The Promise and Pitfalls of the ‘Investment’ Approach to Welfare

Presentation to “Investing in Australia’s Future”,

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Outline

• Comparing the Australian and NZ investment approaches
• Lifetime valuation – the $4.8 trillion question
• Benefit and spending trends compared
• Issues in interpreting the figures
The investment approach

- The development of an investment approach was one of the recommendations of the McClure review of Australia’s welfare system.


- Also publishes “Benefit System Performance Report”.

- The Australian Baseline Evaluation report released in September 2016 was an initiative of the 2015-16 budget, when the government allocated A$33.7 million to establish an Australian Priority Investment Approach to Welfare based on actuarial analysis of social security data.

- Groups identified by the approach will receive support from current programs and from new and innovative policy responses to be developed through the A$96.1 million Try, Test and Learn Fund, which was announced in the 2016-17 budget.
The Baseline Valuation Report, 2016


- The report estimates the “lifetime” costs of the social security system as close to $4.8 trillion.
How do we get to $4.8 trillion?

• The report takes the population of Australia in 2015. Then, on the basis of past patterns of receipt of payments, it projects the amount of money the population will be paid over the rest of their lives and converts this into the present value of this lifetime spending, with a discount rate of 6% – reflecting the fact a dollar is worth more today than in the future given the capacity to earn interest.

• The population modelled in the report includes:
  – around 5.7 million people currently receiving various income support payments (of whom 2.5 million are age pensioners);
  – 2.3 million people not receiving income support payments but who receive other payments (mainly families receiving the Family Tax Benefit);
  – around 3.9 million who were previously receiving payments; and
  – just under 12 million people who are not receiving any payments currently or have not in the past.
What does $4.8 trillion mean?

• The lifetime valuation is about 44 times the total amount of payments in 2014-15 (A$109 billion). Given the average age of the total population is 39 and that on average Australians can expect to live into their 80s, it is not surprising the estimated lifetime cost is more than 40 times the current level of spending on cash benefits. For some people the modelling is over the next 80 years or so.

• More than half the total estimated lifetime spending will be on age pensions. The average lifetime cost per current client is made up of A$150,000 in age pensions and A$115,000 in all other benefits.

• For previous clients, the corresponding figures are A$114,000 in age pensions and A$60,000 in other payments. For the balance of the Australian population it is A$88,000 in age pensions and A$77,000 in all other benefits.

• For people of working age who are currently receiving benefits it is these other payments that figure larger than age pensions. This is particularly the case for people receiving parenting payments, where the age pension is only around one-quarter of their total lifetime costs.
What does $4.8 trillion mean?

- New Zealand’s actuarial model does not include family payments. And nor does it include national superannuation – their equivalent to the age pension – as it is provided free of any income test to people aged 65 and over. Life-time liability in NZ calculated for those who have received benefits in 12 months preceding valuation date.

- By including both age pensions and family payments, the Australian report produces significantly higher lifetime costs relative to the size of the economy.
Government spending per person
2012, $’000 per year per person
Source: Peter McDonald, National Transfer Accounts.
Groups with poor outcomes and high costs

- The report highlights three groups of people who are expected to have very-high average lifetime costs and poor lifetime outcomes:
  - For 11,000 young carers, it is expected, on average, they will access income support in 43 years over their future lifetime;
  - for 4,370 young parents it is expected, on average, they will access income support in 45 years over their future lifetime; and
  - for 6,600 young students it is expected, on average, they will access income support in 37 years over their future lifetime.
- These projected future histories will involve lifetime costs for these three groups of between A$2 billion and A$4 billion. In all of these cases, however, a substantial part of their estimated costs relates to years to be spent on the age pension.
Spending on cash benefits, Australia and New Zealand, 1980 to 2014, % of GDP
Trends in % of the working-age population receiving income support benefits, Australia, 1995 to 2016
Comparing Australia and New Zealand (or perhaps not)

Benefit recipients as % of population 15-64

Unemployed: Australia 4.8%, New Zealand 5.8%
Youth: Australia 0.7%, New Zealand 0.1%
DSP: Australia 5.3%, New Zealand 3.5%
Carers: Australia 1.9%, New Zealand 2.8%
Lone parents: Australia 2.0%, New Zealand 1.7%
Student: Australia 2.0%
Other: Australia 1.0%
Total: Australia 17.4%, New Zealand 9.6%
Welfare receipt in Australia

% of working age households receiving income support payments by period

- Household ever received welfare between 2001 and 2009: 65.7%
- Household received welfare during 2001: 41.3%
- Household received welfare during 2009: 33.0%
- Household received some welfare every year between 2001 and 2009: 11.4%
- Household received more than 90% of income from welfare in 2001: 7.1%
- Household received more than 90% of income from welfare in 2011: 4.8%
- Household received more than 50% of income from welfare for all of 2001 to 2009: 3.0%
- Household received more than 90% of income from welfare for all of 2001 to 2009: 1.2%
Welfare receipt for those initially aged under 25 years
% of individuals receiving income support payments by period, 2001-2011

- Ever received: 80.2%
- Received one year: 17.6%
- Some welfare every year: 6.3%
- 50% or more every year: 1.5%
- 90% or more every year: 0.3%
Assessing the investment approach

• Very early days!

• The principle of early intervention is admirable

• Focus should be on sustainable improvements in outcomes – benefit receipt, economic resources, or wellbeing

• Rigorous evaluation is essential and government seems to have committed to this, but there are complexities …
  – Short-term and long term intervention effects (NZ returns to benefits after exit)

• Who has responsibility to intervene – possible cost shifting and blame

• What is useful and what is not?
The Benefit System Performance Report

• Who has responsibility to intervene – possible cost shifting and blame
  – 38% of 16-25 year olds recipients have some form of CYF (child protection) history and have 40% higher liability than clients with no history; combined account for 47% of total liability for those aged 16-25.
  – Overall, 25% of NZ clients have at least one criminal conviction with 37% higher liability than those without criminal convictions. Combined represent 32% of total liability.
The Benefit System Performance Report

• Better Public Service Target Result Area 1: “reduce total no. of people receiving benefit by 25% “ (295,000 in 2014 to 220,000 in 2018) “and reduce long-term cost of benefit dependency by $13 billion as measured by an accumulated Actuarial Release by June 2018”

• aAR of $2.3 bn. from 2014 to 2015, projected to grow to $6.1 bn. by 2018 – compared to $13 bn. target

• Numbers focus on those closest to labour market; liability those with greatest barriers.
Issues

• Structural or individual barriers
• Which are more important - problems in the welfare system or elsewhere?
  – Education and skills
  – Other issues – location, city structure, transport
• How effective are labour market and family programmes?
  – Jobs growth or “shuffling the queue”