

## Did 'Welfare to Work' raise or lower the incomes of sole parents and people with disabilities?

Peter Davidson (PhD student, Social Policy Research Centre, University of New South Wales)

Australian Social Policy Conference, Sydney 8 July 2011.

### Abstract

The Welfare to Work policy introduced in 2006 aimed to reduce reliance on income support and increase employment among sole parents and people with disabilities. Critics argued that it would reduce the incomes of those affected as new applicants for income support were diverted from higher 'pension' payments to lower 'allowance' payments. The former Government argued that the policy would raise their incomes by speeding transitions to employment. These propositions can now be tested (at a high level of generality) using data from the official evaluation of the policy on its impact on sole parents and people with disabilities who entered income support during 2006-07. This paper summarises the Welfare to Work policy, and uses data from the evaluation to make a preliminary assessment of the extent to which the policy raised or lowered the disposable incomes of those affected over the short term.

I estimate that, among the 80,000 sole parents with a child under 16 who entered income support in that year, the policy had no discernable impact on the disposable incomes of 86%, raised those of 5% (through increased earnings) and reduced those of 9% (by diverting them to a lower payment without an increase in earnings). That is, there were almost twice as many income 'losers' as 'winners'. People with disabilities fared worse due to their relatively poor job prospects. Among 97,000 people with disabilities (assessed as unable to work more than 30 hours a week) who entered income support in that year, the policy had no discernable impact on the incomes of 67%, raised the incomes of 3% and reduced those of 29%. That is, there were almost ten times as many income 'losers' as 'winners'. An important finding is that the policy-induced increase in short-term exits from income support among sole parents 'activated' on the higher Parenting Payment was equal to that among sole parents activated on the lower Newstart Allowance. This suggests that similar employment outcomes could have been achieved without diverting sole parents to lower payments.

### Introduction

The Howard Government's 2006 Welfare to Work policy diverted sole parents and people with disabilities entering income support from pension payments to unemployment payments, imposed a requirement to seek part time employment, and offered employment preparation and child care assistance. Like its United States namesake, the policy's key goals were to: *'increase workforce participation and reduce welfare dependence'*.<sup>1</sup>

Notwithstanding widespread concern at the time about the low employment rates among people with disabilities and sole parents, the policy attracted controversy for imposing an employment requirement on parents of school age children, for sanctioning people with

---

<sup>1</sup> DEEWR (2008); Blank R (2002).

disabilities and sole parents who failed the activity test, and for reducing their incomes by diverting them from higher 'pension' payments to lower 'allowance' payments.<sup>2</sup>

These controversies continue today. In its 2011 Budget the Gillard Government announced measures to divert certain sole parents whose youngest child is 12-15 years old from Parenting Payment (PP) to Newstart Allowance (NSA) and to introduce a new eligibility test for people with disabilities applying for Disability Support Pension (DSP) – a requirement to participate in an employment program for up to 18 months during which time most would receive NSA.<sup>3</sup>

Quantitative research on the impact of the 2006 Welfare to Work policy has so far been limited in scope, in part due to a lack of access to relevant data. The official evaluation (which used administrative data) focussed rather narrowly on the policy's abovementioned objectives to increase workforce participation and reduce reliance on income support.<sup>4</sup>

In contrast, the US Welfare to Work policy (which targeted sole parents on income support) was evaluated officially and by independent researchers from many perspectives including its impact on income support reliance, employment and incomes, its effects on parenting and the well being of children, and the client experience of Government services.

American studies generally found that reliance on income support among sole parents fell sharply after the policy was introduced in 1996, their employment rate rose sharply, but their average disposable incomes did not change much.<sup>5</sup> Bitler et al (2003) found that the impacts on family incomes were heterogeneous. Those sole parents with the highest starting incomes gained most (through increased earnings and tax credits), while the bottom 20% or so lost income (through a lack of income support entitlements). The impacts on parenting and on children were diverse. In some cases children benefited from parental employment while in other cases tensions were identified between inflexible employment requirements and the needs of very young or teenage children.<sup>6</sup> Anthropological studies such as that of Edin and Lein examined the difficulties faced by sole parents in negotiating the maze of Government agencies and official requirements.<sup>7</sup>

Apart from the official evaluation, studies of the effect of the Australian Welfare to Work policy have generally focussed on qualitative impacts such as the client experience of Government services and tensions between employment requirements and parenting roles.<sup>8</sup> Some studies focussed on the impact on incomes, though these modelled hypothetical impacts on different household types rather than the actual distributional impact of the policy on the incomes of sole parents and people with disabilities.<sup>9</sup>

This study begins to fill a critical gap in the research by estimating the distributional impact of the Australian Welfare to Work policy on the personal disposable incomes of sole parents and people with disabilities, using data from the official Welfare to Work evaluation.<sup>10</sup>

---

<sup>2</sup> Senate Community Affairs Committee (2005).

<sup>3</sup> Treasurer (2011).

<sup>4</sup> DEEWR (2008), pv.

<sup>5</sup> Bloom D & Michalopoulos C, (2001); Blank, R (2002).

<sup>6</sup> Cortis, Cowling & Meagher (2008).

<sup>7</sup> Edin K & Lein L (1997).

<sup>8</sup> Blaxland M (2007); Cox & Priest (2007).

<sup>9</sup> Harding, Vu, Percival & Beer (2005a); Harding, Vu, & Percival (2005b); ACOSS (2005).

<sup>10</sup> I refer to 'distributional impact' in the narrow sense of the proportion of those in the target groups who gained or lost income as a result of the policy and the proportion whose incomes were not affected.

When the policy was legislated in 2005, there was considerable debate over the extent to which the policy would raise or lower their incomes. The Australian Council of Social Service (ACOSS) argued that: *'those worse off [financially] are new applicants for income support after July 2006'*. It estimated weekly income losses of \$46 for a single person with disabilities diverted from the maximum rate of DSP to NSA and of \$99 for a person with disabilities diverted to NSA employed for 15 hours a week at the then minimum wage. These income losses were attributed to the lower maximum rate and tighter income test of NSA. Similarly, ACOSS estimated that a sole parent diverted from the maximum rate of PP to NSA would lose \$29 per week and one employed 15 hours a week at the minimum wage would lose \$96.<sup>11</sup>

In response to this and similar criticisms of the policy, the Employment Department's submission to a Senate Inquiry asserted that: *'Those people will absolutely be better off than if they were sitting on the disability support pension or parenting payment single without work'*.<sup>12</sup> It presented modelling of the impacts on the incomes of hypothetical individuals indicating that a person with a disability moving from joblessness to a low paid job of 15 hours a week plus NSA would be \$38 per week better off and that an equivalent sole parent would be \$55 better off.

Both estimates were accurate under the benefit and tax rules at that time. However while ACOSS and other critics focussed on those whose employment prospects were not improved, the Employment Department concentrated on those who obtained a part time job as a result of the 'activation' and employment support elements of the policy. To assess the distributional impact of the policy, we need valid estimates of its employment impacts and the numbers of people with disabilities and sole parents who were streamed to higher pension payments and lower allowance payments after the policy was introduced.

The official evaluation of the Welfare to Work policy was publicly released two years ago. It provides estimates of the payment destinations of people with disabilities and sole parents entering income support in the first year of the policy, and indicative estimates of its employment impact. However, the evaluation did not consider the impact of the policy on their disposable incomes. This study uses data from that evaluation to begin to fill this gap in research on the effects of the Welfare to Work policy.

## **The Welfare to Work policy**

The Welfare to Work policy had two main target groups: sole parents whose youngest child was less than 16 years entering the income support system after July 2006, and people with disabilities assessed as unable to work fulltime, entering the income support system after May 2005. Its aim was to increase employment and reduce reliance on income support among these target groups.<sup>13</sup>

The policy diverted a sub-set of each of these groups from pension payments (PP and DSP) that were paid at higher rates, had more liberal income tests, and imposed no work requirements, towards unemployment payments (NSA and Youth Allowance) that were paid at lower rates and had more stringent income tests. Those diverted to unemployment payments were sole parents whose youngest child was aged 8 to 15 years, and a new administrative category of people with disabilities assessed as having a 'partial work capacity' – that is, an ability to work for between 15 and 30 hours per week.

---

<sup>11</sup> ACOSS (2005).

<sup>12</sup> DEWR (2005).

<sup>13</sup> DEEW (2008).

It also imposed a new activity requirement for those diverted to unemployment payments: that they seek part time employment of at least 15 hours per week. Employment assistance and child care services were offered to those facing that requirement. This mainly comprised an expansion of Job Network employment services and Outside School Hours Care services.

An interesting twist to the policy was that those sole parents whose youngest child was 6 to 7 years old remained eligible for PP but nevertheless faced the new activity requirements and received the employment supports. This provides an opportunity for researchers to distinguish between the employment impact of imposing requirements and offering employment assistance from that of diverting people to lower payments, a question I return to later.

Existing income support recipients as at May 2005 (in the case of people with disabilities) or July 2006 (in the case of sole parents) were 'grandfathered'. That is, they retained their previous payment eligibility.<sup>14</sup> However, from July 2007, existing PP recipients whose youngest child was aged 6 to 15 years faced the same activity requirements as those new applicants for income support who were diverted to NSA.

Since the policy had little immediate impact on the grandfathered group during its first year (2006-07), and the official evaluation only provides estimates of the impact of the policy in that year, I focus here on new applicants for income support during 2006-07 that fell within the two target groups.

## Research question and assumptions

This study examines the impact of the Welfare to Work policy on the disposable incomes of people with disabilities and sole parents. As noted in the introduction, other studies here and overseas have examined the impacts on parenting, on children, and on the client experience of income support and employment services. A full assessment of whether individuals and families were 'better off' after implementation of the policy would need to take these factors into account but this is beyond the scope of the present study.

The research question for this study is as follows:

'What proportions of people with disabilities and sole parents entering income support during 2006-07 experienced gains and losses in disposable incomes as a result of the Welfare to Work policy, and what proportion experienced no change in their incomes attributable to the policy, 6 months after each person commenced income support?'

The data source I use to answer this question is the official evaluation of the Welfare to Work policy, which used administrative data.<sup>15</sup>

My reliance on this data source means that this is only a partial assessment of the impact of the policy on the incomes of the target groups. A full assessment would also take account of the impact of any 'deterrence effect' of the Welfare to Work policies on *entries* to income support. That is, some sole parents and people with disabilities might be discouraged from applying for payments and others might be unsuccessful in their claims, due to the policy. Studies of Welfare to Work policies in the United States suggest that their impact on entries

---

<sup>14</sup> However, if they left income support (for example, due to full time employment or re-partnering) and subsequently re-applied, their previous income support status was not necessarily 'saved'.

<sup>15</sup> DEEWR (2008), op cit.

to income support was as significant as their impact on exits.<sup>16</sup> However, these 'deterrence effects' are more difficult to identify as administrative data only records those who made a claim for income support, and they were not directly measured by the official evaluation.

The official evaluation was not designed to measure the impact of Welfare to Work on disposable incomes. It tracked flows of new entrants to the income support system onto different payments and provided indicative estimates of the impact of the policy on earnings from employment. However, it did not estimate the distribution of earnings and levels of income support among those affected by the policy. These data limitations require me to make a number of assumptions about the impact of the policy on the incomes of those that entered income support during 2006-07.

The policy affected the disposable incomes of the target groups in three ways:

1. Some new applicants were placed on lower payments than they would otherwise have received; mainly NSA rather than pension payments.

For example, the maximum rate of NSA for single adult at the time was \$46 per week less than the DSP and \$29 per week lower than the PP payment for a sole parent.<sup>17</sup>

2. The NSA income test was more stringent than the pension income test.

The income test for NSA had a lower 'free area' and higher taper (withdrawal) rates than the pension income test. Single pensioners could earn up to \$76 per week (more if they had more than one child) before their payment was reduced and income above that level was subject to a taper rate of 40 cents in the dollar. By contrast, NSA recipients could only earn \$31 per week without penalty and taper rates of 50 cents and subsequently 60 cents in the dollar were applied. Thus, Harding et al note that: *'Sole parents with one child on Parenting Payment Single will be able to earn up to around \$718 per week before their entitlement to income support is extinguished. Sole parents with one child on Newstart Allowance will only be able to earn up to about \$426 a week before their entitlement to income support is extinguished.'*<sup>18</sup> The story was similar for people with disabilities diverted from DSP to NSA.<sup>19</sup>

3. The new activity requirement and associated supports (employment assistance, training, child care places) may on the other hand have increased income from paid employment.

In order to assess the impact of the policy on incomes without a detailed breakdown of the earnings and payment levels received by those affected by the policy, I make two key assumptions.

First, I assume that those who were diverted from pensions to allowance payments and remained on income support (whether employed or not) were financially worse off unless they increased their paid working hours. This assumption is based on the first two factors described above: the lower maximum rate and tighter income test that applied to allowance payments.

---

<sup>16</sup> Grogger J, et al (2003).

<sup>17</sup> ACOSS (2005)

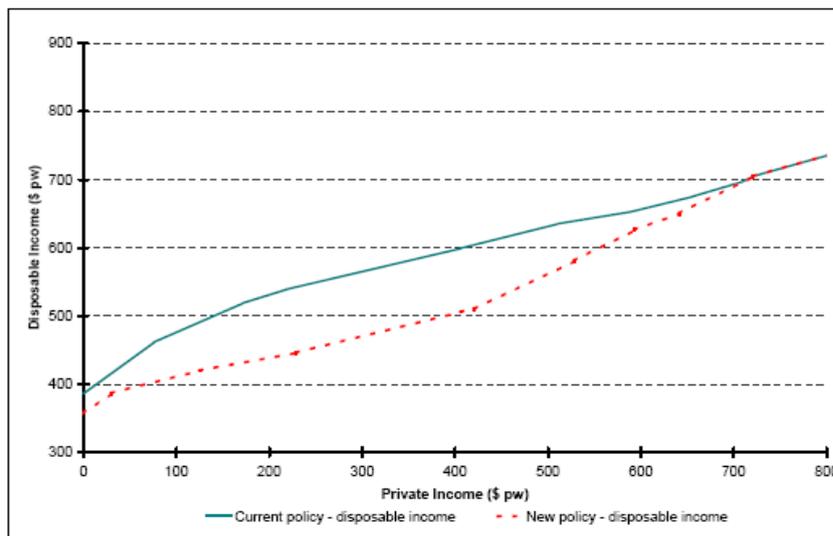
<sup>18</sup> Harding et al (2005a), p3.

<sup>19</sup> Harding et al (2005b).

Analysis by Harding et al of the impact of the policy on hypothetical individuals who are diverted from pension to allowance payments bears this out.

Graph 1 compares disposable incomes for a sole parent with one child on PP and NSA in 2006. Whether the parent received the maximum rate of payment or combined income support and earnings, their disposable incomes on NSA were significantly lower. This applied at private incomes up to the level at which PP cut out completely (\$718 per week). The income reductions were greater for many sole parents with more than one child, as the PP income test provided an additional free area for each child whereas the NSA income test did not.

**Graph 1: Disposable incomes on PP and NSA for a sole parent with one child 8-12 years (2006)**

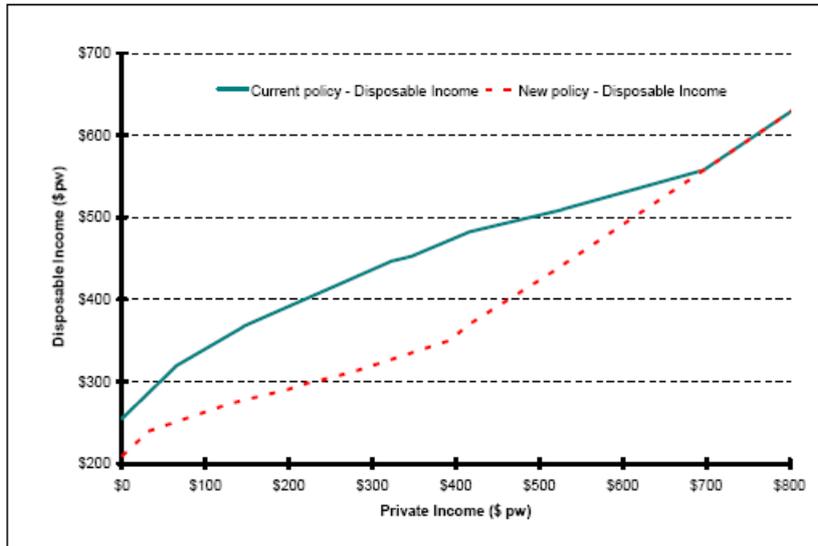


Harding et al 2005a

Note: 'Current policy' refers to Parenting Payment; 'New policy' refers to Newstart Allowance. Income tax and Family Tax Benefit were also modelled.

Similarly as shown in graph 2, a single person with a disability was better off on DSP than NSA at private income levels up to the cut out point for DSP (\$706).

**Graph 2: Disposable incomes on DSP and NSA for a single person with disability (2006)**



Harding et al 2005b

Note: 'Current policy' refers to Disability Support Pension; 'New policy' refers to Newstart Allowance. Income tax and Family Tax Benefit were also modelled.

It is clear from this analysis that those income support recipients diverted to NSA were worse off financially unless the policy increased their earnings from paid employment.

Assessing the extent to which those affected by the policy gained disposable income through higher earnings (the third factor listed above) is a more complex exercise. The official evaluation did not provide data on the distribution of earnings levels or changes in earnings among those targeted by the policy. Since it was not designed to measure income effects, it only assessed the probability of an increase in exits from income support (mainly to employment) and of an increase in earnings while still on income support.

My second key assumption, therefore, is that those whose earnings increased as a result of the policy experienced an increase in their overall disposable incomes. This is a reasonable assumption given that effective tax rates facing recipients of the relevant payments as their earnings rose from zero to the levels at which the payments expired were less than 100%. However, the gains in disposable incomes as people's earnings increased while on NSA were typically small. As discussed above, the main reason for this was that an increase in earnings while in receipt of NSA triggered a clawback of up to 60 per cent of earnings through reduced benefit payments. When the effects of income tax are also taken into account, this produced effective marginal tax rates exceeding 65% (but less than 100%) for sole parents receiving NSA with private incomes from \$31 to \$430 per week. The results were similar for people with disabilities.<sup>20</sup>

This means that once the costs of child care and other work expenses are included, it is likely that a significant number of sole parents and people with disabilities were no 'better off' financially if they increased their earnings while on NSA, even if their disposable incomes rose slightly. In the absence of data on costs of employment for those affected by the policy, I am unable to assess what proportion of those who increased their earnings while on NSA

<sup>20</sup> Harding (2005a), p15.

were financially better off – a different question to whether their disposable incomes increased. Since any disparities between increases in disposable incomes and net financial gains were most likely to occur where individuals increased their earnings while on NSA, I undertake a sensitivity analysis that excludes this group from those assessed as gaining disposable income due to the policy.

A further limitation of this study is that the data do not allow me to assess the longer-term impacts of the policy, beyond the first 6 months after commencement on income support or beyond 2006-07.

## Methodology

The method used in this study involves three steps.

1. Estimate the proportion of each target group that obtained employment or increased their work hours *due to the policy* (including those who left income support and those who remained on it).

As indicated above, I assume that their disposable incomes *increased* as a result of the policy.

2. Estimate the proportion of members of each target group that were diverted to a lower payment and whose earnings did not increase.

As indicated, I assume that their disposable incomes *fell* as a result of the policy.

3. Subtract these 'winners' and 'losers' from the population in each target group.

For this residual group, the outcome is either 'no change in income' or 'unknown'.

The first step poses the greatest research challenge. It requires estimates of the impact of the policy on earnings from employment. This cannot simply be inferred from the number of income support recipients who were employed 6 months after claiming income support during 2006-07. Rather, it is necessary to compare employment outcomes at that point in time with a counterfactual – the number of recipients who would have obtained employment in the absence of the policy.

The official evaluation yielded indicative estimates of the employment impact of the policy by comparing employment outcomes for various target groups during 2006-07 with those obtained in previous years. Using a 'difference in differences' approach, it compared exits from income support and increases in earnings while on payments during 2006-07 with the same statistics for previous years, both for cohorts of people with disabilities and sole parents who were affected by the policy and similar groups who were not affected by the policy.

The idea was that any difference between outcomes for 2006-07 and previous years among equivalent groups of sole parents or people with disabilities would yield an estimate of the impact of the policy. The evaluation report warns that: *'This comparison does not isolate the effect of Welfare to Work from other changes at the same time. However, both the absence*

*of similar changes in the three previous years and the absence of similar changes to principal carer parents who were not affected in 2006-07 strongly suggest that much of the difference was due to Welfare to Work.*<sup>21</sup>

Keeping this caveat in mind, I use the estimated increase in exits from income support and in the proportion of recipients increasing their earnings while still on income support between 2005-06 and 2006-07 in the official evaluation to calculate the probability that members of each target group increased their earnings (including from zero) as a result of the policy.

Exits from income support were not always to employment and the administrative data used in the evaluation do not identify the destinations of former recipients. However, the evaluation used data from a separate survey to estimate the proportion of former recipients who exited to employment. This was 77% in the case of people with disabilities who entered income support during 2006-07 and subsequently left the system, and 87% in the case of sole parents. I classify exits to employment as income gains and other exits as 'unknown' outcomes.<sup>22</sup>

The second step is more straight-forward. Data from the official evaluation on the payment destinations of new entrants to income support from each target group during 2006-07 are used to estimate the probability that individuals were diverted from higher to lower payments. Those found to have increased their earnings (from step 1, above) are separately identified as income 'gainers' and the remainder are assumed to have sustained a loss of income as a result of the policy.<sup>23</sup>

In the third step, the probability of neither gaining nor losing income is calculated as a residual. This includes those for whom outcomes are known (for example, those who obtained pension payments but whose job prospects did not improve) and those for whom the outcome is not known (for example, those who left income support without securing employment).

### **Impact of the policy on sole parents**

Table 1 shows the payment destinations of those sole parents in the target group who entered income support during 2006-07. Of 80,485 sole parents, the majority (58,353) obtained PP and faced no activity requirements. Although some voluntarily participated in employment programs and others obtained employment, they would have done so prior to the introduction of the policy. Their incomes did not change as a result of its introduction. A further 8,230 faced the new activity requirements but still obtained the PP payment. Some obtained employment due to the policy and increased their incomes while the remainder would have recorded no change in their incomes due to the policy. A further 13,902 were diverted to the lower NSA payment. In accord with the assumptions used in this study, those who secured employment as a result of the policy increased their incomes while those that did not experienced income losses.

---

<sup>21</sup> DEEWR (2008), op cit, p48.

<sup>22</sup> DEEWR (2008), pp41, 54.

<sup>23</sup> That is, a loss of income compared with the payment levels they would have received in the absence of the policy.

**Table 1: Destinations of sole parents (youngest child under 16) entering income support during 2006-07**

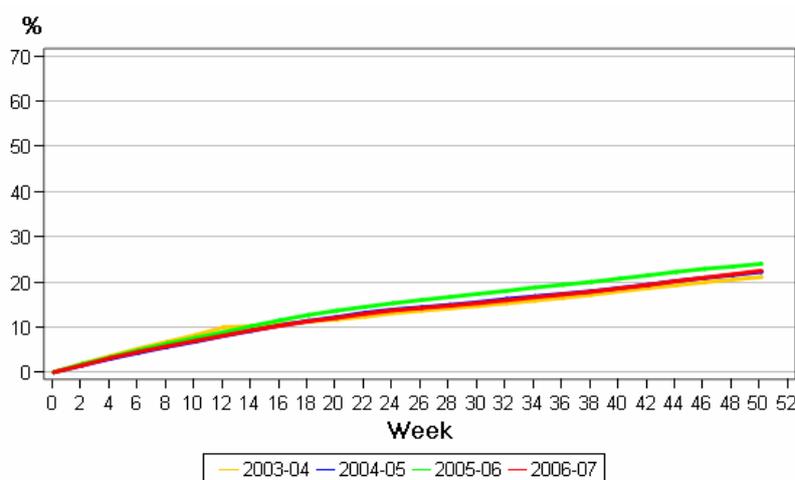
All (80,485)	Treatment	Impact
Youngest child <6yrs (58,353)	Still receive PPS, no work reqts.	<b>No change</b>
Youngest child <6-7yrs (8,230)	Still receive PPS, with work reqts.	Some increase their earnings due to the policy and <b>win</b> , others <b>no change</b>
Youngest child 8-15yrs (13,902)	Diverted to NSA, with work reqts.	Some increase their earnings due to the policy and <b>win</b> , others do not and <b>lose</b>

Source: DEEWR (2008), Welfare to Work evaluation, p15.

In order to identify those whose incomes *increased* due to the policy, I now turn to the evaluation's findings on its employment impacts.

Graph 3 shows the cumulative proportion of 'grandfathered' sole parents on PP who left income support through 2006-07, compared with the same statistic for each of the previous 3 years (before Welfare to Work). Grandfathered sole parents were not directly affected by the policy. The lack of any significant variation between the 2006-07 outcomes and those in previous years suggests that there was no change in factors other than Welfare to Work (such as labour market conditions) that materially influenced employment rates among sole parents on income support.

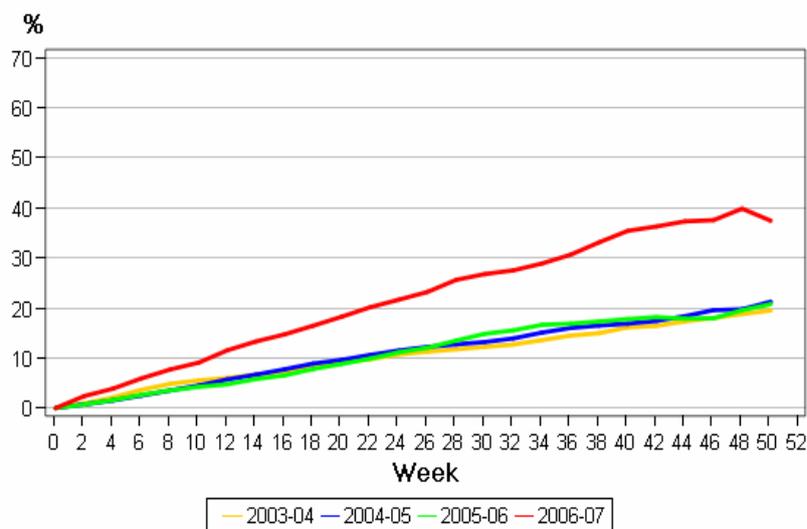
**Graph 3: Proportion of 'grandfathered' sole parents (already on PPS at July 2006) with youngest child 8-15 years who left income support**



Source: DEEWR (2008), Welfare to Work evaluation, p42.

Graph 4 compares exits from income support among the cohort of sole parents with youngest child aged 6-7 years entering income support: the group who, from July 2006, were activity tested but remained eligible for the PP payment. There was a noticeable increase in exits among this group during 2006-07. In 2006-07, 23% of these sole parents had left income support after six months, compared with 12% the previous year, an 11 percentage point increase in exits from income support. On this basis, I estimate that 48% of exits from income support among this cohort of sole parents were due to the policy.

#### Graph 4: Proportion of sole parents with youngest child 6-7 years who left income support

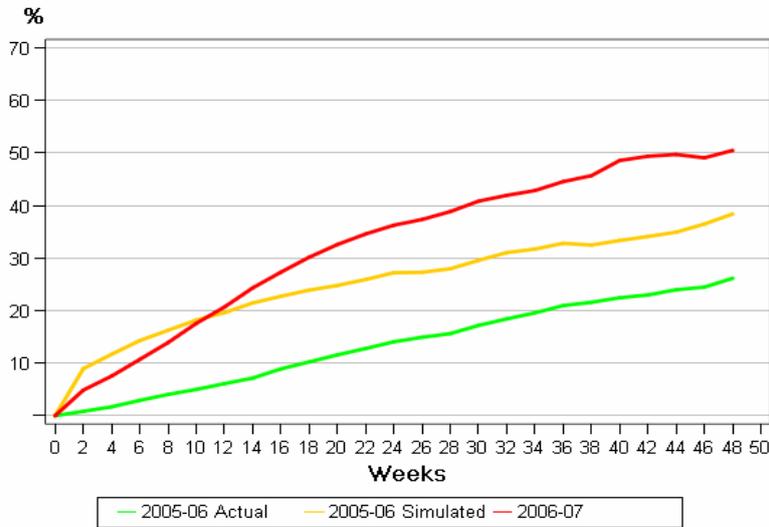


Source: DEEWR (2008), Welfare to Work evaluation, p38

Graph 5 compares exits from income support among cohorts of sole parents with youngest child aged 8-15 years entering income support. This group was, from July 2006, activity tested on the lower NSA payment. To control for the mechanical effect of the tighter income test on exits from income support (the fact that in 2006-07, sole parents whose earnings exceeded around \$400 per week were no longer eligible for income support), the evaluation simulated the effect of applying the NSA income test in the previous year (2005-06). To assess the employment impact of the policy on this group, we should therefore compare the top two lines in graph 5. In 2006-07, 38% of these sole parents had left income support after six months, compared with 27% who would have left the previous year if the income test was the same, an 11 percentage point increase in exits from income support. On this basis, I estimate that 29% of exits from income support among this cohort of sole parents were due to the policy.

It is noteworthy that this increase in the exit rate was identical to that for sole parents who were activity tested on the PP payment (graph 4), an important finding I return to later.

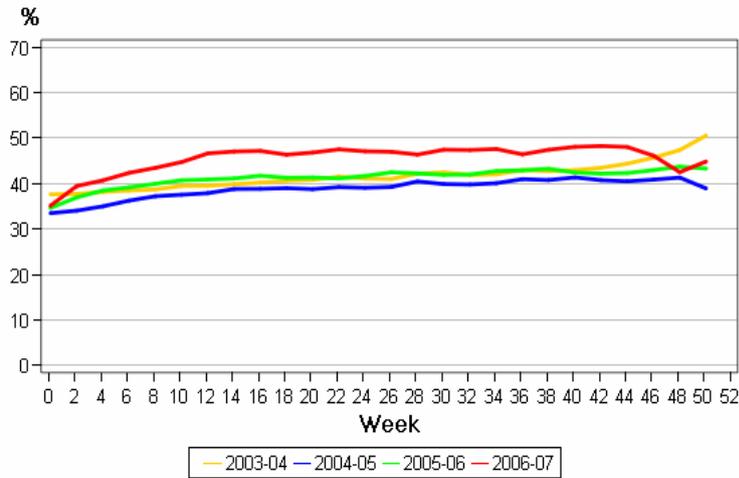
**Graph 5: Proportion of sole parents with youngest child 8-15 years who left income support**



Source: DEEWR (2008), Welfare to Work evaluation, p36

Turning to the impact of the policy on earnings while still on income support, graph 6 compares employment rates while on the PP payment among the cohort of sole parents whose youngest child was aged 6-7 years entering income support during 2006-07, with employment rates among the equivalent group in previous years. In 2006-07, 47% of these sole parents had earnings on income support after six months, compared with 42% the previous year, a 5 percentage point increase in the proportion with earnings. On this basis I estimate that 11% of employment while on income support among this cohort of sole parents was due to the policy.

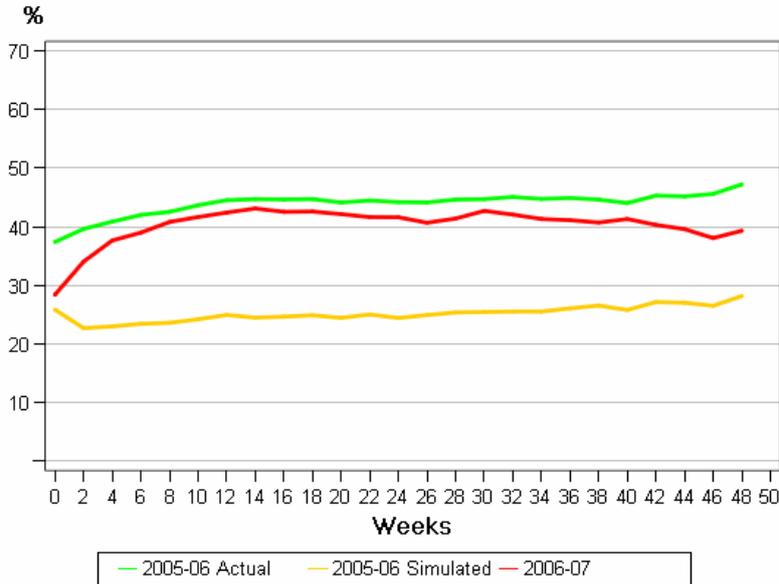
**Graph 6: Proportion of sole parents with youngest child 6-7 years with earnings while on income support**



Source: DEEWR (2008), Welfare to Work evaluation, p38

Graph 7 compares employment rates while on the NSA payment among the cohort of sole parents whose youngest child was aged 8-15 years entering income support during 2006-07, with employment rates among the equivalent group in previous years (who received PP instead). Again, it was necessary for the evaluation to simulate the effect of applying the tighter NSA income test to sole parents with earnings in 2005-06 in order to assess the employment impact of the policy. The appropriate comparison is between the bottom two lines in the graph. In 2006-07, 42% of these sole parents had earnings while on income support after six months, compared to 27% the previous year, a 15 percentage point increase in the proportion with earnings. On this basis I estimate that 36% of employment while on income support among this cohort of sole parents was due to the policy. On the face of it this result is puzzling, given that financial incentives for sole parents to undertake part time employment were stronger on PP (graph 6) than NSA (graph 7). One possible explanation is that incentives to combine income support and employment were already relatively strong for those on PP, so the additional impact of activity requirements was less than for those sole parents on NSA.

**Graph 7: Proportion of sole parents with youngest child 8-15 years with earnings while on income support**



Source: DEEWR (2008), Welfare to Work evaluation, p37.

Chart 1 brings the foregoing analysis of impacts of the policy on sole parents entering income support during 2006-07 together. On the left of this chart are the 80,488 sole parents in the target group. From the left to the right hand side of the chart, they are distributed according to their initial payment destinations, their employment status while on income support, exits from income support, and the proportion of those exits that were to paid employment. The above data comparing exits from income support and employment while on income support in 2006-07 and previous years are used to estimate the proportion of those outcomes attributable to the policy. The blue boxes represent unknown outcomes, the yellow boxes no change in disposable income, the green boxes gains in disposable income and the red boxes income losses.

**Chart 1: Probability distribution of impact of the Welfare to Work policy on sole parents (youngest child under 16 years) entering income support in 2006-07**

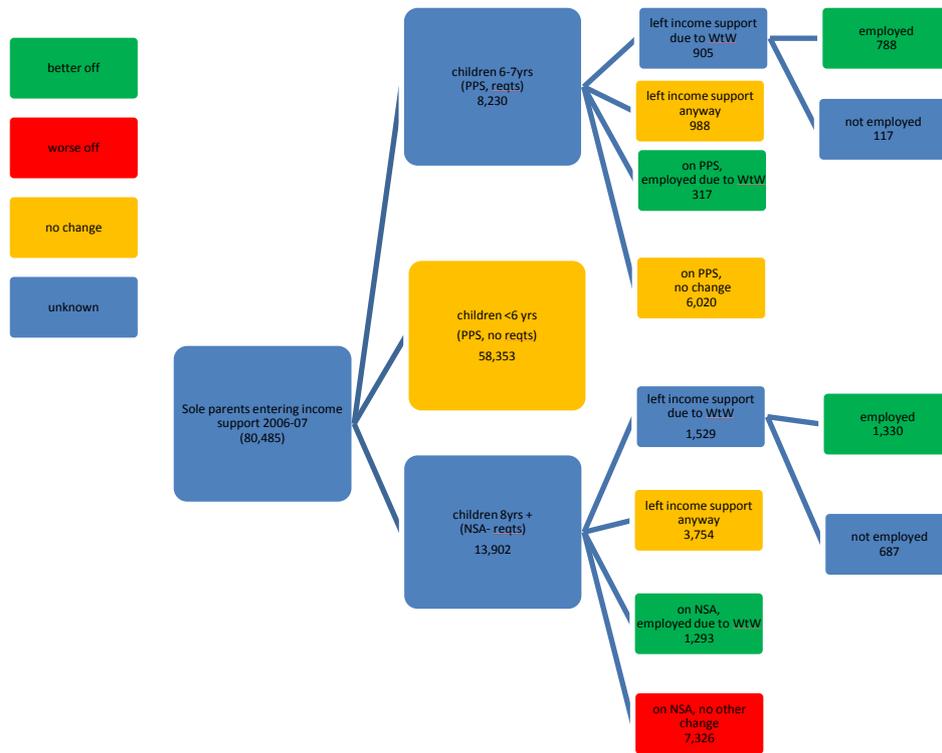


Chart 2 summarises the results, dividing the 80,488 sole parents into four categories: those whose disposable incomes rose as a result of the policy, those whose incomes declined due to the policy, those whose incomes did not change as a result of the policy, and a residual group whose outcomes were not known.

**Chart 2: Change in disposable incomes due to Welfare to Work among sole parents of children 0-15yrs entering income support during 2006-07**

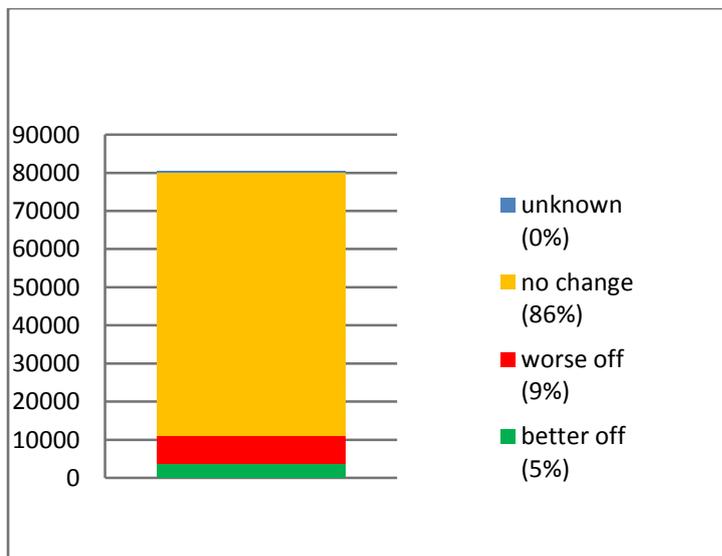
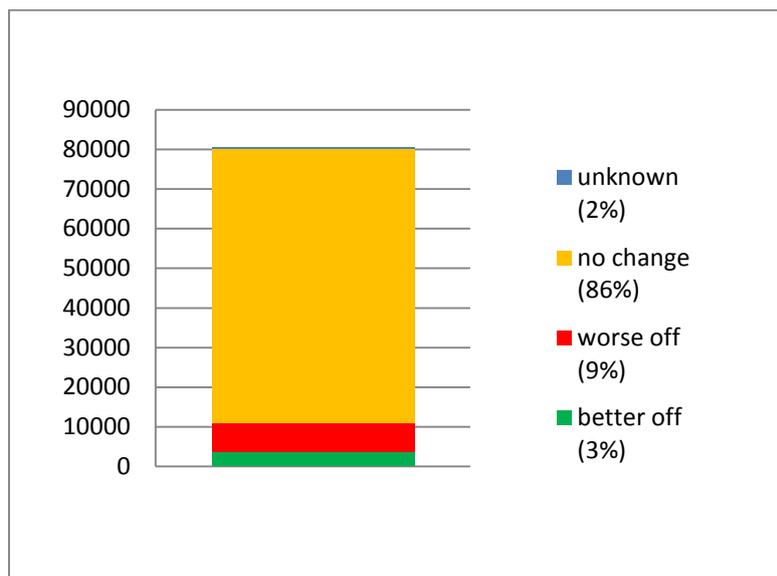


Chart 2 indicates that most sole parents (86%) who entered income support in 2006-07 experienced no short-term change in their incomes as a result of the policy (for the most part, they had younger children and entered the PP payment as they would have previously). A small proportion (5%) increased their incomes as a result of an increase in the probability of employment brought about by the policy. However, almost twice as many (9%) experienced a loss of income as a result of the policy as they were diverted from PP to the lower NSA without increasing their job prospects.

Since I have not taken account of the costs of working, Chart 2 is likely to represent an upper bound of the proportion of sole parents who were financially better off due to the policy (as distinct from those whose disposable incomes rose). Chart 3 shows the results of a sensitivity analysis where financial outcomes for those whose disposable incomes rose due to the policy are classified as 'unknown'.<sup>24</sup> Thus, some sole parents move from the 'better off' category to the 'unknown' category. When this alternative assumption is adopted, the overall distribution of outcomes is not greatly affected. However, only 3% are estimated to be financially better off as a result of the policy, one third of the proportion who experienced a loss of income (and were clearly worse off financially).

**Chart 3: Financial impact of Welfare to Work on sole parents of children 0-15yrs entering income support during 2006-07 (alternative assumption)**



<sup>24</sup> This sensitivity analysis is undertaken to account for the possibility that some of these sole parents were no better off financially, due to the combined effects of the NSA income test, income tax and the costs of employment. See discussion in 'research questions and assumptions'.

## Impact of the policy on people with disabilities

Table 2 shows the payment destinations of those people with disabilities in the target group who entered income support during 2006-07. Of 97,104 people with disabilities, the vast majority (52,705) obtained DSP or another pension payment (such as Carer Payment) and faced no activity requirements. Those who obtained DSP were assessed as having a work capacity of less than 15 hours a week and met the other eligibility requirements for DSP, including that their impairment was not temporary and had stabilised. Although some voluntarily participated in employment programs and others obtained employment, they would have done so prior to the introduction of the policy. Their incomes did not change as a result of its introduction.

A further 11,688 people with a work capacity below 15 hours a week did not meet these other DSP eligibility requirements and received NSA instead. However, they were not denied DSP due to the Welfare to Work policy and would have had the same income support status if they had applied prior to the introduction of the policy, so their incomes were also unchanged. A further 32,711 people were assessed as having a 'partial work capacity' of between 15 and 30 hours a week. This was the group whose circumstances changed as a result of Welfare to Work. Instead of being placed on DSP without activity requirements they were placed on NSA with a requirement to seek part time employment (at least 15 hours a week) and were connected with employment services (mainly Job Network, but in some cases specialist disability employment services). Some obtained employment due to the policy and increased their incomes (according to the assumptions used in this study) while the remainder would have experienced income losses compared with their entitlements in the absence of the Welfare to Work policy.

**Table 2: Destinations of people with disabilities (with work capacity below 30 hours per week) entering income support during 2006-07**

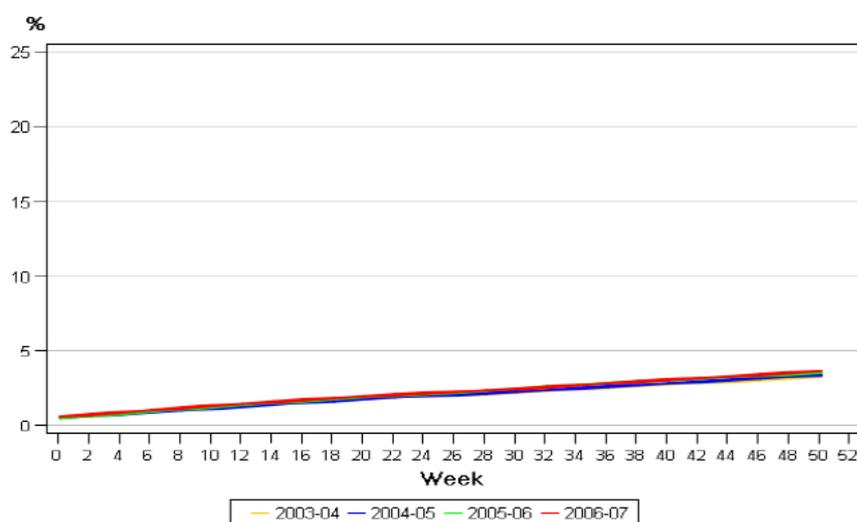
All (97,104)	Treatment	Impact
Eligible for DSP or other pension (e.g. work capacity <15 hours & meets other DSP reqts.) (52,705)	DSP or other pension, no work reqts.	<b>No change</b>
Work capacity <15hpw, doesn't meet other DSP reqts. (11,688)	NSA, limited or no work reqts	<b>No change</b>
'Partial work capacity' of 15-29 hours pw (32,711)	Granted NSA, part time work reqt.	Some increase their earnings due to policy and <b>win</b> , others do not and <b>lose</b>

Source: DEEWR (2008), Welfare to Work evaluation, p16

In order to identify those whose incomes *increased* due to the policy, I now turn to the evaluation's findings on its employment impacts among people with disabilities. The method is the same as for sole parents, except that unlike sole parents, no group of people with disabilities were activity tested on the pension payment (DSP). This analysis focuses mainly on people with a partial work capacity.

Graph 8 shows the cumulative proportion of 'grandfathered' people with disabilities on DSP who left income support through 2006-07, compared with the same statistic for each of the previous 3 years (before Welfare to Work). This group were not directly affected by the policy. The lack of any significant variation between the 2006-07 outcomes and previous years suggests that there was no change in factors other than Welfare to Work (such as labour market conditions) that materially influenced employment rates among people with disabilities on income support. The very low level of exits from DSP is also noteworthy.

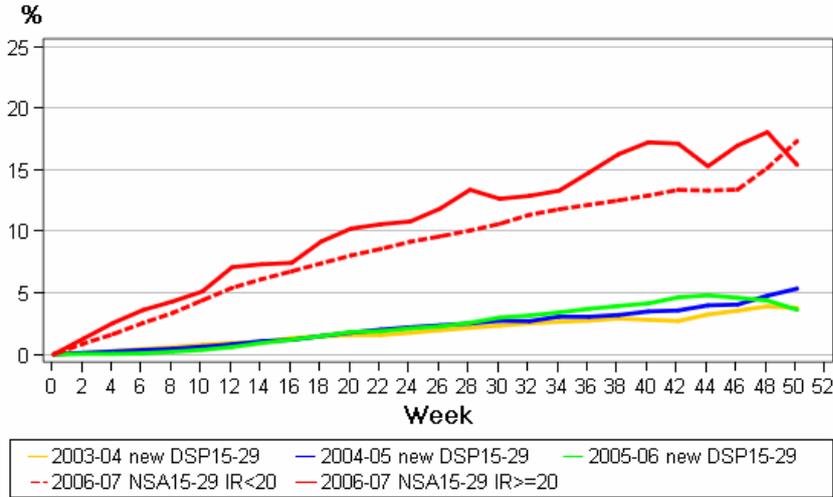
**Graph 8: Proportion of 'grandfathered' people with disabilities (already on DSP at July 2006) who left income support**



Source: DEEWR (2008), Welfare to Work evaluation, p52

Graph 9 compares exits from income support among cohorts of people with a partial work capacity entering income support. This group was, from July 2006, activity tested on the lower NSA payment. In order to compare like with like, the evaluation had to identify those people with disabilities in the pre-Welfare to Work years would have been classified as having a partial work capacity (an ability to work 15 to 30 hours a week) and also had to identify those who in the post Welfare to Work period (2006-07) had both a partial work capacity and an impairment rating of at least 20 points. To assess the employment impact of the policy, we should compare the top two continuous lines in graph 9. In 2006-07, 12% of these people with disabilities had left income support after six months, compared with only 2% who left the previous year, a 10 percentage point increase in exits from income support. This is similar to the impact for sole parents but off a much lower base. On this basis, I estimate that 83% of exits from income support among this cohort of people with disabilities were due to the policy.

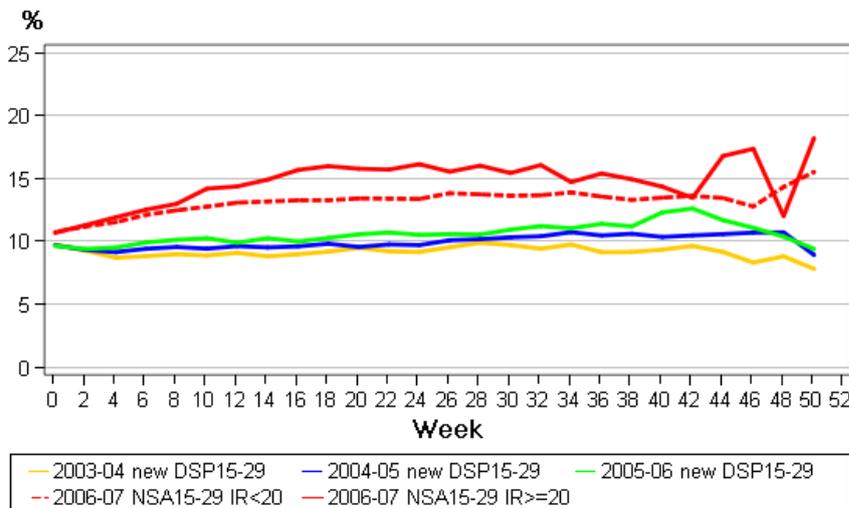
**Graph 9: Proportion of people with a partial work capacity who left income support**



Source: Welfare to Work evaluation, p51

Turning to the impact of the policy on earnings while still on income support, graph 10 compares employment rates while on NSA among the people with a partial work capacity entering income support during 2006-07, with employment rates among the equivalent group on DSP in previous years. In 2006-07, 16% of these people with disabilities had earnings on income support after six months, compared with 11% the previous year, a 5 percentage point increase in the proportion with earnings. On this basis I estimate that 31% of employment while on income support among this cohort of people with a partial work capacity was due to the policy.

**Graph 10: Proportion of people with a partial work capacity with earnings while on income support**



Source: Welfare to Work evaluation, p38.

Chart 4 brings the foregoing analysis of impacts of the policy on people with disabilities entering income support during 2006-07 together. On the left of this chart are the 97,104 people with disabilities in the target group. From the left to the right hand side of the chart, they are distributed according to their initial payment destinations, their employment status while on income support, exits from income support, and the proportion of those exits that were to paid employment. The above data comparing exits from income support and employment while on income support in 2006-07 and previous years are used to estimate the proportion of those outcomes attributable to the policy. The blue boxes represent unknown outcomes, the yellow boxes no change in disposable income, the green boxes gains in disposable income and the red boxes income losses.

**Chart 4: Probability distribution of impact of the Welfare to Work policy on people with disabilities (with work capacity less than 30 hours pw) entering income support in 2006-07**

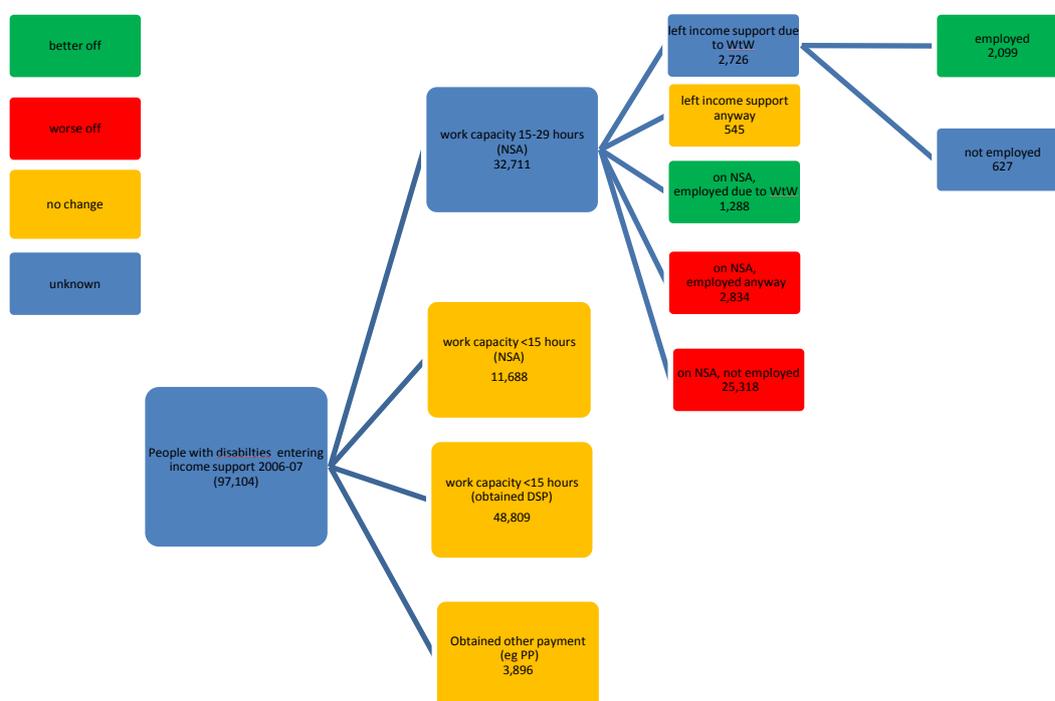


Chart 5 summarises the results, dividing the 97,104 people with disabilities into four categories: those whose incomes rose as a result of the policy, those whose incomes declined due to the policy, those whose incomes did not change as a result of the policy, and a residual group whose outcomes were not known.

**Chart 5: Impact of Welfare to Work on the disposable incomes of people with disabilities (with work capacity less than 30 hours pw) entering income support in 2006-07**

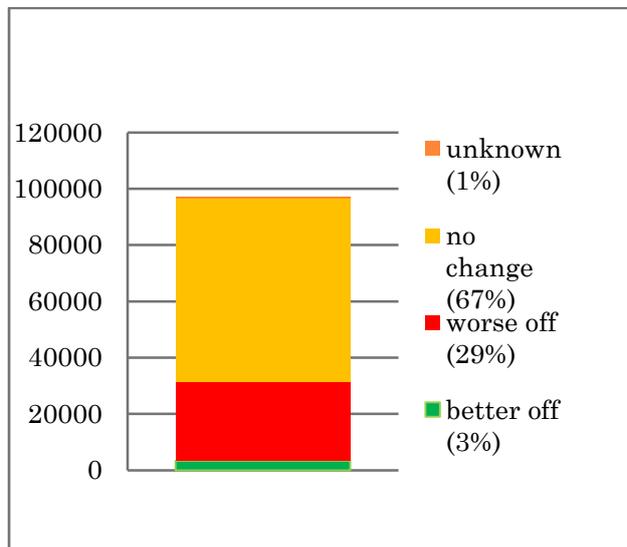
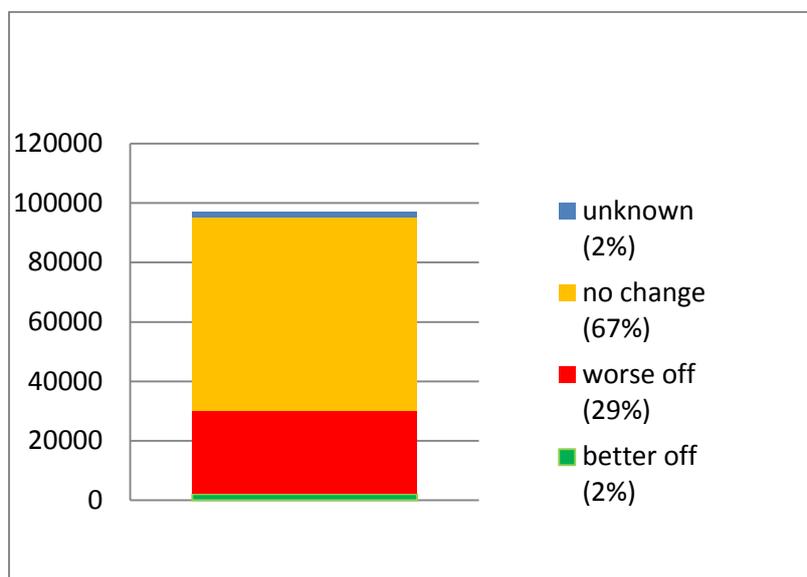


Chart 5 indicates that most people with disabilities (67%) who entered income support in 2006-07 experienced no short-term change in their incomes as a result of the policy (for the most part, they had a 'work capacity' of less than 15 hours a week and were still eligible for DSP). A small proportion (3%) increased their incomes as a result of an increase in earnings brought about by the policy. However, almost ten times as many (29%) experienced a loss of income as a result of the policy as they were diverted from DSP to the lower NSA without increasing their job prospects. Financial outcomes for people with disabilities were far worse than for sole parents due to their weaker employment outcomes.

Since I have not taken account of the costs of working, Chart 5 is likely to represent an upper bound of the proportion of people with disabilities who were financially better off due to the policy (as distinct from those whose disposable incomes rose). Chart 6 shows the results of a sensitivity analysis where financial outcomes for those whose disposable incomes rose due to the policy are classified as 'unknown'.<sup>25</sup> Thus, some move from the 'better off' category to the 'unknown' category. When this alternative assumption is adopted, the overall distribution of outcomes is not greatly affected. However, only 2% are estimated to have increased their incomes as a result of the policy, one fifteenth of the proportion who experienced a loss of income.

<sup>25</sup> This sensitivity analysis is undertaken to account for the possibility that some of these people with disabilities were no better off financially, due to the combined effects of the NSA income test and the costs of employment. See discussion in 'research questions and assumptions'.

**Chart 6: Financial impact of Welfare to Work on people with disabilities (with work capacity less than 30 hours pw) entering income support in 2006-07 (alternative assumption)**



## Conclusions

This analysis of the effect of the Welfare to Work policy on the disposable income of sole parents and people with disabilities entering income support during 2006-07 finds that most experienced no short-term change in their incomes as a result of the policy. The main reason for this was that they were still eligible for pension payments and were not required to seek employment. This included sole parents with a child under 6 years who were still eligible for the higher PP payment and people with a work capacity of less than 15 hours a week who were still eligible for DSP.

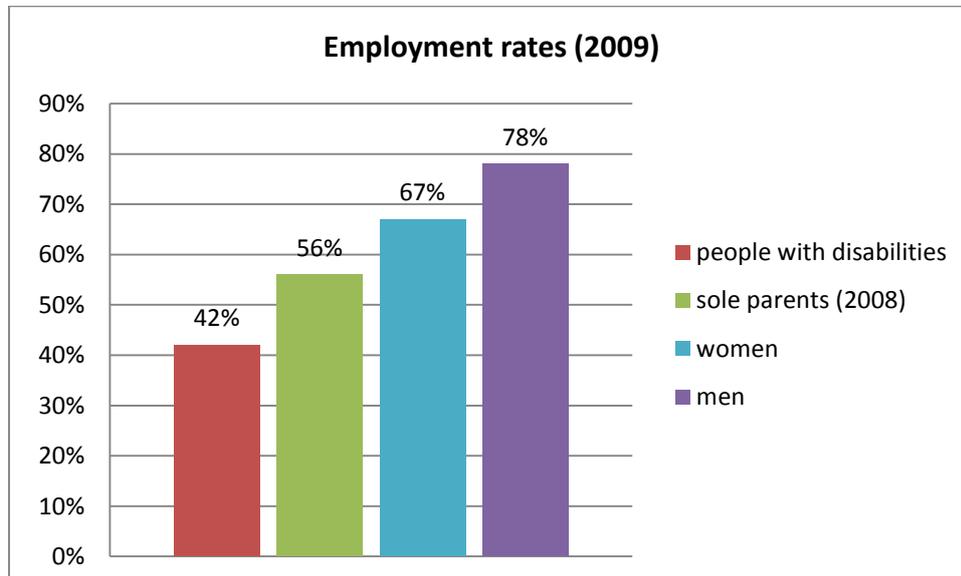
However, those sustaining income losses (compared with pre Welfare to Work policy settings) outnumbered those who gained disposable income as a result of the policy by almost 2:1 among sole parents and by almost 10:1 among people with disabilities. Among sole parents, 5% gained income and 9% lost income while among people with disabilities 3% gained and 29% lost.

One reason that the numbers sustaining income losses exceeded those who gained income was the policy's modest employment impacts. The policy increased the probability of higher earnings in the short term (6 months after commencement of income support under the new rules) by around 10 percentage points. This is consistent with the magnitude of the employment impacts of welfare to work policies for people with significant barriers to employment here and overseas.<sup>26</sup> Employment impacts of this size can have a substantial effect on reliance on income support if they are recorded consistently over a number of years, but the increase in the probability of employment for individuals targeted by these policies is not large.

<sup>26</sup> For example, Customised Assistance within the Job Network in Australia, the New Deal for Young People in the UK, and compulsory employment assistance programs for long term unemployed people and people with disabilities in the Netherlands. See DEWR (2006); De Giorgi G (2005); Sol et al (2008).

In addition, these increases in earnings came off a very low base for people with disabilities affected by the policy. This explains their relatively poor financial outcomes. Graph 11 compares the employment rates in 2009 of people with disabilities with a significant activity restriction, sole parents, and men and women of working age generally. The employment rate for people with disabilities was well below community average levels.

**Graph 11**



Source: ABS Labour Force and Disability and Carer surveys.

The other major reason that the number of income 'losers' exceeded income 'gainers' from the policy was the diversion of applicants for income support to lower 'allowance' payments in lieu of the higher pension payments. Those diverted to lower payments who did not increase their earnings were financially worse off. The income losses were substantial in comparison with maximum rates of income support at the time. For example, a person with a disability with no private income who was diverted from DSP to NSA lost \$46 per week and a sole parent without earnings diverted from PP to NSA lost \$29 per week. The gaps between pension and allowance payments have since widened (due to different indexation arrangements and a one-off increase in pension payments in 2010) to \$128 per week for people with disabilities and \$56 per week for sole parents (as at June 2011). In addition, for those with part time earnings, these income losses were compounded by the tighter income tests that applied to allowance payments.

A significant finding of this study is that placing sole parents on the lower NSA payment instead of the higher PP payment did not increase exits from income support (most of which were to employment), beyond the mechanical effects of the tighter NSA income test. The main impact of placing them on lower payments was to reduce their incomes in most cases. This raises an important policy question: whether it would be fairer (in reducing poverty and income inequality) and just as efficient (in improving employment outcomes and reducing reliance on income support) to 'activate' income support recipients on the higher pension payments as was done with many sole parents in the Welfare to Work policy.<sup>27</sup> Under the

<sup>27</sup> 'Grandfathered' sole parents whose youngest child was over 5 years old retained the higher PP payment but from July 2007 faced the same activity requirements and received the same supports as those new entrants to income support who were diverted to NSA.

assumptions used in this study, this would have eliminated the income losses among people with disabilities and sole parents identified here.

This study has a number of limitations due to a lack of relevant data. Since data were not available on the distribution of earnings (as distinct from employment outcomes) or work related costs among those targeted by the policy, it was not possible to estimate with any precision the distributional impact of the policy or the proportions of people with disabilities and sole parents who were financially better or worse off as a result of the policy. Further, the authors of the official evaluation whose data this study uses state that their estimates of the employment impact of the policy are only indicative though they appear to be robust.

The study only estimates the short term impacts of the policy on new entrants to income support during 2006-07. No estimates are made of the 'diversionary' impact of the policy in discouraging people from applying for payments. The official evaluation of the Welfare to Work policy indicates that entries to income support among sole parents with older children (who were placed on NSA) declined substantially in 2006-07 compared with previous years, though this did not occur among people with disabilities.<sup>28</sup> Estimating the policy's impact on those who did *not* enter income support would pose a major challenge for research given the difficulty of identifying those within the target groups who were not in receipt of income support but would have been eligible under the previous rules. Yet this question must be answered if we are to understand the impact of the policy on the financial circumstances of those affected.<sup>29</sup>

Further, it is not clear whether employment impacts and income losses were sustained beyond the 6 month window (from commencement of income support) observed in this study, and whether income 'gainers' and 'losers' were similarly distributed after 2006-07.<sup>30</sup>

A rough indication of the extent to which income losses were sustained in subsequent years can be gleaned from the numbers of people with a partial work capacity and sole parents on NSA and YA. Graph 12 shows that in 2009, there were 95,899 people with a partial work capacity and 22,206 sole parents on NSA or YA. This compares with 757,000 DSP recipients and almost 344,000 sole parents on PP in that year.<sup>31</sup> It is likely that most of these 100,000 or so people with disabilities and sole parents on NSA would have been eligible for the higher pension payments under the pre-Welfare to Work payment regime.

---

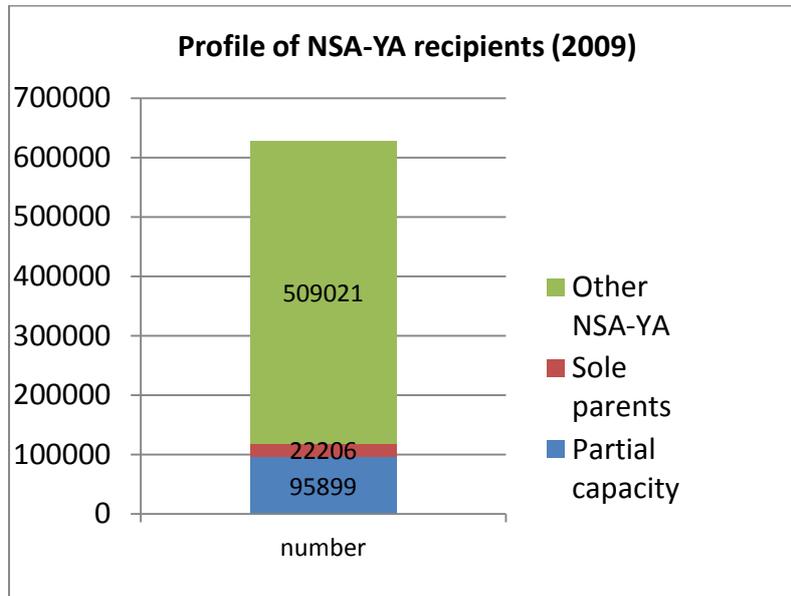
<sup>28</sup> DEEWR (2008), p25.

<sup>29</sup> Moffitt R, et al (2002).

<sup>30</sup> The latter question is partially answered by a response to a Senate Estimates question about exits from income support among people with disabilities and sole parents from the commencement of Welfare to Work in 2006 through to May 2009. The probabilities of exits from income support after 6 months were broadly similar to those observed in the official evaluation during 2006-07. See DEEWR (2010).

<sup>31</sup> FACHSIA (2011).

**Graph 12: Reliance on Newstart and Youth Allowance among sole parents and people with a partial work capacity (2009)**



Sources: DEEWR (2010), Response to Senate Estimates questions EW0020\_10 and EW0021\_10.

Given the long standing policy emphasis here and overseas on greater engagement with the labour market as a means of reducing poverty and reliance on income support, it is clear that employment participation or 'welfare to work' policies are here to stay. The impact of the 2006 Welfare to Work policy on the incomes of sole parents and people with disabilities suggests that Australia has not yet struck the right balance between income protection, activation and capacity building for those with limited job opportunities.

## References

ACOSS (2005), *Submission to Senate Inquiry into The Employment and Workplace Relations (Welfare to Work) Bill 2005*, Senate Community Affairs Committee, Canberra.

Blaxland M (2007), *Calculating welfare to work*, presented at *Road to Where? The Politics and Practice of Implementing Welfare-to-Work*, Brisbane 17 July 2006.

Bitler M et al (2003), *What mean impacts miss*, NBER Working Paper No 1012, National Bureau of Economic Research, Massachusetts.

Blank R (2002), *Evaluating welfare reform in the US*. NBER Working paper No 8983, National Bureau of Economic Research, Massachusetts

Bloom D & Michalopoulos G (2001), *How welfare and work policies affect employment and income*, Manpower Development Research Corporation, New York.

Cortis N, Cowling S, & Meagher G (2008), *Welfare to work and vulnerable parents and young people in Australia - lessons from international experience*, presentation at ARACY workshop University of Sydney 13 February 2008.

Cox E & Priest T (2007), *Welfare to work: at what cost to parenting?* NSW Office for Women, Sydney.

[http://www.women.nsw.gov.au/PDF/Welfare\\_to\\_Work\\_At\\_what\\_cost\\_to\\_parenting.pdf](http://www.women.nsw.gov.au/PDF/Welfare_to_Work_At_what_cost_to_parenting.pdf)

De Giorgi G (2005), *Long term effects of a mandatory multi-stage program the New Deal for Young People in the UK*, Institute for Fiscal Studies Working Paper No 5/08, London.

DEEWR (2010), *Response to Senate Estimates questions EW0023\_10 and EW0025\_10*, Senate Education, Employment and Workplace Relations Committee, Canberra.

DEEWR 2008, *Welfare to Work evaluation*, Department of Education, Employment and Workplace Relations, Canberra.

DEWR (2006), *Customised assistance, job search training, and work for the dole, a net impact study*, Department of Employment and Workplace Relations, Canberra.

DEWR 2005, *Submission to Senate Inquiry into Employment and Workplace Relations (Welfare to Work) Bill 2005*, Senate Community Affairs Committee, Canberra.

Edin K & Lein L (1997), *Making ends meet*, Russell Sage Foundation.

FAHCSIA (2011), *Income support customers a statistical overview 2009*, Statistical Paper No 8, Department of Families and Housing Community Services and Indigenous Affairs, Canberra.

Grogger J, Haider S, & Klerman J (2003), *Why did the welfare rolls falls fall during the 1990s, the importance of entry*, American Economic Review Vol 93 No 2, pp288-292.

Harding A, et al (2005a), *The Distributional Impact of the Proposed Welfare-to-Work Reforms Upon Sole Parents*, National Centre for Social and Economic Modelling, Canberra.

Harding A, et al (2005b), *The Distributional Impact of the Proposed Welfare-to-Work Reforms Upon People With Disabilities*, National Centre for Social and Economic Modelling, Canberra.

Loprest P & Zedlewski S (2006), *The changing role of welfare in the lives of low income families with children*, Urban Institute.

Moffitt R, et al (2003), *A study of TANF non entrants*. Report for Dept of Health and Human Services.

Senate Community Affairs Committee (2005), *Report of inquiry into Employment and Workplace Relations (Welfare to Work) Bill 2005*, Canberra.

Sol E, Sichert M, van Lieshout H, & Koning T (2008), *Activation as a socio-economic and legal concept, laboratorium the Netherlands*, in Eichhorst W et al, *Bringing the jobless into work?* Springer, Heidelberg.

Treasurer (2011), *Budget measures*, Australian Government, Canberra.