

THE LABOUR MARKET ACTIVITY OF WORK-TESTED BENEFICIARIES

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Abstract

This paper considers the labour market behaviour – employment and job search activity – of work-tested beneficiaries (Unemployment Beneficiaries and some Domestic Purposes Beneficiaries) using unit record data. Labour market behaviour is examined in terms of considering the extent to which some (but not all) obligations under the *Social Security Act* 1964 are apparently met. Two measures of beneficiary status are examined – self-reported data (from the *Income Survey*) and administrative data (from the Ministry of Social Development) on receipt. The major finding is that a significant minority of work-tested beneficiaries are not meeting their labour market obligations. This conclusion should be cross-checked with information from other data sources.

Context and main conclusions

The three main tasks of a well-functioning welfare system are:

Paying income support

- Avoiding paying welfare benefits to those who fail to meet the benefit eligibility criteria.
- Ensuring that all those who are eligible for a benefit take-up their benefit entitlement (and, consequent on take-up, are paid the correct amount).

Supporting positive employment transitions

- Effectively getting those people who have a job search condition on their benefit receipt or who wish to work but who are on a benefit into employment.

System performance can be judged on how well it performs these three tasks.

International evidence suggests that non-take up of welfare benefits by those eligible is both significant and consequential (Hernanz *et al.* 2004). However, there is no systematic evidence on take-up in the New Zealand context.

High quality evaluation evidence on system effectiveness in getting people into work is also very limited in New Zealand. The creation of Statistics New Zealand's Integrated Data Infrastructure (IDI) means that this issue can now be better investigated.

This paper considers aspects of the remaining dimension – the effectiveness of the system in not paying benefits to those who fail to meet eligibility criteria. It addresses how well the system does in terms of paying *work-tested* benefits only to those who are entitled. While some Sickness Beneficiaries have been work-tested post-2010, only Unemployment Beneficiaries and work tested Domestic Purposes Beneficiaries are considered here.

The major findings of this paper are as follows:

- About 40% of people on work-tested benefits may not be meeting their labour market obligations, as they appear to be either working too much or searching too little.
- About one in three people being paid an unemployment benefit report no current job search activity in the HLFS in the previous four weeks.
- About one in five people being paid an unemployment benefit report no job search activity *and* no intention to seek work in the next year.
- The proportion of unemployment beneficiaries who met labour market obligations was significantly higher in the labour market of 2011-2012 than it was in the tighter labour market of 2007-2008.
- The 2010 *Future Focus* reform, introducing part time work-testing on DPBs with a youngest child older than 6 years, appears to have had a small positive effect on job search activity.

The analysis provides new information on the extent to which beneficiaries who should be contributing to effective labour supply appear to be so doing.

The paper addresses only the issue of whether unemployment beneficiaries' *individual* obligations are being met via examination of the extent to which they anonymously report working hours and job search activity during a reference week ("labour market activity"), during which they were also recorded as in receipt of unemployment benefit from Work and Income.

This paper does not further address eligibility regarding the extent to which beneficiaries' family income (whether assessed via one potential earner in a sole parent family or by shared income in terms of being partnered) may render them ineligible for the benefit they are receiving.

Equally, it does not address the possible issue of systematic under-reporting of hours of work by Unemployment Beneficiaries.

Consequently, at least in these regard, the estimates presented here are likely to be an over-estimate of the extent to which obligations to the benefit system are being met.

Data

The data on beneficiary status used here comes from two sources. In both cases the source of information on labour market activity comes from the quarterly *Household Labour Force Survey*.

In the first instance, *self-reported* benefit receipt data comes from the *Income Survey* which is an annual June supplement to the HLFS which allows identification of income sources, including information on first tier benefit receipt, during the previous two weeks. The income source data and the HLFS are directly matched at the level of the individual by virtue of being an integrated data vehicle. This data is available annually from 1997 to 2011.

To minimise respondent errors, we exclude proxy HLFS responses and imputed *Income Survey* (i.e. we only use direct reports of labour market activity by the individual concerned).

In the second instance, data on benefit receipt come from the Ministry of Social Development (MSD) *administrative* benefit data set. This MSD benefit data set can in turn be matched to the HLFS via a recent development in Statistics New Zealand's *Integrated Data Initiative* (IDI). The benefit data were individually matched with the HLFS based on name, sex and date of birth information common to both data sets. Matches could be perfect or "close enough", based on minor variant in name spellings, once age and sex were matched. About 87 per cent of HLFS records were matched to the administrative data. The false-positive rate is estimated to be less than 2 per cent. We examined sensitivity to match type and found little or no evidence of systematic differences. Because the HLFS is collected quarterly, this data is in theory available quarterly.

However, there is a lag in the matching records, which means the most recent data are for the June quarter 2011. In addition, name coding in the HLFS has only been sufficient for permitting matching from the December quarter 2006.

As indicated above, data on hours worked and job search activity of those on a benefit comes from the *Household Labour Force Survey* (HLFS), which is run quarterly.

The MSD administrative register, rather than self-reported receipt, is the best indicator of whether someone is on a benefit. However, self-reports provide an interesting benchmark for considering labour market activity on those on a benefit.

Labour market activity tests

The *Social Security Act 1964* sets out the obligations of beneficiaries regarding work. For an unemployment benefit to be payable, the person needs to be:

A. Not in full-time employment. For the purposes of the Act, full-time employment is defined as more than 30 hours worked per week

B. Seeking full-time employment

C. Available for full-time employment

D. Willing and able to undertake full-time employment; and;

E. Has taken reasonable steps to find full-time employment (s87 (1), see also s 102A, which emphasises being available for and taking reasonable steps to obtain suitable employment).

The purpose of the work test is to ensure that work-tested beneficiaries maintain an "unrelenting focus" on getting work (s 101 a). The Act was amended in 2001 to allow for a Job Seeker Agreement. All work-tested clients are required to enter into an agreement with Work and Income. It sets out the assistance that Work and Income will provide to assist the job seeker to obtain employment, and the steps that the job seeker will take to find employment or to improve their prospects for doing so. The Job Seeker Agreement must specify job search activities and may include employment or training programmes to be undertaken by the job seeker. Completing approved training may be counted toward the fulfilment of work-test obligations.

The spouses and partners of unemployment beneficiaries also have work test obligations. The work obligations of a spouse or partner depend on the age of the couple's youngest dependent child, if they have one. There is a full-time work test if they have no dependent children, or if their youngest dependent child is aged over 18 years, or aged 18 years and not engaged in full-time education or training. There is a part-time work test if their youngest

child is aged 6–17 years, or aged 18 years and engaged in full-time education or training.

Unemployment beneficiaries meeting labour market activity obligations

In terms of the unemployment benefit, we define the following groups as those who appear to be meeting their obligations to be available for and taking reasonable steps to obtain work under the Act as those who:

- A. Are employed part-time (<30 hours per week) but are seeking to work more hours
- B. Have a job to start in next 4 weeks or are waiting for seasonal or prearranged job to start
- C. Have looked for work in the last four weeks

This above definition of being active is generous in terms of assessing whether the beneficiary is meeting the Act's requirements. In the case of those who would like to work more hours (A), there is no evidence that they are taking any steps, let alone reasonable steps, to work more hours, nor that their desired shift to working more hours will take them into the full-time employment zone above 30 hours per week. Similarly, it is generous for those who are waiting for a job to start (B). In the case of seasonal work, for example, the work may start in some months' time and the beneficiary might reasonably be expected to search for other work in the interim. Nor is it clear the job they are waiting to start is in fact full-time. In the case of those who have recently but not currently looked for work (C), a tighter definition and, perhaps, a reasonable expectation might be that they would spend some time in looking for work every week.

We define the following groups of unemployment beneficiaries as not meeting their obligations as those who are:

- A. Employed full-time-time (30 hours or more per week)
- B. Employed part-time but are not wanting to work more hours
- C. Not currently or in the past four weeks actively seeking work

In the IS respondents are asked if they received any benefits during the last two weeks. But the HLFS reference week is the week prior to the interview date. It may be that some people were on an unemployment benefit only in the week that they were not responding about, and thus were compliant with obligations during the HLFS reference week. The numbers who made a transition during a week are however likely to be low. We believe it highly unlikely that many people start full-time work at other than on a Monday, meaning that this problem is unlikely to be large.

Results

Unemployment beneficiaries apparently not meeting their obligations in the reference week in June 2011 are bolded in Table 1 below, presented in terms of their detailed labour market activity. The final row presents the bottom line – the percentages summed across red categories which represent the total proportion estimated to be not meeting individual labour market activity obligations.

Regardless of the method used to identify beneficiaries, the percentage not meeting labour market obligations is consistently high and currently higher than four in every ten of the unemployed. One in ten people being paid an unemployment benefit report to the HLFS that they are working more than 30 hours per week. One in three unemployment beneficiaries are not actively seeking or want to work more than they currently are. One in five is not actively seeking work and express no intention to actively seek work for at least one year.

An obvious difference between the objective and self-reported benefit receipt data is the number of people actually being paid an unemployment benefit and working full-time. The number of people actually on a benefit who work full-time is 10 percentage points higher than the number of people who say they are on a benefit and work full-time.

Table 2 shows that those who fail to report benefit receipt in the IS but who are identified by the administrative data as being on an Unemployment Benefit are more likely to be in full-time employment than those whose beneficiary status is both self-reported and identified using the payments data. In fact, one in three people who are on a benefit according to payments data but who do not report benefit receipt in the *Income Survey* report themselves to be employed full-time.

There are a number of possible reasons why people may be apparently working full-time and still be on an Unemployment Benefit. These reasons are canvassed below. There may be other reasons for this finding of which we are not aware. Overall, given the data limitation, no definitive conclusions can be drawn as to the reasons, or more likely the mix of reasons, which lie behind the overall result.

People who respond with error regarding one dimension of their outcomes – in this case receiving an unemployment benefit – are also more likely to respond with error regarding another dimension of their lives – in this case hours worked.

One additional way of checking co-varying error is to examine PAYE records – an objective measure of employment-based labour market activity. The main problems with using PAYE data to check with whether employment obligations are being met is that (1) only monthly earnings are measured not weekly earnings, (2) relatedly, hours are not measured and (3) black or grey labour market activity is not measured. 23% of people on an unemployment benefit in the June 2011 quarter

showed up as generating PAYE during the reference month. This check showed that four per cent of people on an unemployment benefit earned in excess of \$2000 in the reference month, effectively more than would be generated by working forty hours per week for the entire month at the minimum wage.

There may be administrative difficulties in removing people who get work from the payment system, even though beneficiaries have informed Work and Income they are in full-time employment. This reason for the observed numbers seems unlikely, in our view, to be important - these sorts of mechanical actions lend themselves to relatively bullet proof administrative solutions.

There may be explicit recipient fraud. Legally, fraud in this area means proving intent on behalf of the person gaining from an activity to defraud. Since we do not have access to information on intent, it is difficult to draw any direct conclusions on this issue.

There are also likely to be people who may have cognitive problems, mental health issues, forgetfulness, or a lack of clarity about the eligibility rules and consequently omit to inform Work and Income that they are in full-time employment.

There may be match error, but this is unlikely to be important - similar data comes up if we use "exact" rather than "good enough" matches as a sensitivity check.

Table 1: Labour market status of Unemployment Beneficiaries, June 2011, by different measures of benefit receipt

	Actual benefit receipt Linked admin data (1)	Self-reported benefit receipt Income Survey (2)
Employed full-time	10	s
Employed part-time and seeking more hours	10	7
Employed part-time and not seeking more hours	7	6
NLF and do not intend looking for work in the next year	21	20
NLF and intend looking for work in the next year	5	10
NLF and looked for work or have a job to start	3	3
Unemployed and seeking full-time work	42	50
Unemployed and seeking part-time work	s	3
Total	100	100
Total not meeting labour market obligations	44	40
Weighted count (N)	37,200	29,700
Un-weighted count (n)	333	300

(1) Linked HLFS-MSD data excluding proxy HLFS responses

(2) Income Survey excluding proxy HLFS response and proxy or imputed IS responses

(s) cell is suppressed

Table 2: Self-reported benefit receipt among those receiving Unemployment Benefit

	Reported benefit receipt in <i>Income Survey</i>	Did not report benefit receipt in <i>Income Survey</i>	Total
Employed full-time	s	31	10
Employed part-time and seeking more hours	7	16	9
Employed part-time and not seeking more hours	5	10	7
NLF and don't intend looking for work in the next year	21	19	21
NLF and intend looking for work in the next year	6	s	5
NLF and looked for work or have a job to start	s	s	3
Unemployed and seeking full-time work	53	19	43
Unemployed and seeking part-time work	s	s	2
Meeting obligations	63	37	56
Weighted count (N)	23600	8900	32600
Un-weighted count (n)	228	69	294

Linked HLFS/IS-IR excluding proxy HLFS response and proxy or imputed IS responses. (s) is a suppressed cell

Analysis of trends in eligibility of unemployment beneficiaries over time

Chart 1 graphs the proportion of unemployment beneficiaries over time who do not appear to be meeting their obligations over time using self-reports of benefit receipt (due to recent computerisation of names in the HLFS, matched data with MSD information on benefit receipt is only available after 2007 and the time series is consequently not especially long; the *Income Supplement*, which identifies beneficiaries, has been attached to the HLFS since 1997, giving much longer time series) and also benefit payments data (a shorter time series). Where the data can be compared, a greater number of people are

not meeting obligations in the payments data than in the self-reported data, but the time series patterns, where they can be compared, are broadly comparable.

The proportion of people not meeting the labour market tests is broadly higher when the labour market is stronger (2000-2008) and weaker when the labour market is softer (1997-2000, 2009-2011). This inter-temporal pattern suggests that as the unemployment benefit numbers decline in good times, the overall stock of unemployment beneficiaries contains a larger proportion of people who are not really seeking work. When unemployment numbers rise in bad times, there are a higher proportion of genuine job seekers amongst the stock of unemployment beneficiaries.

Chart 1: Percentage of unemployment beneficiaries who do not appear to be meeting their obligations (either full-time employed or not looking for work)

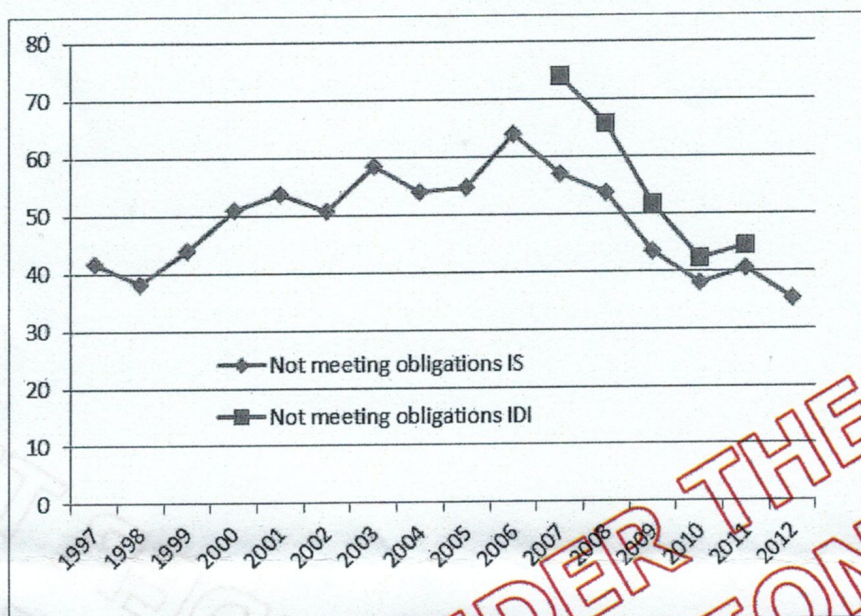


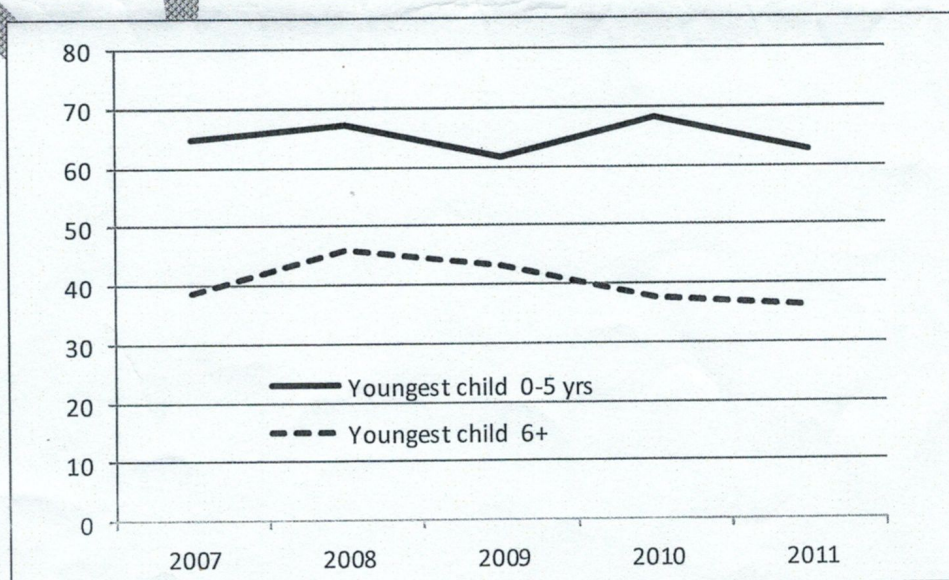
Table 3: Labour market status of Domestic Purposes Beneficiaries, June 2009-June 2011

	DPB with youngest child 6 years or over					DPB with youngest child under 6 years				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Employed	43	40	32	37	37	21	20	19	16	19
Not looking for work	39	46	43	38	36	65	67	62	68	63
Looked for work or have a job to start	18	14	24	26	27	14	13	20	16	18
Weighted count (N)	29,500	30,500	30,000	31,900	30,900	35,200	37,800	40,400	42,300	38,100
Unweighted count (n)	300	294	294	330	333	363	351	372	399	369

Linked HLFS MSD data excluding HLFS proxy responses.

Seeking full-time work: 30 hours or more. Full-time employment: 20 hours or more

Chart 2: Percentage of Domestic Purposes Beneficiaries inactive (not working or looking for work) by age of youngest child



Work tested-Domestic Purposes Beneficiaries

Work tests do not currently only apply to people on an unemployment benefit. On 23 March 2010 *Future Focus* benefits reforms were announced. These required sole parents on the Domestic Purposes Benefit (DPB) with children six years and over to be work-tested. This group was required to look for part-time work. The work test came into effect on the 27 of September 2010.

Results of non-activity rates by DPB and child age are presented in Table 3 and 4. In June 2011, 36% of DPB recipients with a youngest child over age 6 were not in either employment (full- or part-time) or actively seeking work. In other words, more than one third of work-tested DPBs were not meeting their apparent job search obligations, post-reform. By way of comparison, however, activity of this group was much higher than those with a child under age 6 on a DPB.

In order to naively examine the impact of policy reform, a simple difference-in-difference (DID) approach was used, whereby the inactivity rates of the group of DPBs with a youngest child 6 years or older and compared with those of DPBs with a youngest child under age 6 years, over time.

These DID estimates for 2009-2010 show evidence of an announcement effect, raising job search activity of the treated group by nearly 12 percentage points following announcement of reform. However, following implementation there was a 4 percentage point fall in relative labour market activity of work tested DPBs (2010-2011).

Allowing for volatility over time, introducing part time work-testing on DPBs with a youngest child older than 6 years appears to have had a small positive effect on job search activity.

Conclusion

There is a need for high quality, regular monitoring information on the effectiveness of the welfare system in achieving its three major tasks – paying benefits to those entitled, not paying benefits to those not entitled and effectiveness in getting people into work.

This paper has addressed only a sub-set of one dimension of these three major tasks. It is arguably important to develop effective measures of *all* these major tasks.

In terms of the current welfare policy context, the fiscal liability “investment approach” to welfare reform does not acknowledge the issue of non-take up of benefits by those who are entitled, and does not directly measure effectiveness of the system in getting people into work. It focusses on effectiveness in getting people off benefit and

does not value gaining employment over other reasons for leaving a benefit.

In terms of the dimension of welfare system performance examined here, a significant number of people on work-tested benefits appear, for a variety of possible reasons, not to be meeting their obligations in terms of labour market activity. They are apparently either working too much or searching too little to meet their legal obligations under the Social Security Act. It would be worthwhile examining this issue through different lenses, including through the PAYE data, which have different strengths and different weakness than the data used here to see whether that conclusion is robust.

References

Hernanz, V. *et al.* (2004). “Take-Up of Welfare Benefits in OECD Countries: A Review of the Evidence”, OECD DELSA Working Paper.