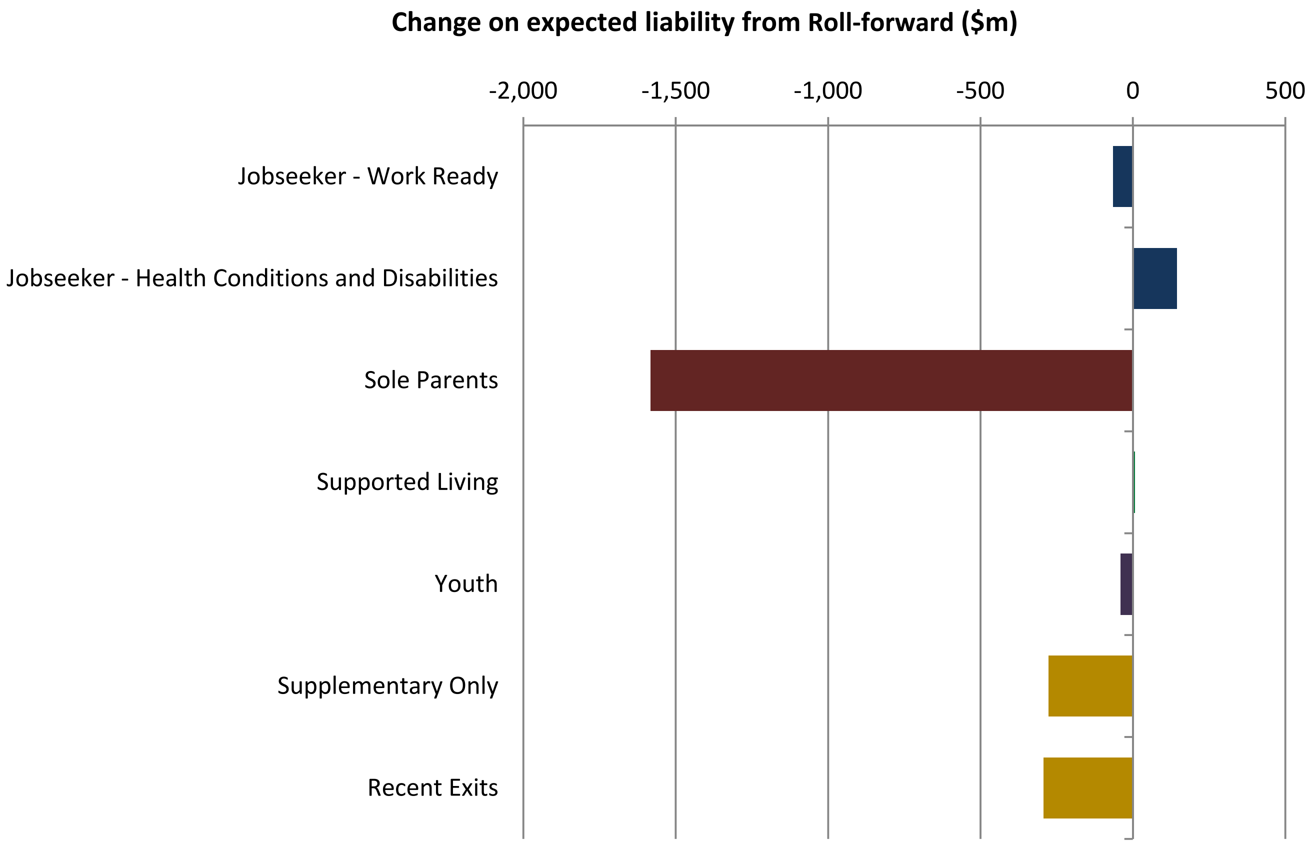
Main results: 2014 valuation

Benefit	Number at valn date	Total liability ($m)	Average liability ($k)
Jobseeker-Work Ready	78,282	7,969	102
Jobseeker-Health Condition and Disabilities	65,717	8,483	129
Sole Parents	76,533	14,628	191
Supported Living	102,490	16,992	166
Youth	3,021	506	167
Supplementary Only	101,396	5,388	53
Recent Exits (received in the last 12 months)	148,006	7,461	50
All beneficiaries	575,445	61,427	107
Expenses + Net loans		7,575	
Grand Total		**69,002**	

Liability change from 2013

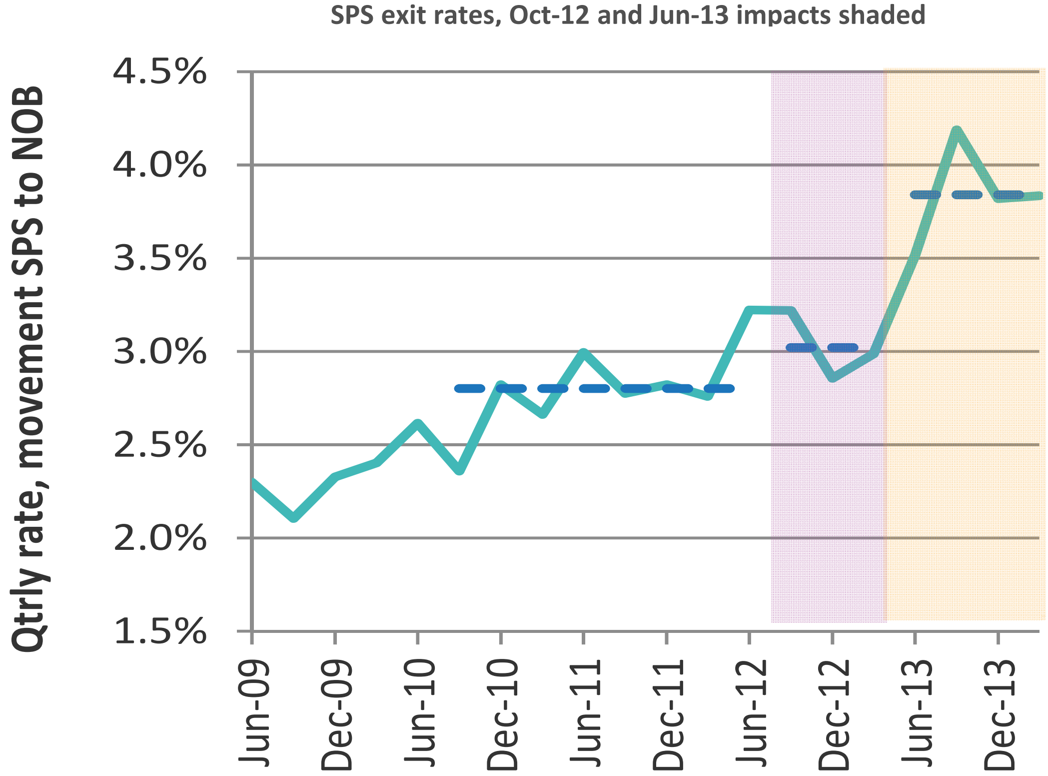


Reduction under management influence



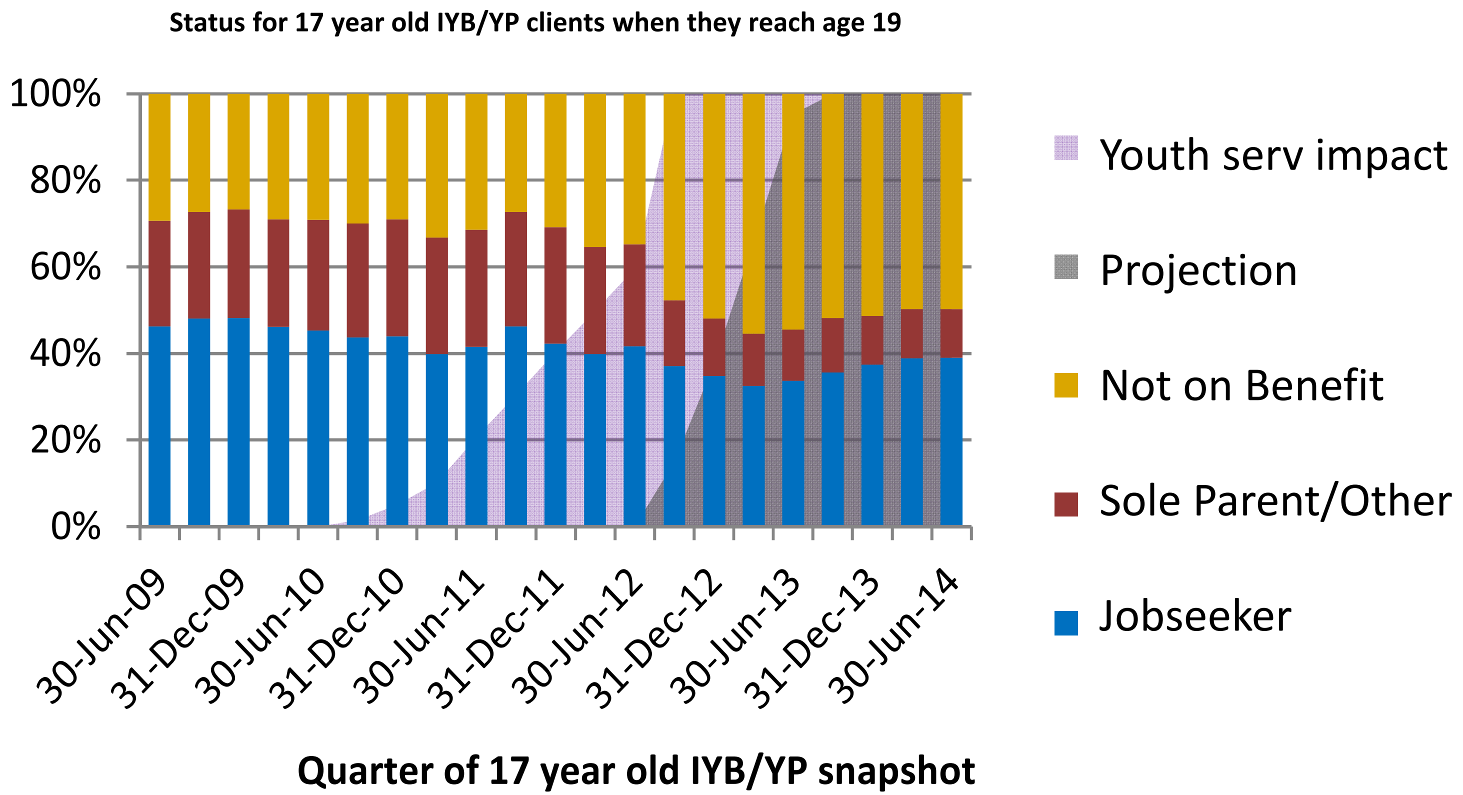
Welfare Reform – Sole Parents

- October 2012: Increased work obligations for SPS clients with school aged children
- June 2013: More intensive case management introduced nationally



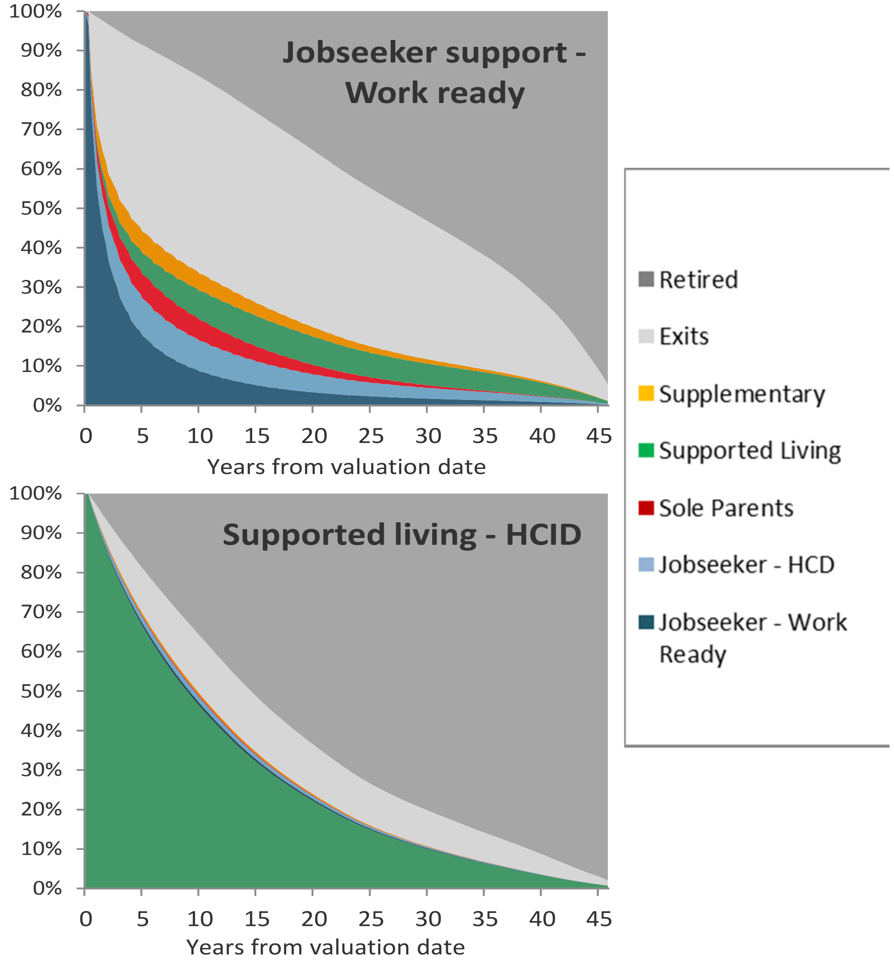
Welfare Reform - Youth Service

- August 2012: Introduced the Youth Service
    - Youth Payment clients
    - Young Parent Payment clients
    - NEET (Not in Education, Employment, or Training)



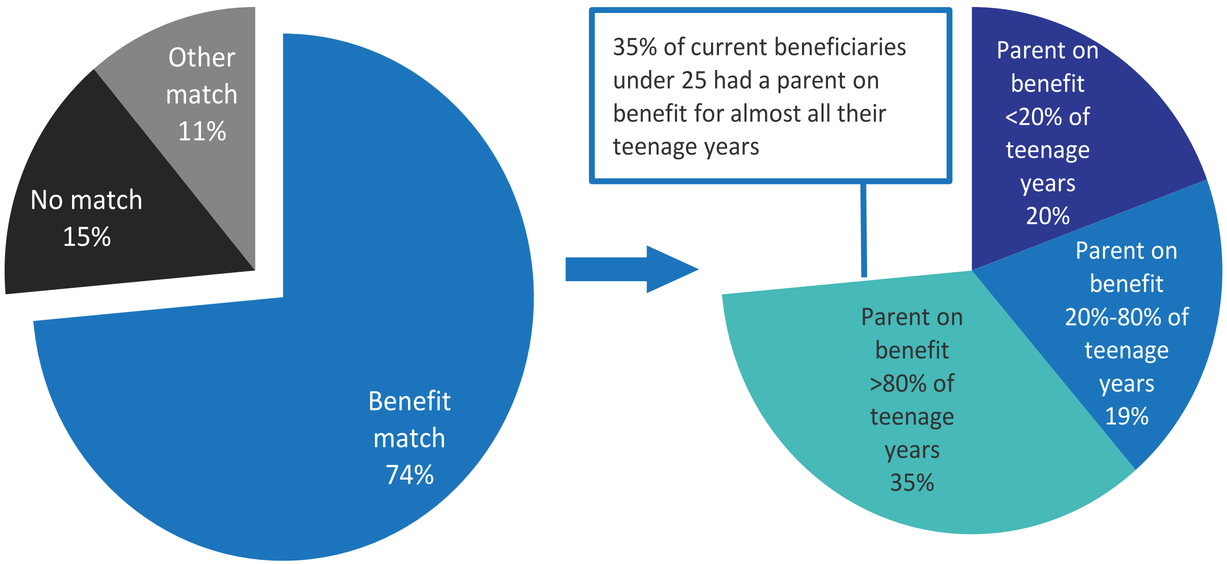
Lifetime Projections

- Jobseeker – Work Ready clients tend to exit benefit relatively quickly.
- Risk of moving on to higher liability benefits
- Supported Living Payment clients have a longer duration on benefit
- SLP clients are generally older



Intergenerational benefit receipt

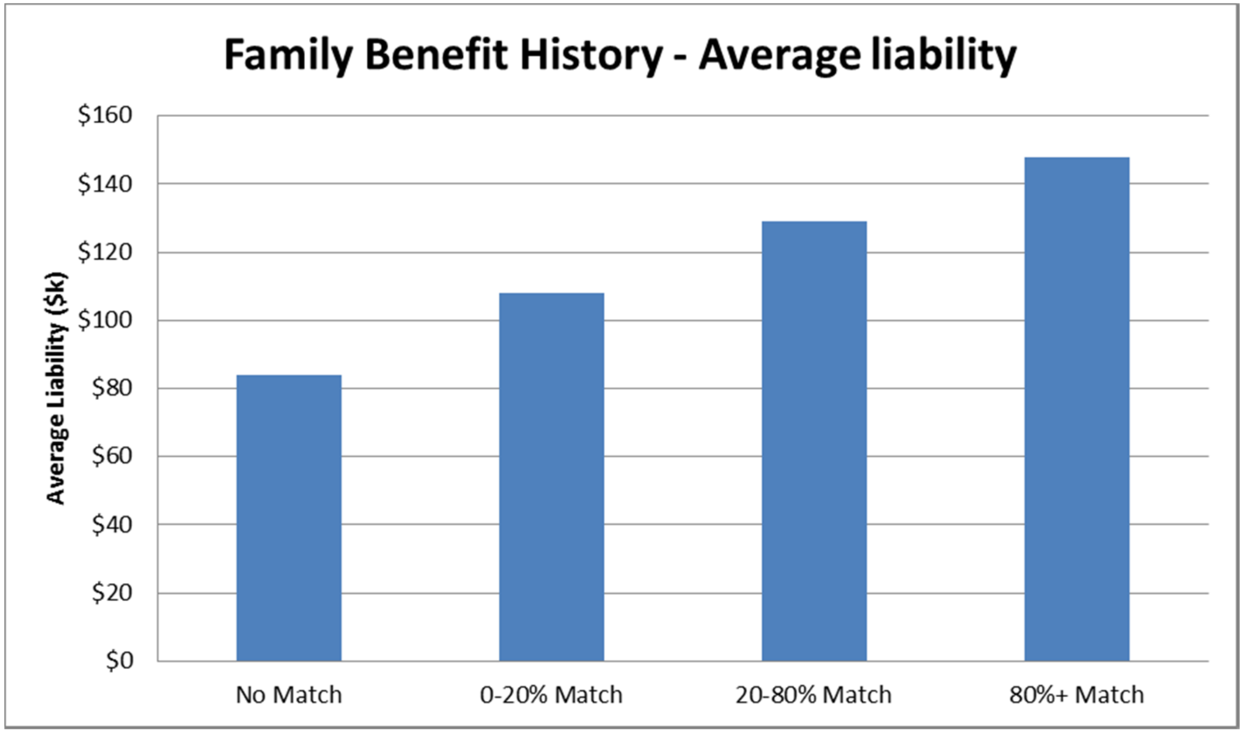
- 74% of beneficiaries up to age 25 had a parent on benefit while they were a child
- 35% had a parent on benefit for over 80% of their teenage years
- Suggests we should view clients from a family/household rather than individual perspective



Intergenerational benefit receipt

- Average liability increases with the amount of time a client's parent was supported by benefits in their teenage years

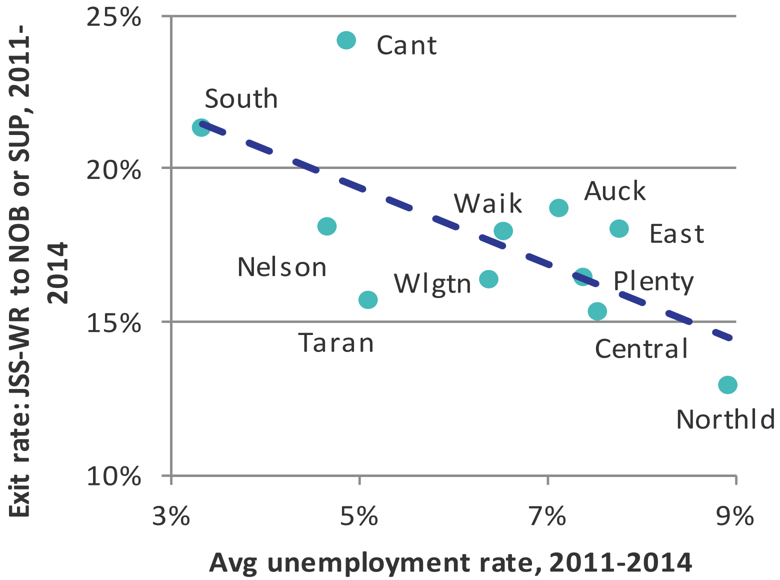
- Age of first benefit could be a proxy for family history of welfare



Regional Labour Markets

- This is the first valuation to include regional unemployment rates
- There is a clear relationship between regional level labour markets and client outcomes

Exit rates from Jobseeker-Work Ready vs average regional unemployment rate



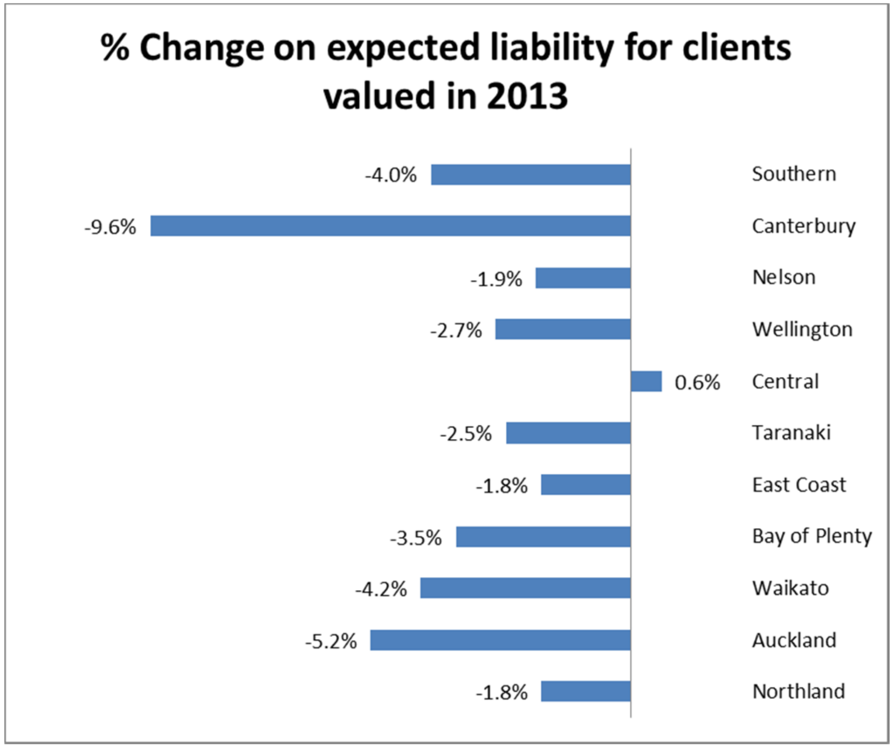
Average liability for JS-WR segments by region

Region	Avg JSS-WR segment Liability ($000s)	UE rate, Jun-14
East coast	116	7.5%
Northland	115	8.4%
Taranaki	111	5.7%
Central	109	7.1%
Bay of Plenty	108	6.8%
Waikato	106	6.6%
Nelson	102	4.7%
Auckland	97	6.6%
Wellington	96	5.7%
Southern	92	2.6%
Canterbury	81	3.0%

Faster exit rates amongst Jobseeker – Work Ready clients correlate with the average unemployment rate in the region.

Reduction in Liability by Region

Unpacking the $2.2b decrease in liability under management influence



The 4.0% decrease in liability compared to expected is spread relatively evenly, with a few exceptions:

- An almost $1b decrease in Auckland liability explains almost half of the overall decrease
- The Canterbury region had a very large decrease, likely due in part to the strong recovery post-quakes
- The central region was the only region that fared (very slightly) worse than expected

Note: These percentages do not necessarily reflect performance

Next steps:

- Explore intergenerational benefit dependency in more detail
- Include Child, Youth and Family and Corrections data in the valuation as a likely predictor of liability
- Possible expansion of the investment approach to other government departments
- McClure Report to the Australian Minister of Social Welfare recommends a similar style approach