Improving the delivery of transfer payments

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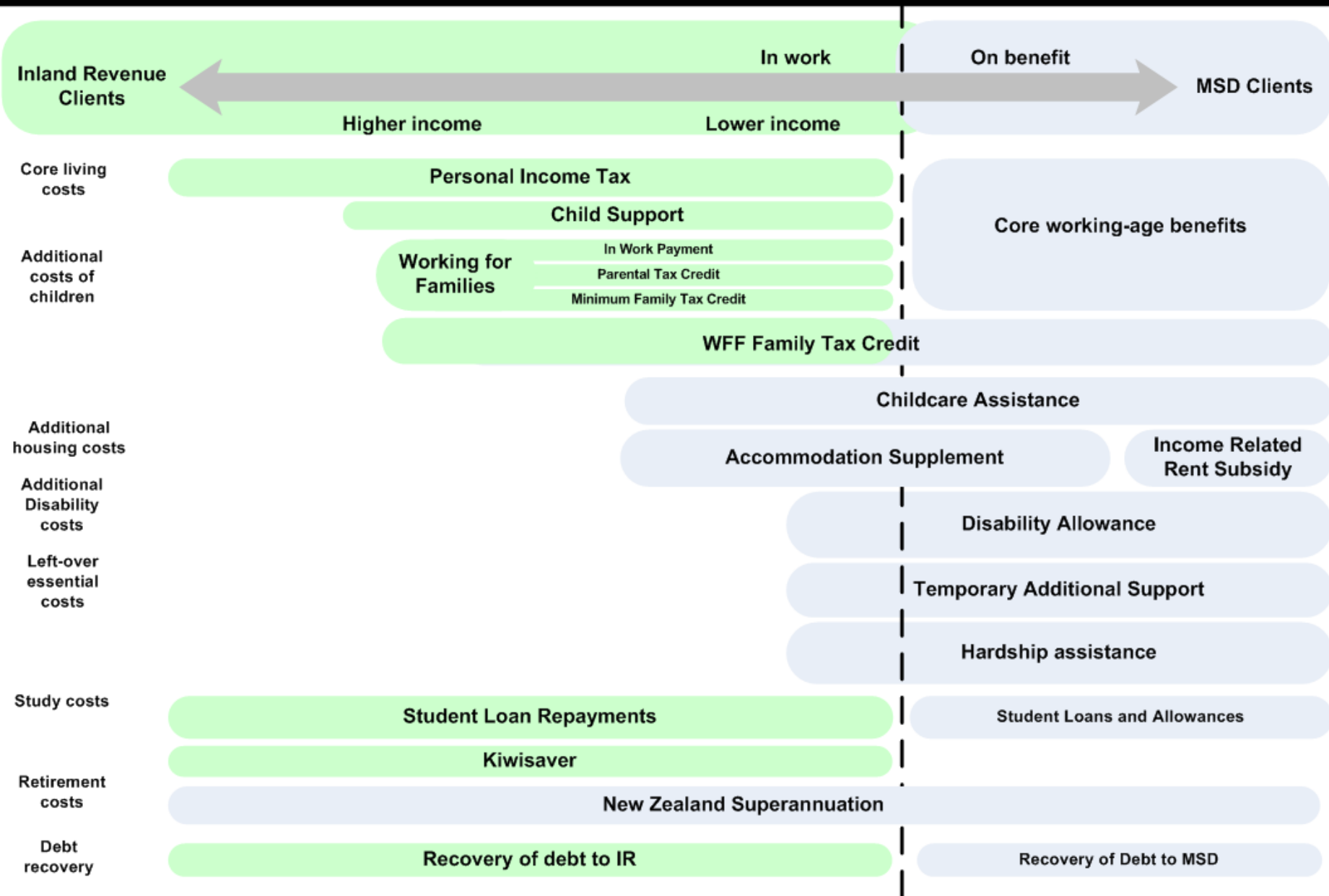
Overview

Three parts to this session:

- the nature of transfer payments

- some implications from behavioural economics for the design of transfer payments

- some ideas for the future

# Part 1

The nature of transfer payments

Transfer programmes – in and out of work

In work — On benefit

Inland Revenue Clients ← → MSD Clients

Higher income — Lower income

| Cost category	In-work (Inland Revenue)	On benefit (MSD)
Core living costs	Personal Income Tax	Core working-age benefits
Additional costs of children	Child Support	
	Working for Families — In Work Payment, Parental Tax Credit, Minimum Family Tax Credit	
	WFF Family Tax Credit	
		Childcare Assistance
Additional housing costs		Accommodation Supplement / Income Related Rent Subsidy
Additional Disability costs		Disability Allowance
Left-over essential costs		Temporary Additional Support
		Hardship assistance
Study costs	Student Loan Repayments	Student Loans and Allowances
	Kiwisaver	
Retirement costs	New Zealand Superannuation	
Debt recovery	Recovery of debt to IR	Recovery of Debt to MSD

Reach and size

- $22 billion in government expenditure a year

- One in 8 working age New Zealanders on a benefit in 2010, three-quarters of families receive WFF

- 300,000 beneficiaries

- 400,000 families getting WFF

- 305,000 getting AS

- 138,600 child support custodial parents

Cash transfers as a percentage of Core Crown Expenditure, 2014/15

Source: BEFU 2014
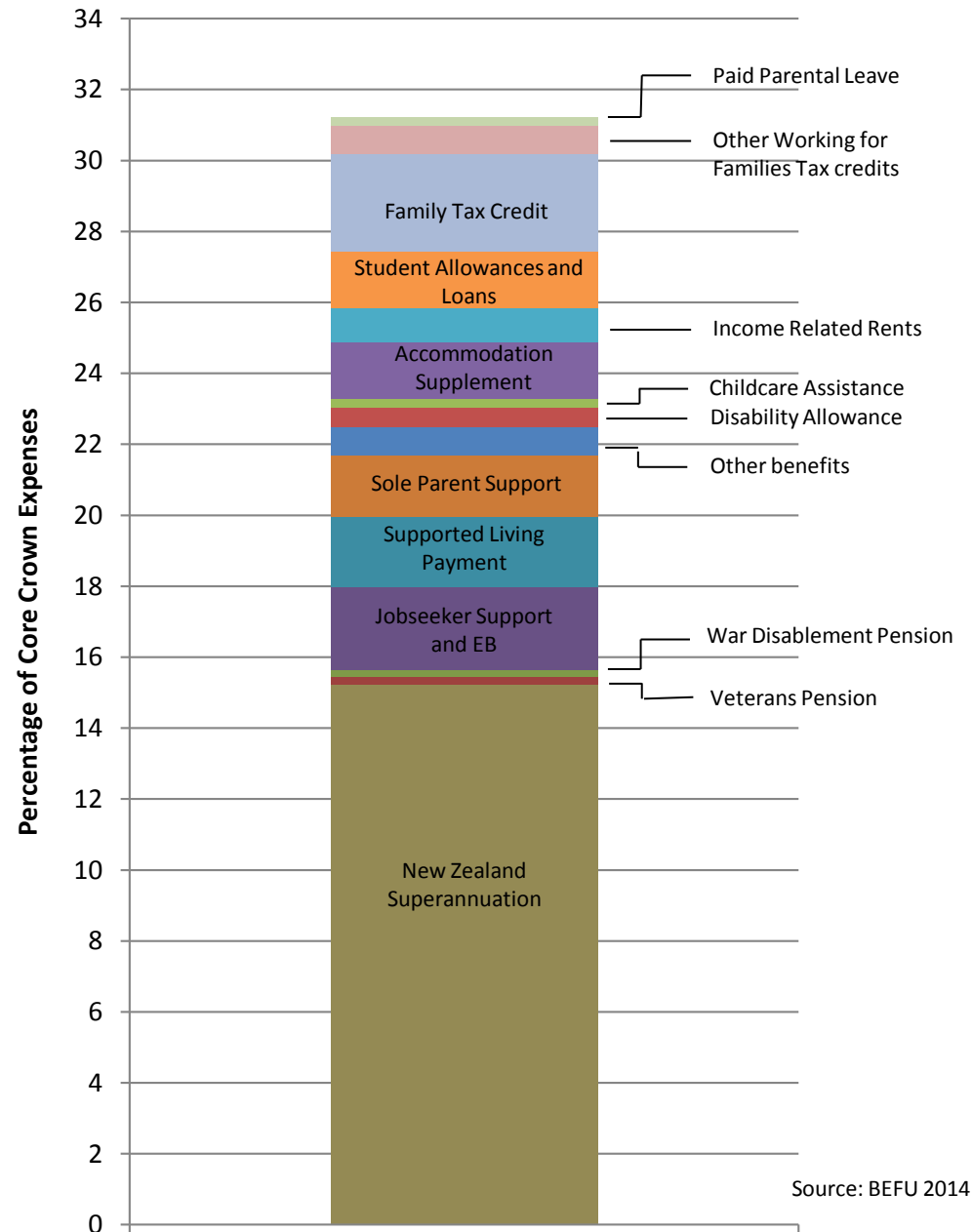
Transitions

- There are large flows of people transitioning into or out of the transfer payment system each year

- In 2012 the equivalent of 8% of the population aged 18-64 started or cancelled a main benefit

Number of transitions from main benefit in 2012, by activity in subsequent month (LEED)
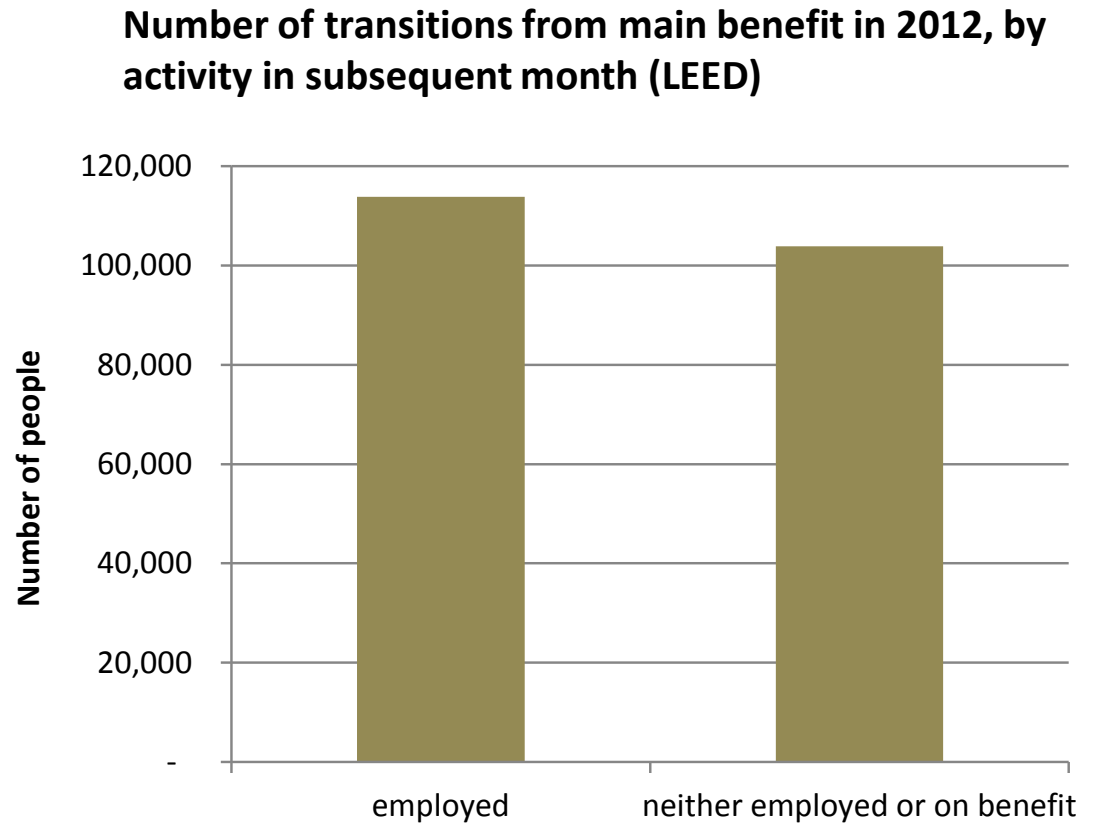
Overlap

Figure 1: WfFTC, Accommodation Supplement and ChildCare Assistance

Received Accommodation Supplement Only

Received Working For Family Tax Credit

Received Child Care Assistance Only

WfFTC Only
213,000

AS and WfFTC:
147,000

CCA and WfFTC :
31,000

WfFTC, AS & CCA: 39,000

AS Only
284,000
With children: 7,000
No Children:277,000

CCA Only
3,000

AS and CCA:
500

66% AS
60% WfFTC
10% CCA recipients

Total Families	
WfFTC	429,000
CCA	74,000
AS	471,000
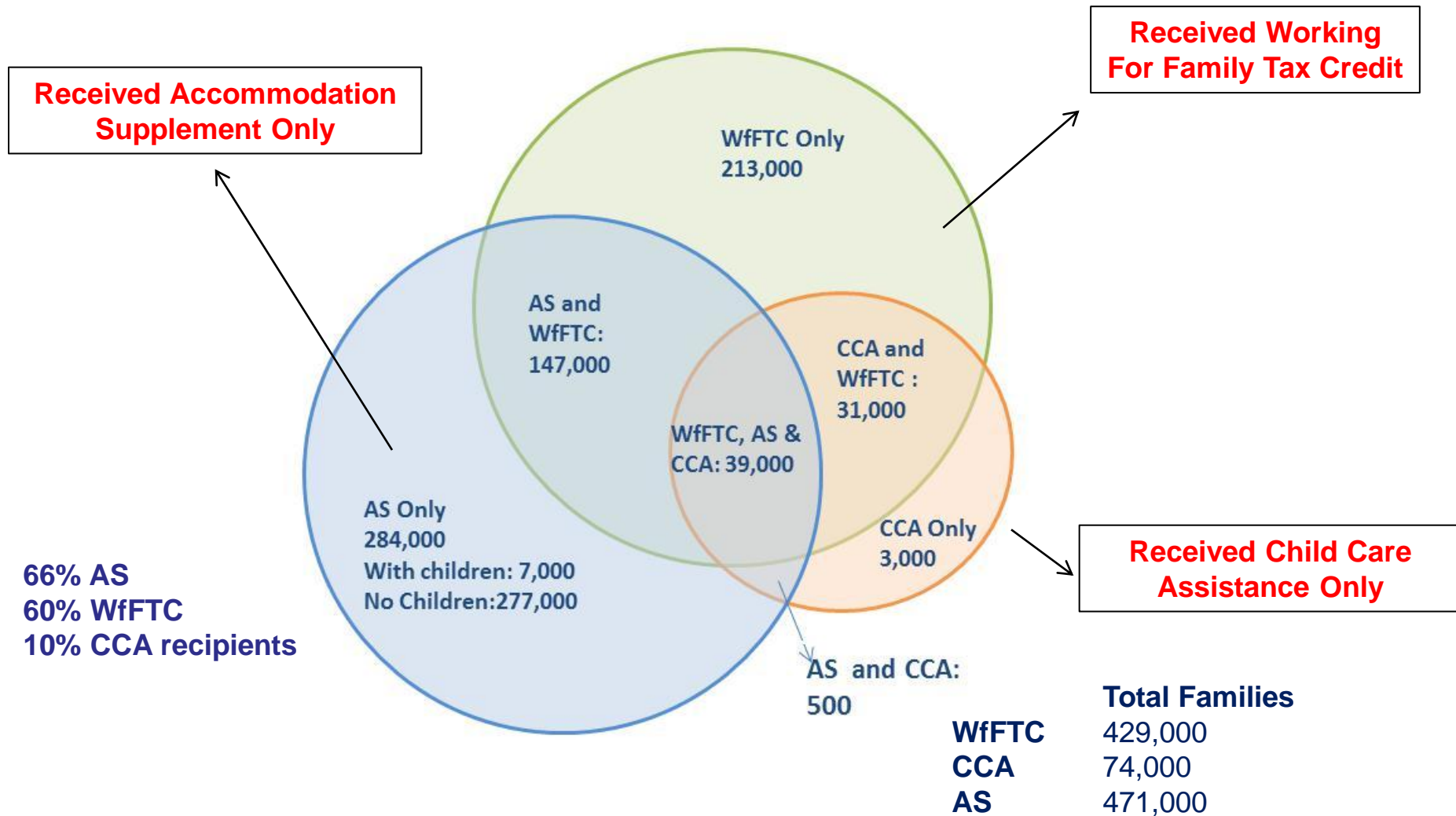
Figure 5: WFF Group (WfFTC, AS and CCA) and Child Support Status

NCP Only
70,000

NCP and
WFF: 47,000

WFF
(includes
CCA & AS) :
546,000

NCP, CPR &
WFF: 19,000

NCP & CPR:
2,000

CPR and WFF :
90,000

CPR Only:
17,000
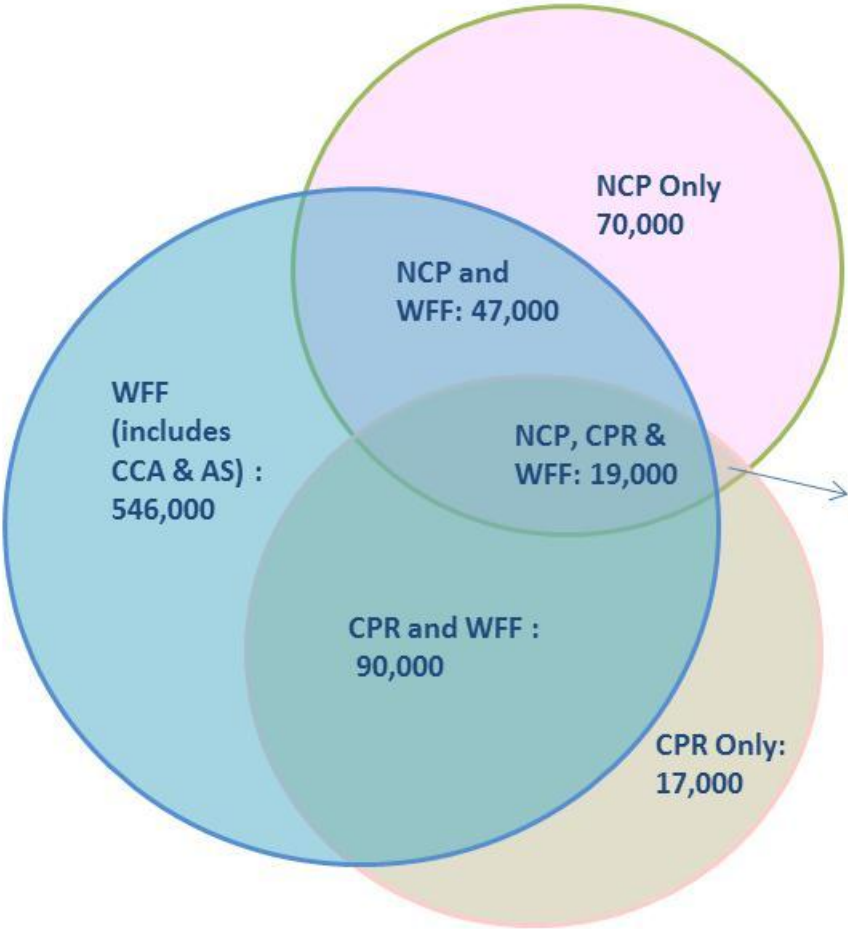
- 88% of CPR families received a WFF group payment

- 48% of NCP families received a WFF group payment

- 17% of WFF were CPR and 9% were NCP customers

	Number of families
NCP	138,000
CPR	140,000
WFF	717,000

The structure of payments

Income after tax and transfers for a sole parent with 2 children living in Auckland, 2010
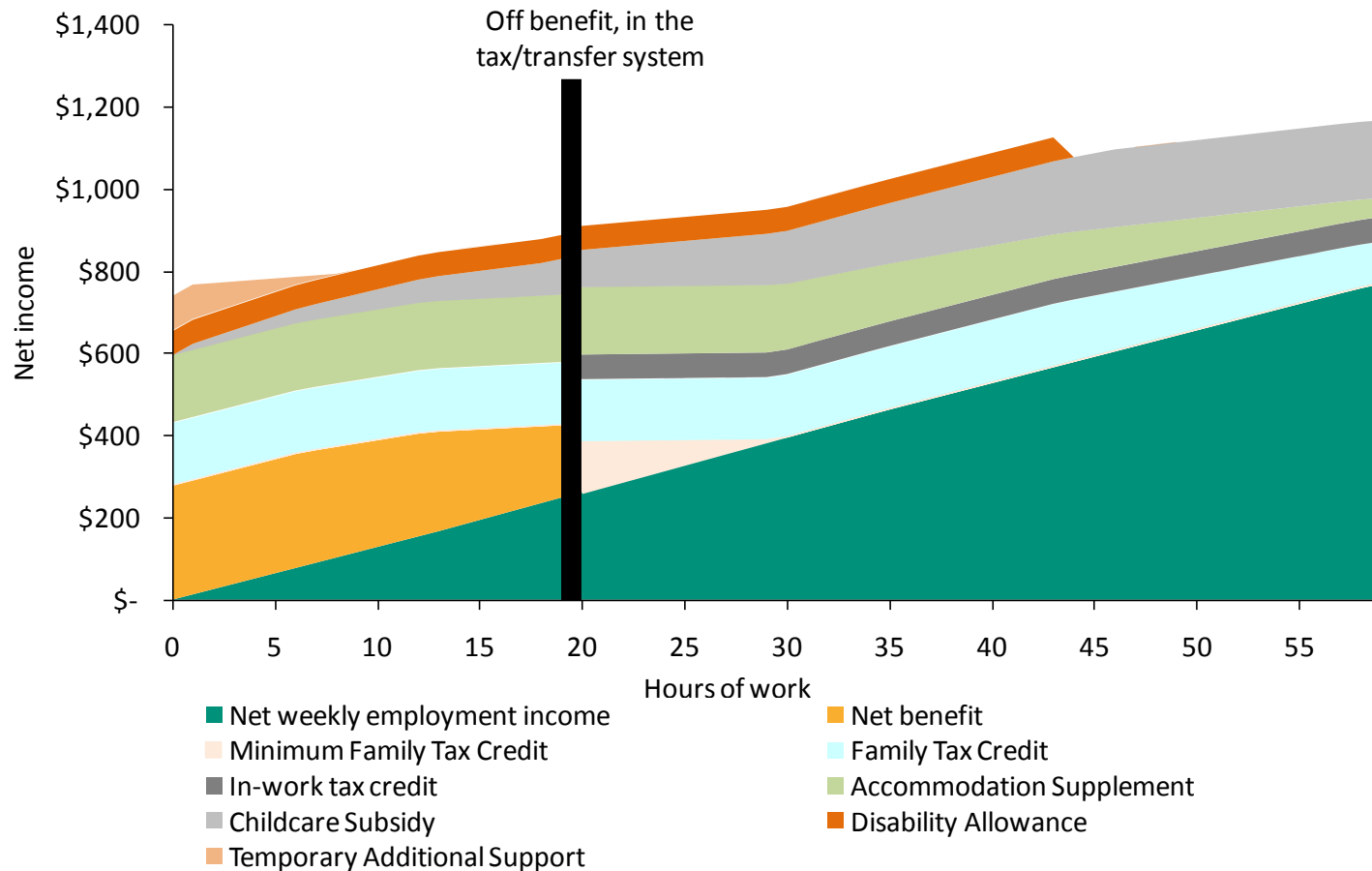
What do individuals receiving payments say?

"You're all the government why can't you talk to each other and get the information?"

Part 2

# Some implications of behavioural economics for the design of transfer payments

Objectives and trade-offs

The rationale for transfer payments involve protecting against risks (eg unemployment), the transfer of resources across the life cycle (eg child payments), and pure redistribution.

Design of income transfers requires explicit consideration of multiple objectives.

Optimal design requires consideration of trade-offs between different objectives.

The traditional 'iron triangle' framework for income transfer policy

Fiscal costs

Poverty alleviation

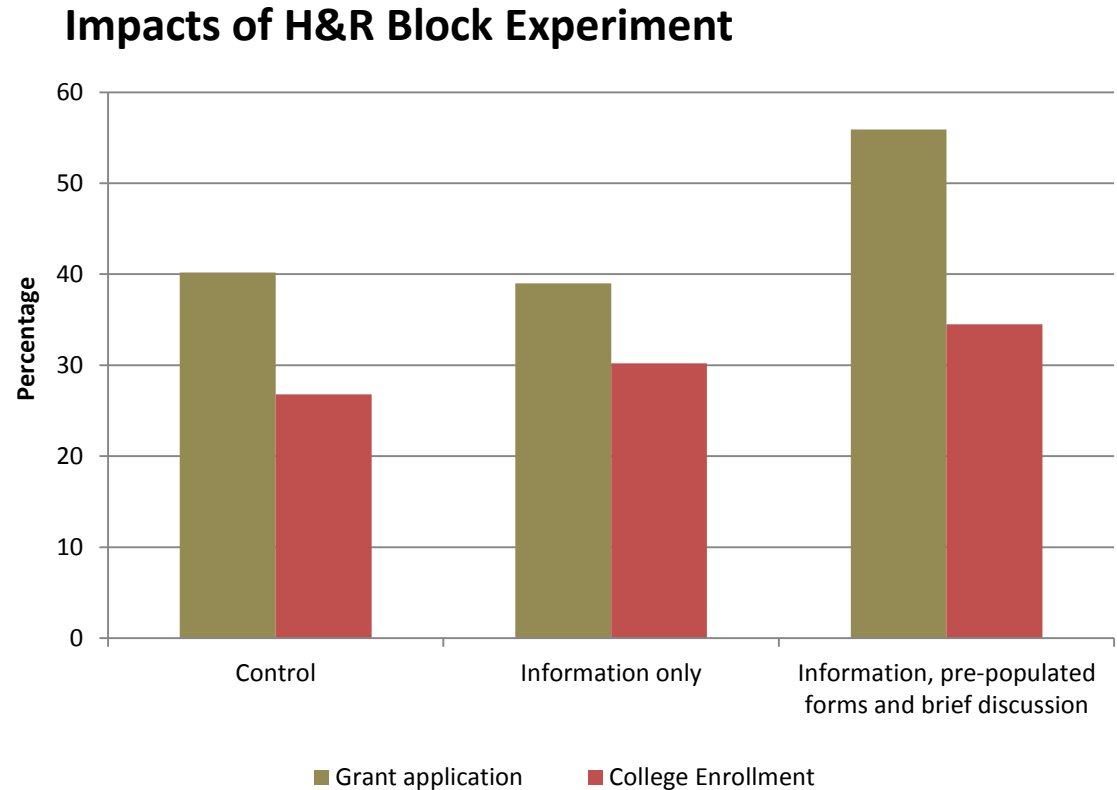Distortionary employment (and other) incentives
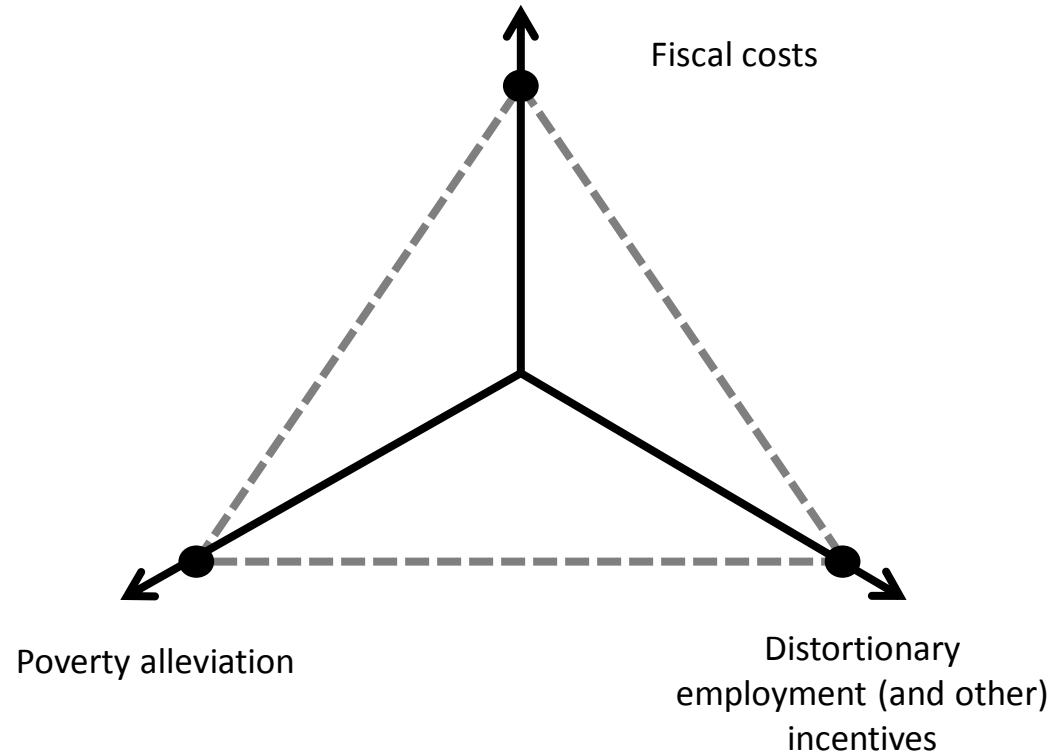
Payment design

Income of sole parent with 2 children living in Auckland earning $14.25 per hour
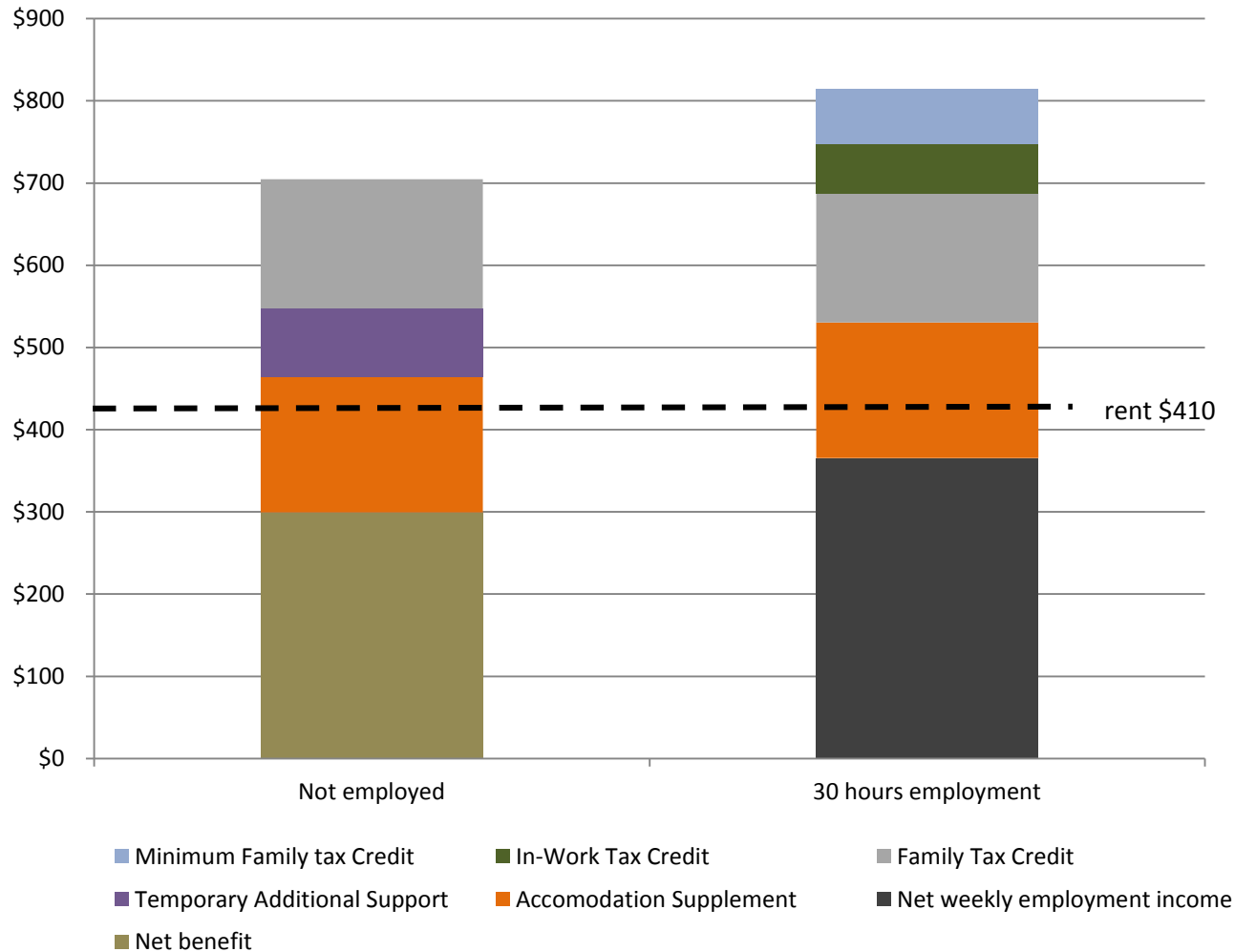
The detailed design of payments is important

- Automatic enrolment in pensions

- H&R Block experiment

Impacts of H&R Block Experiment

Source: Bettinger et al (2009) The role of simplification and information in college decisions: Results from the H&R Block FAFSA Experiment, NBER Working Paper 15361

Making payments easier to use

Easier to use in work payment →	Impact on payment →	Potential impact on outcomes
Lower cost of applying for payment (eg automatic calculation of entitlement rather than application forms)	Higher take-up of payment	Increased employment, lower poverty rates, impact on fiscal costs depends on employment responsiveness
Lower cost of complying with rules associated with payment (eg correctly reporting income each week)	Less non-compliance and possibly higher take-up	Increased employment, lower poverty rates, should reduce fiscal costs

Designing an easy to use payment system

New technology holds out the promise of radically changing these user costs in payment systems.

Comprehensive administrative data on individuals and their circumstances means that many 'applications' and also 'compliance' activities can be automated:

- birth of a child
- changes in income
- hours of use of registered childcare
- rental payments
- changes in relationship status

At the heart of this is authoritative administrative data on individuals that might be managed jointly across agencies.

The key is system design that starts from the perspective of the individual rather than the bureaucracy – and understands the varied nature of journeys that individuals make across government systems.

Developing better evidence

- information directly from recipients about their experience and suggestions for improvements

- better use of administrative data to analyse incidence of payments in and out of work

- randomised control trials of key design improvements eg automated abatement, well designed communication

Percentage of job seekers turning up to the Jobcentre (Behavioural Insights RCT)

Hi Elspeth, 8 new Picker Packer jobs are now available at Pro FS. Come to Bedford Jobcentre on Monday 10 June between 10am and 4pm and ask for Sarah to find out more. I ve booked you a place. Good luck, Michael
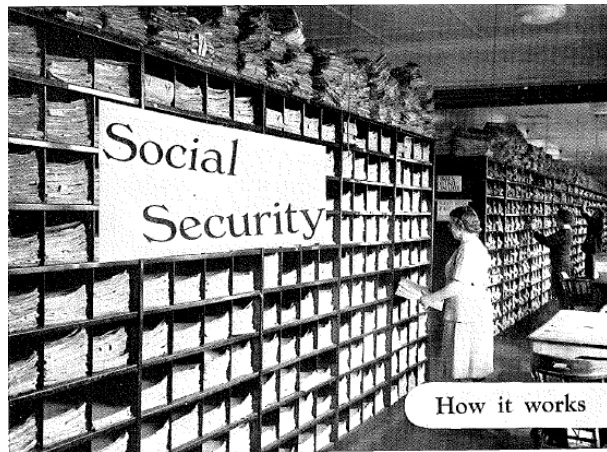
Highest performing text ('+Reciprocity')

10% — Control
15% — + Claimant Name
18% — + Advisor Name
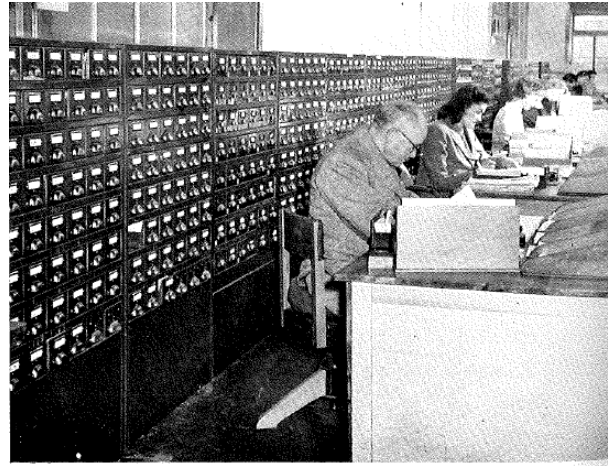**27%** — + Reciprocity
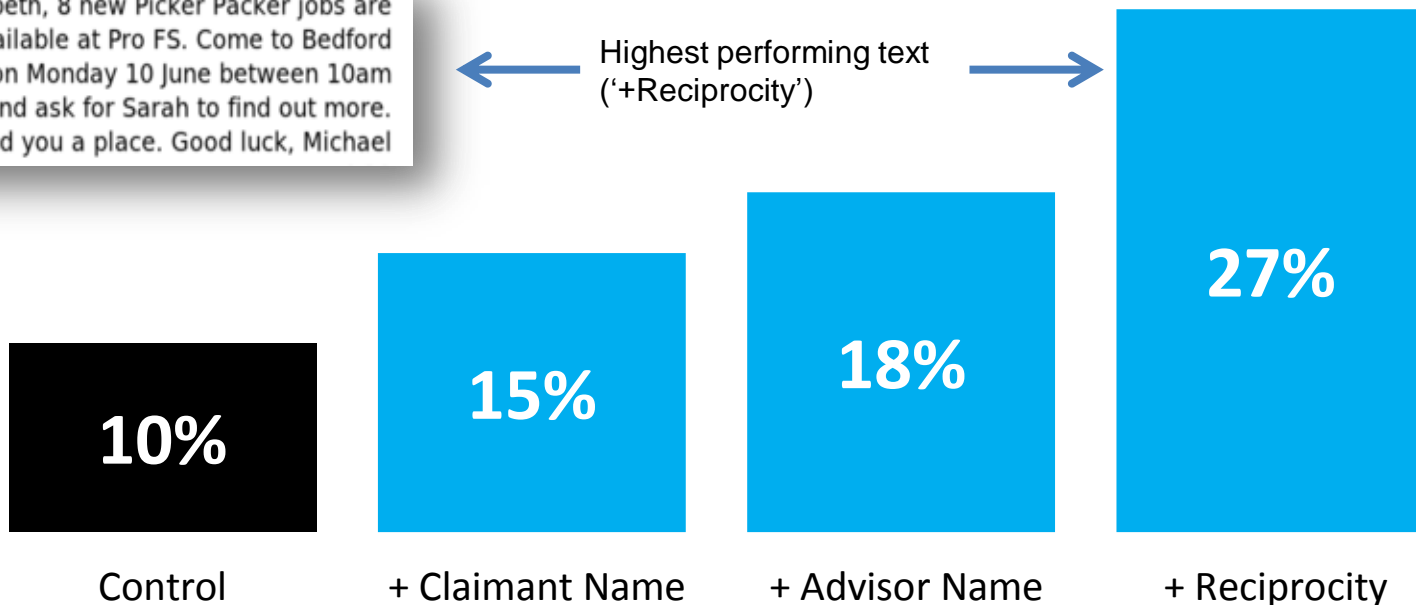
Part 3:

Some ideas for the future (to make it easier)

The Growth and Development of Social Security in New Zealand (1950)

Published by the Social Security Department with the co-operation of the Health Department

Keeping the Records

Part of the National Index

Paying the People. The Old Method—Writing Payment Warrants by Hand

The New Mechanized Method—Punching Powers-Samas Cards

Producing the Monthly Pay Warrants

Despatching the Warrants Each Month

Example: better use of information

Working for Families tax credits require information on:

- Family income details
- Number and age of dependent children
- Relationship status
- Shared care information
- Residency, age of carer
- Work hours per week
- Receipt of benefit payments, Paid Parental Leave, ACC
- Basic payment information eg bank account.

All information is requested from the family
  - but providing the information could reduce regular payments.

Example: better use of information

Working for Families tax credits

What?   – Using more accurate income information to reduce the need for individuals to pro-actively inform IR of income earned
           – Use external authoritative data:

- MSD - on receipt of benefits
- DIA - birth data for age of child
- Customs/Immigration – residency

> Shared care:
> Use of child support information?

Why?   – Reduces the compliance hassle for individuals
           – Reduces omission/fraud and debt
           – Reduces underpayments
           – Individuals can focus on more important information – updating family status

Example: information sharing

Welfare benefits require information on:

- Family income details
- Age of dependent children (if any)
- Relationship status
- Residency, age of person
- Work hours per week
- Compliance with obligations

Similar information to Working for Families tax credits and Child Support.

Example: information sharing

Welfare benefits

What?   – Use income information from IR to reduce the need for individuals to pro-actively inform of income earned

Why?   – Reduces the compliance hassle for individuals
         – Reduces omission/fraud and debt
         – Reduces underpayments
         – Individuals can focus on more important information – updating family status and obligations

What will it take to make it work?

Common definitions?
- family income
- sole parent
- work
- shared care

Reciprocity – MSD providing family status updates to IR?

Flexibility - may want to use different bank accounts for different payments.

Public acceptance of more information sharing and more frequent contact.

Looking ahead

Period of assessment - should income/assessment be real time or delayed?

- Child support can be based on income from 2 years ago
- WFF tax credits are real time

Should the income period of assessment be annual, quarterly, monthly, weekly?

- Regular vs seasonal workers
- Casual workers