



Employment incentives for sole parents: Labour market effects of changes to financial incentives and support

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Why sole parents?

- Lower employment rates than couple parents

Employment rates of adults in families with dependent children (June 2004)

	All	Youngest child is 6+ years
Sole Parents	47%	63%
Mother in two parent family	67%	79%
Father in two parent family	91%	92%

Source: HLFS customised series

Key policy changes



April 1991

Benefit cuts

July 1996

Independent family tax credit introduced
Changes to abatement rates of DPB

April 1997

Part-time work testing for parents whose youngest child was aged 14+

February 1999

Full-time work testing for parents whose youngest child was aged 14+

Part-time work testing for parents whose youngest child was aged 6-13

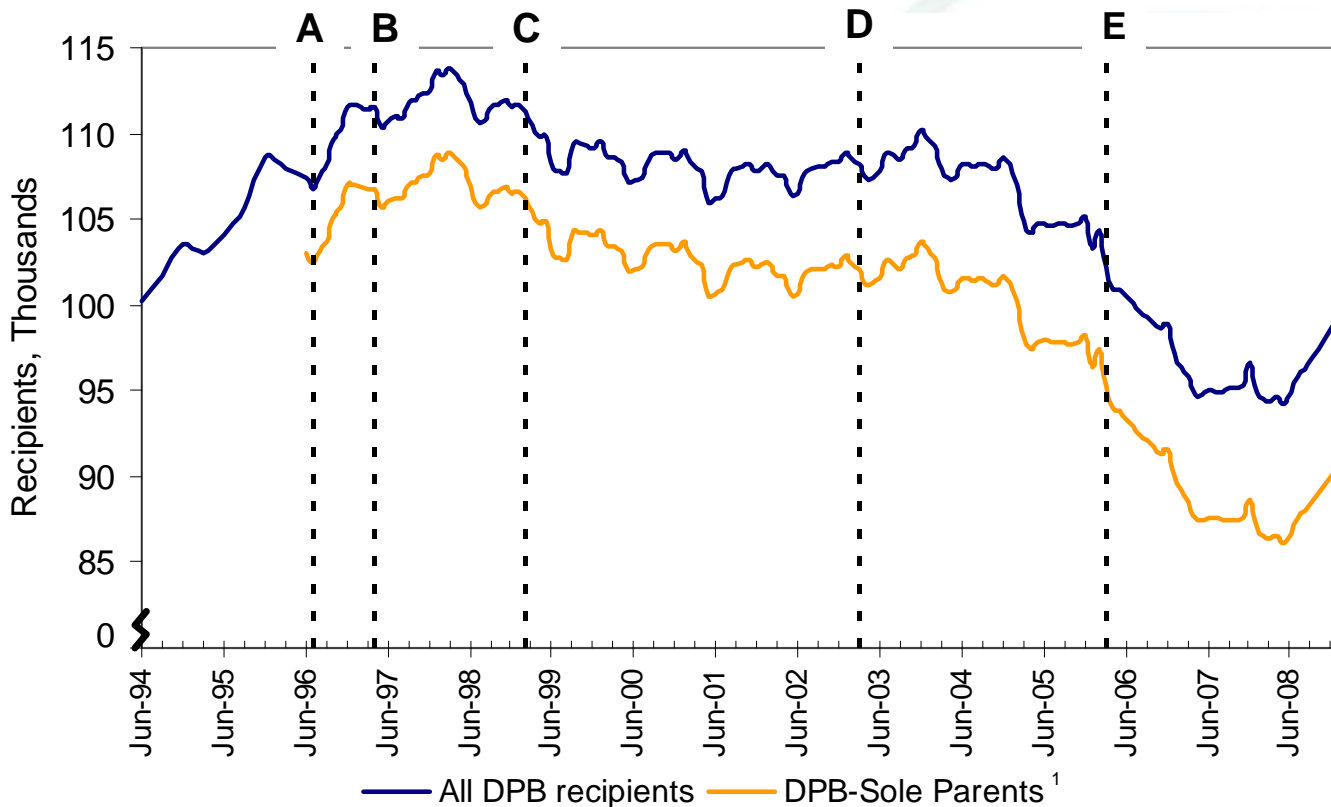
April 2003

Work-testing removed
Enhanced case management introduced

April 2006

In-work tax credit replaces child tax credit

DPB numbers



- A** Independent Family tax Credit introduced
Changes to abatement rates of DPB
- B** Part-time work testing for parents whose youngest child is 14+
- C** Full-time work testing for parents whose youngest child is 14+

Part-time work testing for parents whose youngest child is 6-13
- D** Work-testing removed
Enhanced case management introduced
- E** In-work tax credit replaces child tax credit

¹ Numbers of DPB-Sole Parent recipients are not available prior to June 1996

Increasing sole parents' employment

- Sole parents are diverse and can have complex needs
- NZ and international evidence suggests that for employment assistance to be effective:
 - Childcare must be available
 - Sole parents must be comfortable with their child in childcare
 - Work needs to pay enough to cover the extra cost of childcare
- Financial gains from work also a driver

Financial incentives

- Minimum wages
- Wage subsidies
- In-work benefits
 - Lump-sum
 - Time limited
 - Ongoing payment for low-income individuals
 - On-going payment for low-income families with children

In-work tax credit

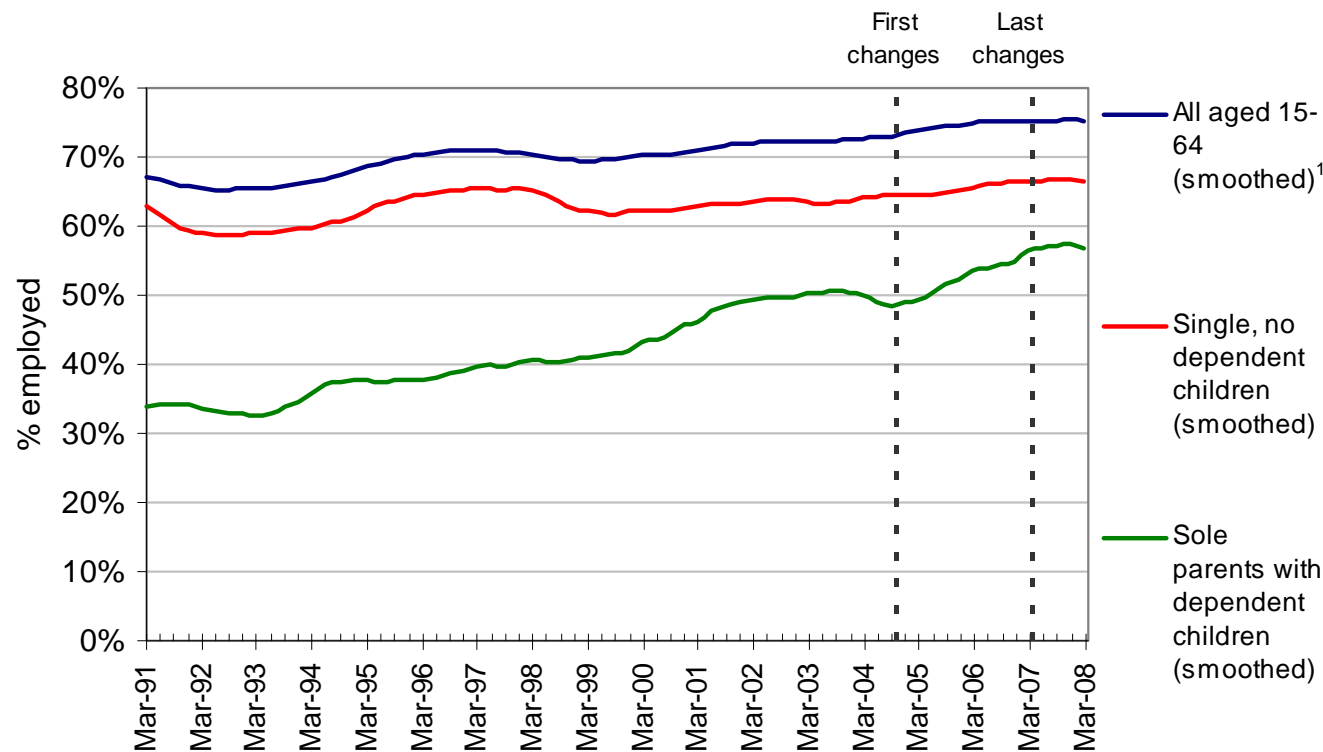
- Replaced child tax credit in April 2006
- Eligible for \$60 a week + \$15 for every fourth and subsequent child
- Requirements:
 - Independent of benefit
 - Sole parents working 20+ hours a week
 - Couple parents working a combined total of 30+ hours a week

Other policy changes

- WFF Tax Credits abatement thresholds
- Accommodation Supplement
- Childcare Assistance

Sole parents' employment

Employment rates



Source: Statistics New Zealand: Household Labour Force Survey, customised tables for population aged 15-64, annual average rates calculated by MSD

¹ Smoothed by taking the average of the current and previous three quarters

Economy or changes?

- Over this period there was a tight labour market and strong economy
- How do we know how much of the change was due to:
 - the changes in financial incentives
 - and how much was due to the strong economy?

Two approaches

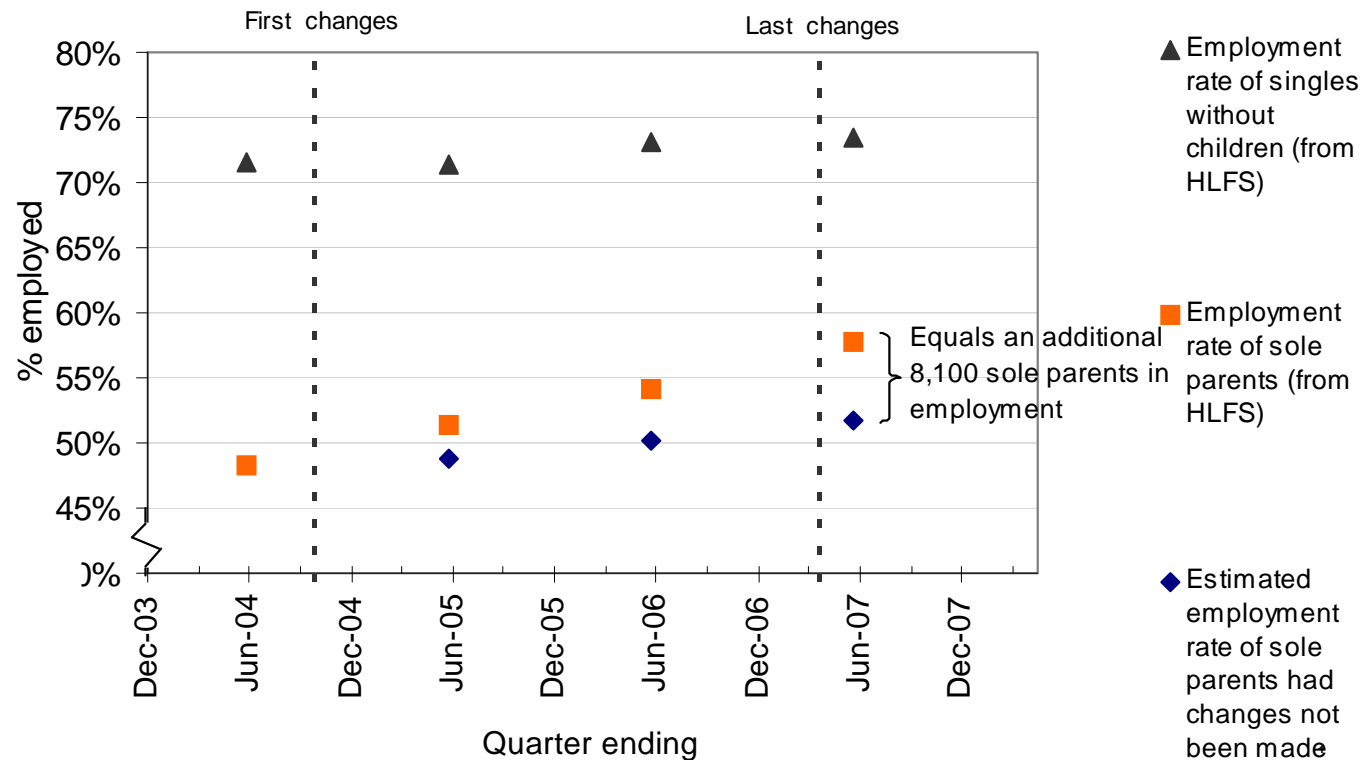
- Difference-in-differences
 - Data: Household Labour Force Survey and Income Survey (June Quarters)
- Survival analysis of recipients of DPB-Sole Parent
 - MSD and IR linked data (MSD IRD Research Dataset)

Difference-in-differences

- Compare trends in outcome among a 'treatment' group affected by policy change and a 'comparison' group unaffected
- No change in composition of treatment and comparison groups over the period in terms of unobserved characteristics affecting outcomes

Employment rate

Estimated employment rate of sole parents with dependent children



Source: HLFS Difference-in-difference analysis

¹ Calculated as employment rate less Difference-in-Differences estimate

The estimated employment rates have confidence intervals of ± 4 pp. The only statistically significant effect is that seen in the June 2007 quarter

Hours of work

- Increased numbers of sole parents are meeting the hours requirement of in-work tax credit
 - The percentage of sole parents working 20 hours or more increased from 36% in June 2004 to 48% in June 2007
 - Around three-quarters of this increase was due to changes

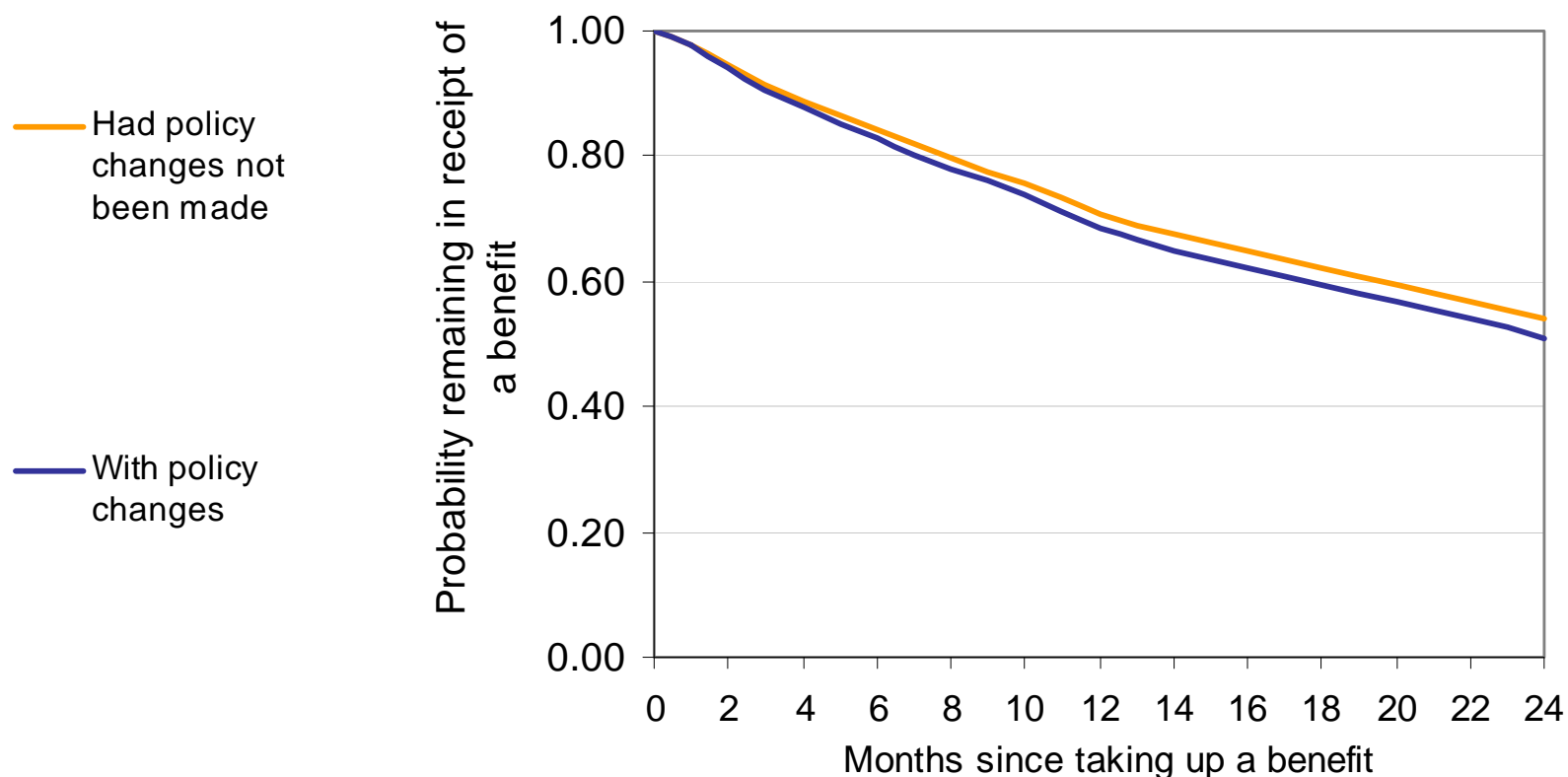
Survival analysis

- Model the time to exit benefit, or re-entry for those who have left
- Focus on sole parents, first observed on DPB
- GDP captures broader economic influence
- Effect of changes captured by *calendar* time dummies corresponding to stages of implementation
- Covariates capture extent to which some individuals exit more quickly

Change in exit rates

Change in exit rates from benefit

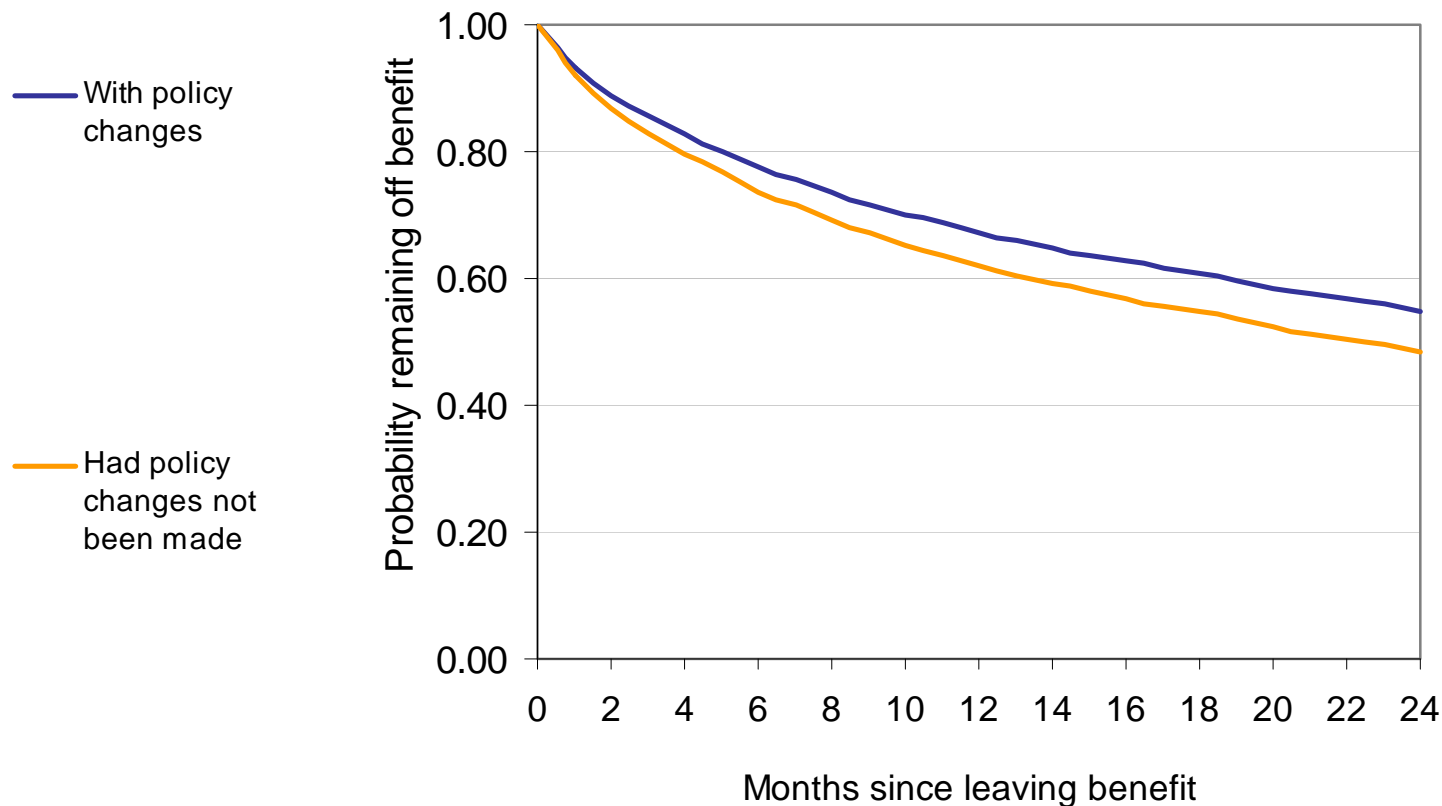
Sole parents' periods of benefit receipt are shorter



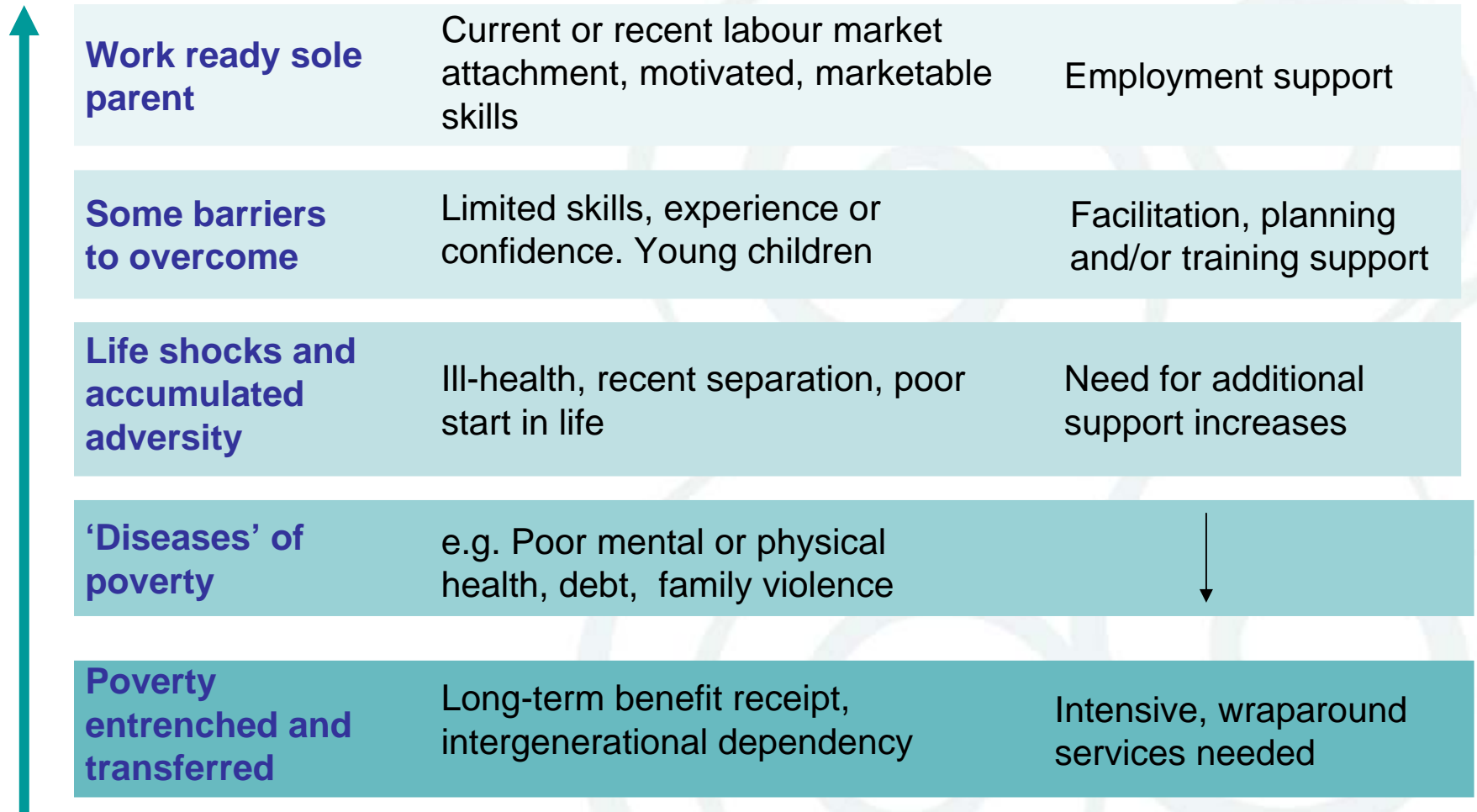
Change in re-entry rates

Change in re-entry rates to benefit

Sole parents previously on benefit are staying off benefit much longer



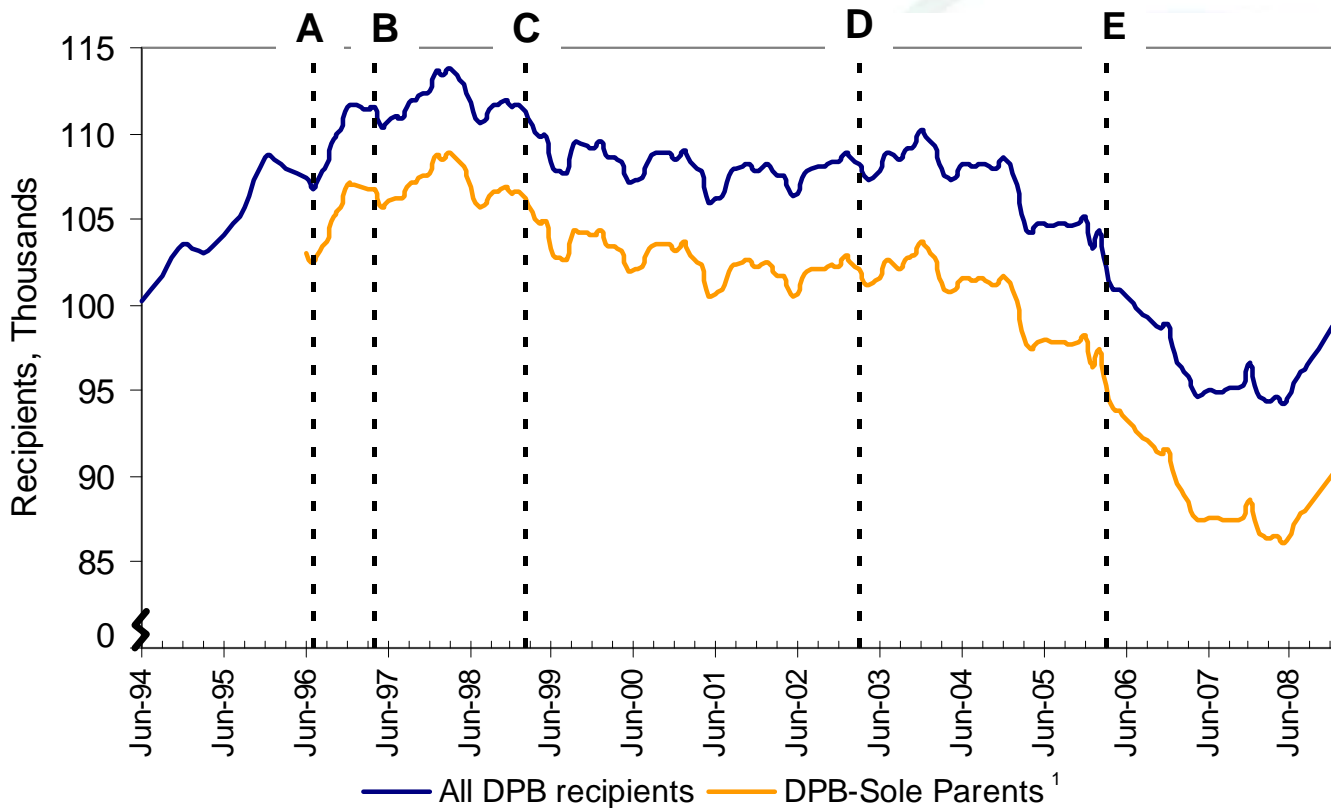
Sole parents and work readiness



Remaining barriers to work

- A survey of low-middle income families completed in September 2007
- Two out of five sole parents who were not in work considered themselves available for work
- Largest barriers to work for those available for work are around finding appropriate work

DPB numbers



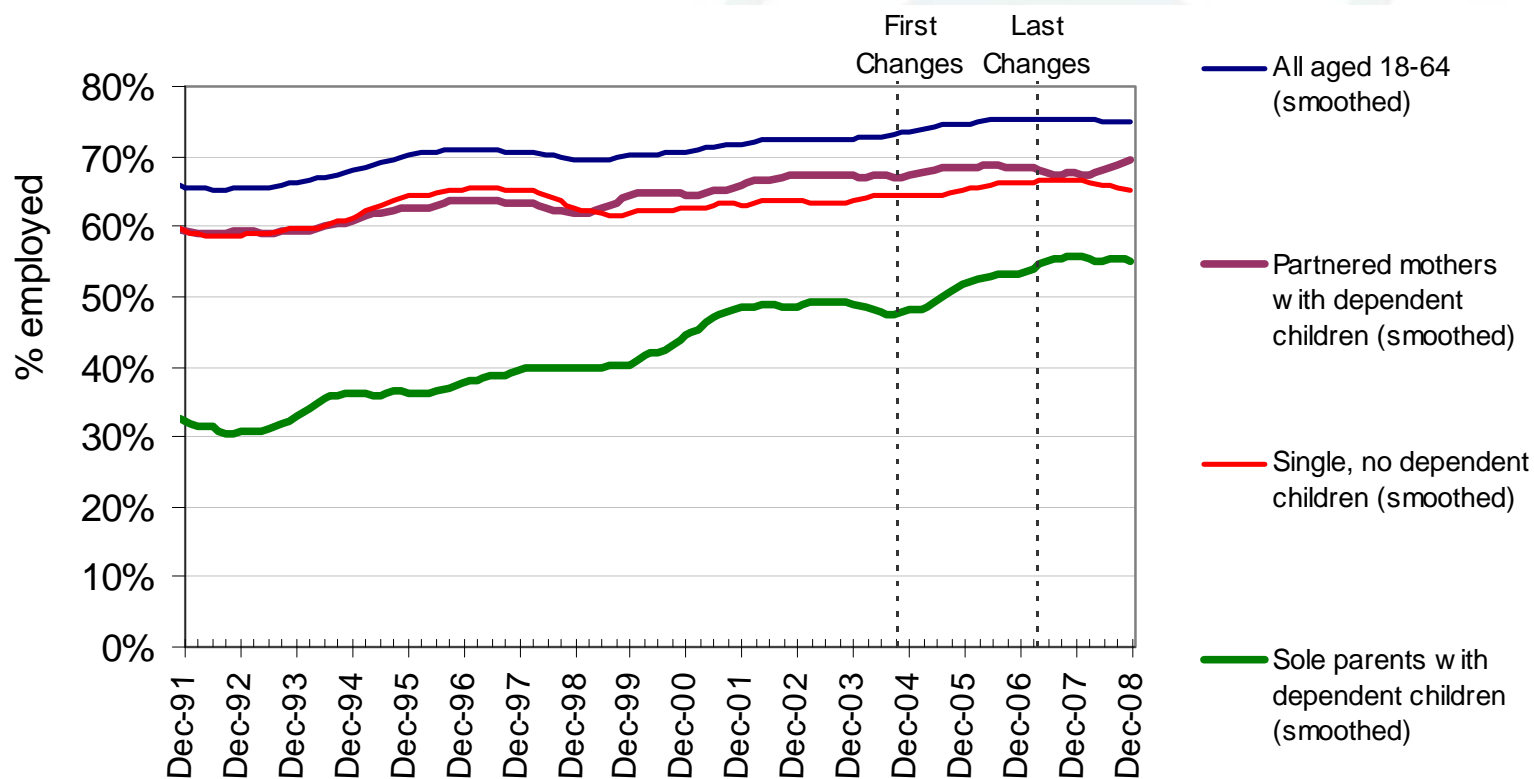
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Change in economy?

- Evaluation carried out during period of economic growth
- Don't know what will happen in different economic conditions
- In-work benefits do have greater employment gains during economic upswings than downturns

Further policy work

- Job Search Service (JSS)
 - Targets clients in receipt of the Unemployment Benefit (UB)
 - Clients are referred to one of several activities, best suited to their individual job search needs
 - Fewer clients are being granted a UB related benefit
 - Once granted UB, JSS participants spend less time on benefit
- Part-time work testing
- Increasing DPB abatement thresholds from \$80 to \$100