

National's Benefits Policy Backgrounder

The legislation governing benefits is the Social Security Act 1964.

There are four main benefits:

1. Unemployment Benefit (UB) – for people who are available for, and actively seeking, full-time work.
2. Sickness Benefit (SB) – for people who are limited in their capacity to seek, undertake, or be available for fulltime employment because of sickness, injury, or disability. Applicants must provide a medical certificate signed by a doctor.
3. Invalids Benefit (IB) – for people who are either permanently and severely restricted in their capacity for work because of sickness, injury or disability, or because they are totally blind. Permanent means the condition is expected to continue for at least two years. Applicants must provide a medical certificate signed by a doctor, or suitable existing assessments (e.g. a specialist's report).
4. Domestic Purposes Benefit (DPB) – for sole parents with dependent children (and some other full-time carers).

Generally speaking, people have to be 18 years of age or older to get one of these benefits (apart from the IB), otherwise they are expected to be supported by their parents. Those aged 16 and 17 may be eligible in some circumstances for the Independent Youth Benefit or the Emergency Maintenance Allowance.

Rates of payment are shown in Table I. This table includes the returns to working at the minimum wage for 40 hours a week, by way of comparison.

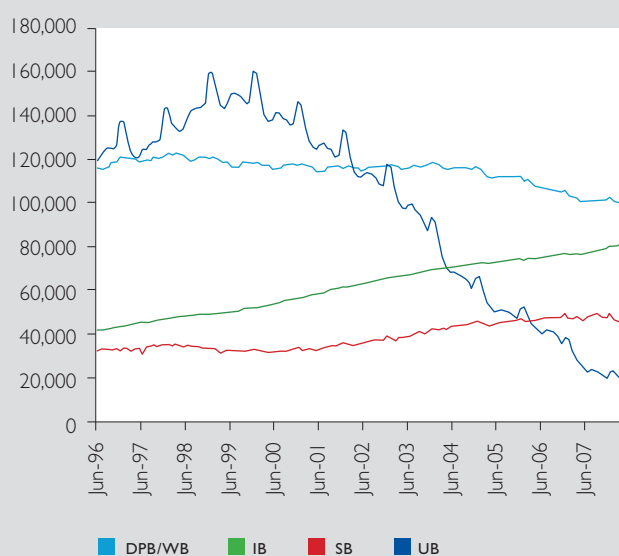
Table I. Benefit rates from 1 April 2008

	Net per week	Gross per year
UB and SB – single person under 25	\$153.46	\$9,388
UB and SB – single person 25+	\$184.17	\$11,401
UB and SB – couple	\$306.92	\$19,481
IB – single person	\$230.19	\$14,430
IB – couple	\$383.66	\$24,532
DPB	\$263.78	\$16,641
Minimum wage at 40 hours a week	\$390.16	\$24,960

Source: Main benefit information – <http://www.workandincome.govt.nz/get-assistance/main-benefit>

Figure 1 shows that the number of people receiving the UB has declined dramatically over the past decade. At the same time, there has been a steady rise in the number of people getting the SB and, especially, the IB.

Figure 1. Number of working-age people receiving benefits, 1996-2008



Source: Ministry of Social Development, Monthly Report on Benefits.

Table 3 shows how long beneficiaries have been receiving their benefits. Note, however, that long-term receipt of benefit income is more common than the data on single spells of benefit receipt would suggest. Many people have a longer benefit history involving multiple spells and, in many cases, multiple benefit types.

Table 2. Proportion of working age beneficiaries continuously receiving their current benefit

	UB	SB	IB	DPB
Less than one year	65.3	47.9	14.2	27.2
Between one and four years	24.0	37.1	27.4	36.0
Between four and ten years	9.1	13.1	29.4	25.5
10 years or more	1.5	1.9	29.0	11.4

Source: National benefit factsheets, March 2008 – <http://www.msd.govt.nz/media-information/benefit-factsheets/national-benefit-factsheets.html>.

It is worth noting also that 38% of SB recipients and 30% of IB recipients are on the benefit because of psychological or psychiatric conditions.¹ In particular, the numbers of people on these benefits, and in particular the SB, for stress or depression has risen markedly in recent years.²

Some beneficiaries, and some partners of beneficiaries, have work obligations associated with receiving their benefit. These obligations are, among other things:

- To be available for, and take reasonable steps to obtain, suitable employment.
- To accept any offer of suitable employment, whether full-time, part-time, temporary, or seasonal.

¹ National benefit factsheets, March 2008 – <http://www.msd.govt.nz/media-information/benefit-factsheets/national-benefit-factsheets.html>

² At the end of June 2002 there were 6,167 people on the SB, and 3,672 people on the IB, for stress or depression. By the end of June 2007, these numbers had grown to 13,143 and 6,387 respectively. Source: 2006/07 Financial Review of MSD, questions 181 to 185.

- To attend and participate in an interview for any opportunity of suitable employment to which the beneficiary is referred.
- When required, to attend and participate in any interview with the department.
- To develop, sign, and comply with a jobseeker agreement, which is an agreed plan for obtaining employment, including job seeking activities, job-related training, work experience, etc.
- To undertake, when required, any activity (including rehabilitation but not medical treatment) to improve the beneficiary's work-readiness or prospects for employment.

Work obligations currently apply to:

- People receiving the UB.
- The partners of people receiving the UB, SB and IB, who have no dependent children.
- The partners of people receiving the UB, SB, and IB whose youngest child is aged 6 years or over, although they are required to be available for only part-time work or training, defined as at least 15 hours a week.

Work obligations currently do not apply to people receiving the SB, IB, or DPB. If a beneficiary fails to comply with any of their work obligations they can be sanctioned by having their benefit suspended until they comply, or by having their benefit cancelled.

NATIONAL'S PRINCIPLES

Genuine support for people in need

National is committed to a welfare system that:

- Is a genuine safety net in times of need.
- Provides temporary support to people as they return to independence.
- Provides indefinite, compassionate support to people who are physically or mentally unable to support themselves.

We believe that the welfare system should:

- Be fair and provide certainty.
- Treat people with dignity.
- Be honest to beneficiaries and taxpayers.
- Provide support that reflects an individual's needs and circumstances.

An unrelenting focus on work

National believes that:

- Paid work is the route to independence and well-being for most people.
- Paid work is the best way to reduce child poverty.
- The welfare system should be focused on helping people get back to work as soon as possible.
- The state does harm to people, and writes off their potential, by allowing them to stay on a benefit for a long period of time.

An active, not a passive, welfare system

National believes that the welfare system should:

- Focus on what people can do, not what they can't do.
- Challenge people, not treat them as passive recipients of benefits.
- Provide support, training, and opportunities for people to return to the workforce.

NATIONAL'S POLICIES

Legislate for CPI adjustments to benefits

By convention, benefits are increased each year according to movements in the CPI. However, indexing benefits to the CPI is not guaranteed by legislation, and the level of each benefit is entirely up to the government each year. Section 61H of the Social Security Act says that "The Governor-General may from time to time, by Order in Council amend (various provisions in the Act) by increasing the amount of any benefit, allowance, lump sum payment, subsidy rate..."

Therefore, beneficiaries do not have the same certainty as recipients of New Zealand Superannuation, whose payments must, by law, rise with the CPI each year.

National wants to give beneficiaries the certainty that superannuitants enjoy. Therefore, National will cement the CPI-indexing of benefits into legislation.

Reject Labour's planned new benefit terminology

Labour has long talked about having a "single core benefit". After spending eight years, millions of dollars, and thousands of hours of meetings and committees discussing this concept, the single core benefit has been reduced to nothing more than a farce.

Labour has announced it will re-label all existing benefits as "income support" without changing the actual substance of those benefits. This is, in part, an attempt to disguise the growth in SB and IB recipients by muddying the difference between benefit types. For the most part, however, it is just unnecessary political correctness. Ruth Dyson confirmed this by saying:

The government will remove the stereotyped language and bureaucracy of a bygone era. This will

ensure that Work and Income respond to people as individuals rather than as categories.... The need for unnecessary paperwork is being reduced, along with the elimination of outdated terminology such as "invalid" or the "Domestic Purposes Benefit".³

The Labour Government plans to issue a direction under Section 5 of the Social Security Act to confirm the names and terms that are allowed to be used. Existing benefit types will remain in place but staff will be required to use the generic term of "income support" when communicating with clients. They will not be allowed to use terms like "Domestic Purposes Benefit" or "DPB" but in every other respect nothing will change.⁴

This is utterly pointless and will not help beneficiaries, the vast majority of whom will no doubt continue to use terms like "DPB". It will also be a waste of money. The Government has admitted that a range of communication materials such as brochures, letters, forms, websites, and training material will have to be amended to refer to 'income support' rather than benefit names.

National will not be adopting this new benefit terminology.

Focus the planning process on employment

Those beneficiaries, and their partners, who are not subject to work obligations must take part in a planning process, for personal development and employment. Most are required to complete "Personal Development and Employment Plans".

These planning exercises have become a compliance exercise, half-heartedly completed, and in most cases have little benefit in terms of preparing people for work.⁵ There is not even an obligation on Work

and Income to give the beneficiary a copy of the plan.

Legally, beneficiaries face sanctions if they do not comply with the plan. However, there are many problems with the planning process and it is often not followed by either Work and Income staff or beneficiaries, which means sanctions are rarely applied anyway.⁶

The on-line manual for Work and Income case managers says:

The set of goals contained in the client's Plan are the general objectives that the client wishes to obtain. Goals may be long or short term and focused on strengthening any aspect of a client's life. They should include pre-employment, employment and social activities, as appropriate to the client's individual circumstances.⁷

It is not the government's role to help people develop an annual plan for social activities. National will require these plans to be focused squarely on preparing people for work, either at that time or at the time they become work tested.

We are going to re-name them simply "Employment Plans" and make them focused on employment-related activities and pre-work preparation.

Not all beneficiaries will be required to have such a plan.

Require the most frequent applicants for benefit advances to attend a budget advisory service

At Work and Income's discretion, beneficiaries can get advances on their benefits, to pay for lump-sum expenses such as washing machine repairs, school uniforms, rent bonds, car repairs, electricity bills,

³ Hon Ruth Dyson, Press release, 3 July 2008.

⁴ Cabinet Paper entitled "Special Needs Grants, Core Benefit Changes and Further Work".

⁵ Ministry of Social Development, *The 2002 Domestic Purposes and Widow's Benefit Reform: Evaluation Report*, 2007, pages 15 and 16.

⁶ Ministry of Social Development, *Fourth Quarter Report – Output Plan 2006/07*, page 27. Also Written Question 260 (2008).

⁷ http://www.workandincome.govt.nz/manuals-and-procedures/income_support/main_benefits/domestic_purposes_benefit_-_sole_parents/domestic_purposes_benefit_-_sole_parents-61.htm

etc. They are required to repay these advances over time, out of their benefit.

In the year ended 30 June 2007, there were 286,863 advance payments of benefits to 127,397 working-age clients with a total value of \$92 million.⁸ MSD expects to spend \$105 million on advance payments of benefit in 2008/09.⁹ No interest or penalties are paid on these advances.

In the past year, 20,689 beneficiaries received three or more benefit advances during that 12-month period.¹⁰

Debt also occurs when beneficiaries are inadvertently overpaid by Work and Income, or as a result of fraudulent activity. The total debt owed by current beneficiaries and their partners, plus former beneficiaries, has surged from \$450 million in 1999 to more than \$780 million today.¹¹

The amount of debt owed by beneficiaries is very concerning, given their difficulty in repaying it and the apparent ease with which advances are granted. In 2000, Labour abolished a budgeting referral system that the previous National Government had established. It claimed that Work and Income staff would provide budgeting advice. However, budget advice is a specialist skill and the significant increase in debt suggests this has not been happening.¹²

Beneficiaries are in danger of forever playing catch-up as repayments of advances lower their income, thereby placing even greater strain on their ability to make ends meet.

Debt is a particular problem for female beneficiaries, as DPB recipients are by far the biggest recipients

of benefit advances. Debt owed by recipients of the DPB has increased from \$67 million in 1996 to \$127 million today.¹³

National considers that people who are regularly finding it difficult to make ends meet, for whatever reason, need more assistance than a continuing stream of benefit advances, which may or may not ever be repaid. Repeated requests for a benefit advance signify a problem.

National will require the most frequent applicants for benefit advances to attend a budget advisory service, to get qualified, experienced, non-judgmental budgeting advice to help them manage their finances. The advice they receive will be confidential and will not be shared with Work and Income.

Work and Income will contract qualified budgeting advisers who are members of the New Zealand Federation of Family Budgeting Services. We understand that budgeting advice is an extremely important service that has been neglected for many years. National will provide the funding for qualified NZFFBS advisers to deliver both one-on-one case budgeting assistance and community education.

A certain number of requests for a benefit advance in a 12-month period will trigger a referral to the budgeting service. People who do not attend this service, in good faith, will not be eligible for any further benefit advances.

The exact number of requests which trigger a referral will be set after negotiation with budgeting services, which will determine the volume of people who can practically be referred.

Focus on the long-term unemployed

The number of people receiving the UB has decreased markedly over the past decade, due

⁸ Written Question 16153 (2007).

⁹ 2008/09 Estimates Examination, Vote Social Development, question 99.

¹⁰ Written Question 6736 (2008).

¹¹ 1999 figure from Evening Post, "Total benefit debt \$537.6m", 6 March 2002. Current figure from Written Question 6744 (2008).

¹² The Dominion, "Budgeting scheme to go", 24 January 2000. The Waikato Times, "Budget advisers fear Winz power with new changes", 1 February 2000.

¹³ Written Questions 6620 (2008) and 12111 (2006).

to a combination of a tight labour market and the application of work obligations on UB recipients. Yet there is still a hard core of people who have been on the UB continuously for more than a year. We are going to focus on this group of people and enforce their work obligations. There are jobs out there and people should take them.

Within twelve months of a new National Government, every person who has been on the UB for more a year will be required to re-apply for their benefit and undergo a comprehensive work assessment.

All long-term UB recipients will be required to do what it takes to secure employment. This may include practical training, attending a basic skills course, or attending drug and alcohol rehabilitation.

After that, they will be required to actively look for a job, to go to any job interview they are referred to, and to accept any offer of suitable employment, whether full-time, part-time, temporary, or seasonal.

If they do not comply with these obligations, they will have their benefit reduced in the first instance, then suspended, and then cancelled.

Introduce part-time work obligations for DPB recipients when their youngest child is six

The previous National-led Government introduced work obligations for DPB recipients, and for partners of people receiving the UB, SB, and IB, whose youngest dependent child was aged six years or over. Labour retained these work obligations for the partners of beneficiaries, but removed them for DPB recipients.

Work is the best way out of poverty. Our principle is that those who can work will be obliged to actively look for work.

Therefore, National will introduce a part-time work obligation of 15 hours per week of employment, training, or job-seeking activities for DPB recipients once their youngest dependent child turns six. Part-time work obligations are not punitive, and 15 hours a week of employment or training is not onerous.

There is also a reasonably short step from working 15 hours a week to working 20 hours a week, at which point sole parents are always financially better off leaving the benefit altogether. This is because the Minimum Family Tax Credit guarantees a sole parent family a minimum after-tax income of \$18,460 (\$22,646 before tax), once the sole parent is working 20 hours a week.

There is clear evidence that work obligations are effective. In terms of the DPB in particular, MSD did an evaluation of the 1999 work obligations for DPB recipients.¹⁴ It found that:

- There was an increase in the number of sole parents moving off the benefit following the February 1999 changes.
- Most of those who moved into employment and off the benefit reported that they were better off financially, even though in some cases those gains took time to accrue.
- In the survey of sole parents who moved off the benefit and into employment, 60% of respondents reported that the overall effect on their families of them obtaining paid work was positive or very positive, with only 4% describing the overall effect as negative or very negative.

Opponents argue that requiring a sole parent to seek work is detrimental to their children. This is not borne out by the evidence. International studies show that having a mother working does not have

¹⁴ Ministry of Social Development and Department of Labour, *Evaluating the February 1999 Domestic Purposes Benefit and Widows Benefit Reforms: Summary of key findings*, 2002 <http://www.msd.govt.nz/documents/publications/csre/evaluatingdpbreforms.pdf>

detrimental effects on measureable child outcomes. For more disadvantaged families, including sole parent families, studies have found positive effects from a mother working.¹⁵ The most comprehensive study ever conducted of programmes to get single parents back to work found that requiring sole parents to participate in employment-related activities had only few effects, either positive or negative, on their school-aged children.¹⁶

The system of work obligations also has built-in safeguards. Work and Income already has the discretion to exempt parents from work obligations, if, for example, they are caring for a child with a physical or intellectual disability, or a chronic or recurring illness.

We will ensure that this discretion is exercised in a compassionate way and takes into account a sole parent's individual circumstances.

Among OECD countries, it is rare to find a specific benefit for sole parents with no reciprocal obligation to look for work. After studying New Zealand policy settings, the OECD said in 2004 that the DPB creates poverty traps for sole parents in New Zealand and was critical of Labour's abolition of work obligations.¹⁷

A major inter-country OECD study released in 2007 concluded that:

It is in the long-term interest of all families, including sole-parent families, to engage in paid work, as this is the most effective way of reducing the risk of family poverty, enhancing child development, and generally giving children the best possible start in life.

¹⁵ Ruhm, Christopher J., "Maternal Employment and Adolescent Development". NBER working paper, reprinted at: <http://www.treasury.govt.nz/publications/research-policy/conferences-workshops/labourforce/pdfs/lfpw-ruhm.pdf>. Goldberg W.A. et al. Maternal employment and children's achievement in context: a meta-analysis of four decades of research. *Psychol Bull.* 2008 Jan;134(1):77-108. Horwood, John L. & David M. Fergusson, "A Longitudinal Study of Maternal Labor Force Participation and Academic Achievement", *J. Child Psychol. Psychiat.*, 40(7), 1999, 1013-24.

¹⁶ Do Mandatory Welfare-to-Work Programs Affect the Well-Being of Children? A Synthesis of Child Research Conducted as Part of the National Evaluation of Welfare-to-Work Strategies (HHS/ED). 2000. Gayle Hamilton. <http://www.mdc.org/publications/32/full.pdf>

¹⁷ OECD, *Babies and Bosses: Reconciling Work and Family Life*, 2004.

...Generally, OECD countries require sole parents on income support to look for work when children are of pre-school or primary school age, but in a few countries, Australia, Ireland, New Zealand and the United Kingdom, there is no work-test until the young child is 12, 16, or even older. This is supposed to "protect" sole parents from having to work when they "should" be looking after their children. However, the effect has been that sole-parent employment rates in Australia, Ireland, New Zealand and the United Kingdom are relatively low, at 44 to 55% compared to around 70 to 80% in the Nordic countries. The result is poverty, which damages the future life-chances of children.¹⁸

It is worth noting that work obligations for sole parents have recently been introduced in Australia, once the youngest child turns six, and has been recently announced in the UK, once the youngest child turns seven.¹⁹

Women on the Widow's Benefit will not face work obligations. Around 6,000 women receive this benefit. Half of them are aged between 60 and 64 with a further 2,500 aged between 50 and 59.

Women on the DPB - Women Alone (this benefit is for women aged over 50) and DPB - Care of Sick or Infirm will also not face work obligations.

National's focus is on younger sole parents with dependent children because these are the families most likely to be in poverty. Paid work is the best way out of poverty.

Address growth in SB and IB numbers

About 130,000 people are receiving either the SB or IB, and this number is growing every year. Since 1999, there has been a more than 50% increase in the number of people receiving these benefits. This year, the SB and IB together are expected to cost the country \$1.8 billion.²⁰

¹⁸ OECD, *Babies and Bosses: Reconciling Work and Family Life*, 2007.

¹⁹ <http://www.dwp.gov.uk/welfare-reform/readyforwork/readyforwork.pdf>

²⁰ Treasury, *Budget Economic and Fiscal Update 2008*

Eligibility for the SB and IB is on medical grounds, and therefore doctors, particularly GPs, play a pivotal role in the benefit system. Recipients are required to get a medical certificate when they first apply for an SB or IB, then at intervals after that.

Ministers are usually at pains to point out that doctors are in the best position to decide who is or isn't sick enough to work, so they are the ones who should decide on eligibility.²¹ Doctors are, therefore, effectively being put in the invidious position of deciding, on behalf of their patients, whether they will get a benefit, and what type it will be. There are frequent accounts of beneficiaries putting doctors under pressure to sign medical certificates. At the same time, doctors are effectively making costly spending decisions on behalf of the state.

Doctors are not trained to be gatekeepers for the welfare system, and nor should they be. They should not be expected to be controllers of the public purse. In fact, the Social Security Act is clear that it is Work and Income that decides whether people should get an SB or IB, and the only obligation on doctors is to provide a medical certificate. The Act also allows Work and Income to require a person to get a second opinion from a doctor agreed between the parties or, failing that, a doctor nominated by Work and Income.

Under National, the benefit system will:

- Take some of the pressure off individual doctors who are at the sharp end of the decision-making over people's eligibility for the SB and IB.
- Ensure that people are getting the benefit that is most appropriate to their condition.
- Encourage SB and IB recipients who can work, to work.

²¹ The following quotes from Ministers in Parliament's Question Time make this clear: "First of all, let me remind the member that access to sickness and invalids benefits is by way of the medical profession." (Hon David Benson-Pope); "access to those benefits [SB and IB] is determined by medical need and is signed off by medical professionals" (Hon David Benson-Pope); "Work and Income case managers have no medical training, and should never try to determine whether a person is too sick to work. Doctors are the only people who can test eligibility for a sickness benefit." (Hon Darren Hughes).

In terms of the last point, the SB is meant to be a short-term benefit, and we should be creating an expectation that it will be treated as such. The SB was designed to tide people over during a period of illness. We don't want people to get so used to receiving the SB they see it as a lifestyle choice. The longer people are on benefits, the more they lose the confidence that they need to participate in the workforce.

The IB, on the other hand, is for permanent and long-term conditions. National will ensure that people who are seriously ill or disabled will be treated with compassion and will never face any kind of work obligations. There are others, however, who over time have adapted to their illness or disability, and who are able to work, perhaps with some assistance from the government.

I. A second four-week reassessment period for the SB

Medical eligibility for the SB is reviewed periodically. Currently, the first medical certificate can be accepted only for a maximum period of four weeks. Beneficiaries need to go back to their doctor and get another medical certificate if they are to stay on the SB for longer than four weeks. Second and subsequent medical certificates can cover a period of up to 13 weeks.

It is clear that the longer a person remains on the SB, the harder it is for them to get off that benefit. It is particularly important to have frequent medical assessments, and active and intensive case management, during the initial period of a person's benefit receipt.

Under National, the second medical certificate issued to an SB recipient will also be for a maximum period of four weeks, rather than for 13 weeks as at present. This will ensure more frequent assessments from the person's doctor, and from Work and Income, at the outset of their benefit receipt.

The third and any subsequent medical certificate will continue to cover a period of up to 13 weeks.

2. A compulsory second opinion after 12 months continuous receipt of SB

Currently, if a doctor indicates on the Work and Income medical certificate that there should be a second opinion, this generates a referral for the client to be assessed by a 'designated doctor'. Work and Income has a number of designated doctors around the country who are contracted to provide second opinions.

National will make second opinions compulsory. We will require people on the SB to get a second opinion from a designated doctor, contracted by Work and Income, after they have been on the benefit continuously for 12 months.

Making second opinions compulsory reduces the pressure on doctors and case managers who may be reluctant to initiate second opinions. Moreover, taxpayers are footing the bill for the SB, and having a compulsory second opinion enables Work and Income, on behalf of those taxpayers, to seek assurance that the SB recipient is appropriately receiving the benefit, even after a year's continuous receipt.

Case managers will also be able to require SB and IB recipients to see a designated doctor for a second opinion if they have any concerns about the length of time the recipient has been on the benefit, given the condition they have, or about the recipient's activities while on the benefit.

The cost of a compulsory second opinion after 12 months continuously on the SB will be \$1.2 million a year.

3. Part-time work obligations for SB and IB recipients who have been assessed as being able to work part time

National will introduce part-time work obligations for SB and IB recipients who have been assessed as being able to work part time. This means they will be required to spend at least 15 hours per week in employment, training, or job-seeking activities.

Currently, 5,629 sickness or invalid benefit recipients have been categorised by Work and Income as capable of working now.²² Doctors can indicate on the medical certificate if they consider that the SB or IB recipient is able to be regularly in employment for 15 hours or more per week.

However, there is no obligation for these people to do anything more than plan for their eventual return to work and talk to their case manager regularly, even though they have been assessed as being able to work right now.

Under a National Government, beneficiaries who have been categorised as ready for part-time work will be expected and assisted to work.

A more graduated system of sanctions for non-compliance with work obligations

If a beneficiary fails to comply with any of their work obligations they can be sanctioned only by having their benefit suspended until they do comply. If this happens three times in a 12 month period they must get their benefit cancelled and cannot reapply for 13 weeks.

In the event that a sole parent is on the UB, rather than the DPB, they can keep 50% of their benefit when it is suspended or cancelled.

Table 3 shows the number of sanctions that were applied in 2006/07. It shows that sanctions are

²² Written Question 6539 (2008).

often applied to UB recipients. On the other hand, sanctions are almost never applied to partners of people receiving the SB or IB, who face part-time work obligations if they have a child aged six or over.

Table 3. Work test sanctions applied to working age benefits in 2006/07

	1 st suspension	2 nd suspension	Cancellation	Total
UB	17,227	5,267	2,126	24,620
IB	25	1	0	26
SB	47	4	1	52
Other	1,022	116	22	1,160
Total	18,321	5,388	2,149	25,858

Source: Written Question 17291 (2007).

Full suspension of a benefit is a severe sanction, and has very significant effects on people's lives. Consequently, case managers have to think long and hard about whether they apply this sanction, especially to single people and to people who only have part-time work obligations. It is a big call to stop a person's benefit altogether.

Therefore National is going to introduce a more graduated system of sanctions for people who do not comply with their work obligations.

We are going to introduce at least one intermediate step which will be a reduction in benefit, before a full suspension of the benefit applies. This step, or steps, will give Work and Income case managers more flexibility and additional tools to encourage beneficiaries to comply with their work obligations.

Details of these graduated sanctions will take some working through, given the complexity of the benefit system. The system needs to differentiate between different benefit types, whether a person has a partner, whether a person has children, whether they face part-time or full-time obligations, and so on. We will make sure that sanctions are equitable across these different permutations.

And as a result of making sanctions more graduated we will expect to see them used more frequently, in cases where people are not complying with their work obligations.

Allow beneficiaries to earn up to \$100 a week before their benefit is affected

Beneficiaries, and/or their partners, can currently earn up to \$80 a week (\$4,160 a year) before the level of their benefit is affected. This threshold has remained unchanged since 1996. Above \$80 a week, people on the DPB and IB have their benefits abated at 30% for a time, then 70%. People on other benefits go straight to a 70% abatement.

After paying tax on their extra income, and losing part of their benefit, beneficiaries can be in a position where they are losing up to 92 cents of every additional dollar they earn. This is a disincentive for people to work even a few hours a week.

In 2006, only 38,000 of the 280,000 people on a main benefit reported earning \$80 a week or more.²³ The biggest group of beneficiaries that reported earning other income were people on the DPB.

National will raise this threshold to \$100 a week. This will help to encourage work wherever possible. It is an extra incentive for people to dip their toes into the labour market. Raising the earnings threshold gives beneficiaries an additional incentive to work a few hours a week, to get into the work habit, to gain some confidence, and to start building up some work skills. That is an important step in the progression towards full-time work.

At or just above the minimum wage, a person could work for a day a week and not have their benefit affected.

23 Ministry of Social Development, Statistical Report for the Year Ending June 2006, Table 2.22.

The current \$80 threshold also applies to non-qualifying partners of people receiving New Zealand Superannuation, who can earn \$80 a week without affecting their partner's super payments. We will raise this threshold to \$100 as well.

We estimate that raising these thresholds from \$80 to \$100 will cost around \$17 million a year.