The Evolution of an Investment Approach in the New Zealand Social Welfare Context
Building the Investment Approach System

Annual Actuarial Valuations
Highlights areas of concern/focus

Level 1 - Measuring Performance

Level 2 – Client Information

Accountability
• Work and Income Board
• External Monitor (quarterly reporting)

BPS Targets (Better Public Services)
KPI Framework

INVESTMENT DECISIONS

ROI Framework

MCA (Multi-Category Appropriation)

Service Delivery Model

Streaming  Services  Trials
Overall there was a $7.5b reduction in liability (for current clients vs. the 2013 liability)

- Changes to economic factors reduced 2013 liability by $2.6b
- We expected (conditional on latest UR) a $2.2b reduction from 2013 to 2014 due to more exits than entries
- An additional $2.2b reduction is potentially attributable to MSD (policy and operational changes)
- There is a further reduction of $0.5b due to improved accuracy from including

Note:
‘Improvements to models’ is primarily the new indicator of previous benefit type - gives better insight into transitions, including probability of re-entry (which has an impact on the liability estimate) Had the same indicators been in the previous valuation, we would have expected the 2013 valuation to be lower by a similar amount (no year-over-year impact)
Understanding Who We Are Impacting and By How Much

Unpacking the $2.2b decrease due to experience, by segment as at June 2013

- Slight hardening of Jobseeker exit rates, offset by lower numbers
- SPS lifetime costs reduce as a result of earlier exits, but also entering JS earlier
- Existing SLP clients behaving as expected
- Slight decrease in Youth forecast lifetime cost
- Exits more sustained than expected
- Marginally more entries than expected
Understanding Changes in Each Segment

- Youth lifetime cost decreased
- SPS lifetime cost decreased
- Some change in order of average liabilities (for youth and sole parents)
Understanding Where Those Changes Occurred

Unpacking the $2.2b decrease due to experience, by region as at June 2013

Recalibrating the 2013 estimate to reflect regional unemployment rates enables a regional breakdown of experience.

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.

Comparing actual to expected (right column) controls for population size.
Client Transitions in the Benefit System

If a snapshot is taken at 5 years from the valuation date:

The 2013 valuation predicts that:

- Approximately 10% of Jobseeker clients (both WR and HCD) would be in receipt of JS WR
- 20% in receipt of JS HCD

The 2014 valuation predicts that:

- Almost 20% of JS WR clients and approximately 5% of JS HCD clients would be in receipt of JS WR
- 10% of JS WR and 30% of JS HCD clients would be in receipt of JS HCD
Early days but the trends are very good

A key indicator of success is whether youth clients are less likely to age into working age benefits.

The charts on the right look at former Youths’ status a year after aging out of the Youth segment (age 19 for YP, and age 20 for YPP), and related projections.

We see that:

51% of clients who were YP at 17 are off benefits when they turn 19 (projected for 2013/14, compared to just 31% in 2010/11

This is driven heavily by lower entry into SPS, but also better JS outcomes

19% of clients who were YPP at age 18 are off benefits by age 20 (projected for 2013/14), compared to 12% in 2010/11
Understanding Inter-generational Benefit Receipt

Three-quarters of clients aged up to 25 came from beneficiary families

The 2014 valuation includes a new dataset which (for clients aged up to 25) indicates:

- Whether they had a parent on benefits while they were a child (“Benefit match”)
  - If yes, then we also calculate the % of time that parent was on benefit while the client was aged 13-18 (“teenage years”)
- Whether they are matched to a non-beneficiary parent (“Other match” – often to family tax credit)
- Whether there is no match to a parent (no match)
- The level of “benefit match” is very high

35% of current beneficiaries under 25 had a parent on benefit for almost all their teenage years

- Benefit match 74%
- No match 15%
- Other match 11%

Parent on benefit:
- <20% of teenage years 20%
- 20%-80% of teenage years 19%
- >80% of teenage years 35%
How has MSD Applied this Approach to Housing?

• The social housing valuation will have three components that will inform how MSD can optimise its spend under its different roles in social housing in order to support those in greatest need:
  • pathways to independence – lifetime housing cost
  • matching people to places – forecasting demand and purchasing optimal supply
  • reducing unmet need – register management

• Accordingly, the social housing valuation will not have a single metric that covers the whole system
Challenge: the aggregate IRRS liability won’t ‘behave’ like the welfare liability

Total IRRS cost year 1: $ \times \frac{6}{6}

Total IRRS cost year 2: $ \times \frac{6 + 2}{6} = 8

Alternative total cost year 2: $ \times 6 - 1 = 5
The net difference between people’s current housing and their appropriate housing gives insight into what optimal purchasing intentions would be for ‘today’; based on the current configuration of households.
Notional (unmet need) + actual (met need) lifetime costs

Year 1

- High-needs applicant: $\$$
- High-needs applicant: $\$$
- Total IRRS cost year 1:
  \[ \$ \times 6 + 6 \text{ (unmet)} = 12 \]

Year 2

- High-needs applicant: $\$$
- High-needs applicant: $\$$
- Lower-needs tenant now housed independently
- Total IRRS cost year 2:
  \[ \$ \times 8 + 3 \text{ (unmet)} = 11 \]