

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

Moving sole parents into employment

Sole parents are a diverse group: some are ready and able to work while others face multiple barriers to employment.

National and international evidence indicates that effective support for clients who are some distance from employment includes focussing on confidence, raising skill and employability levels, specialist services that increase levels of social participation and addressing mental health barriers.

Successful interventions for work-ready sole parents focus on providing financial incentives and reducing external barriers, for example improving access to quality childcare and finding jobs with family-friendly hours.

New Zealand has promoted employment of sole parents through introducing:

- the Independent Family Tax Credit in July 1996 (later renamed the Child Tax Credit) payable to families not in receiving an income-tested benefit or New Zealand Superannuation.
- abatement rates that encourage sole parents receiving Domestic Purposes and Widow's Benefits to work part-time in July 1996
- work-testing for sole parents with children over the age of 6 (coinciding with an 8% decline in DPB numbers) and subsequent replacement with Enhanced Case Management (coinciding with a 4% decline in DPB numbers).

Increased financial support for working has been shown both nationally and internationally to help encourage sole parents into full or part time work

Increased financial support works by:

- providing a financial incentive to work
- removing or reduce financial barriers (e.g. cost of childcare, transportation to work, reduced entitlement abatements)
- reducing the risks of moving from benefit into work by providing a stable source of income.

In-work benefits similar to the in-work tax credit have been shown by the OECD to effectively improve work incentives. Transfers similar to the in-work tax credit in the US and UK have resulted in an increase of sole parents' employment rates of around five percentage points.

Recent changes to financial support in New Zealand

Recent changes to financial incentives include increases in subsidised childcare and the introduction of the in-work tax credit over the period October 2004-April 2007.

The changes to financial incentives and support for work, including subsidised childcare, that are part of the Working for Families package have changed the labour market behaviour of thousands of sole parents in a range of ways.

This summary sheet presents findings about

1. changes in sole parents' employment rates and
2. the length of time sole parents spend on and off benefit.

One of the objectives of the policy was "making work pay". These two indicators are complementary measures of the impact of the "making work pay" approach on sole parents' labour market outcomes.

Over the period the policy changes were implemented (October 2004 – April 2007) New Zealand had a strong economy and tight labour market. These economic factors may have contributed to the changes in sole parents' benefit receipt patterns and employment seen over this period. This work estimates the effects of increased financial incentives and support for work on sole parents over and above the strong economy of the time.

More recently, the economy has experienced a down turn which will have affected employment outcomes and benefit receipt rates of sole parents.

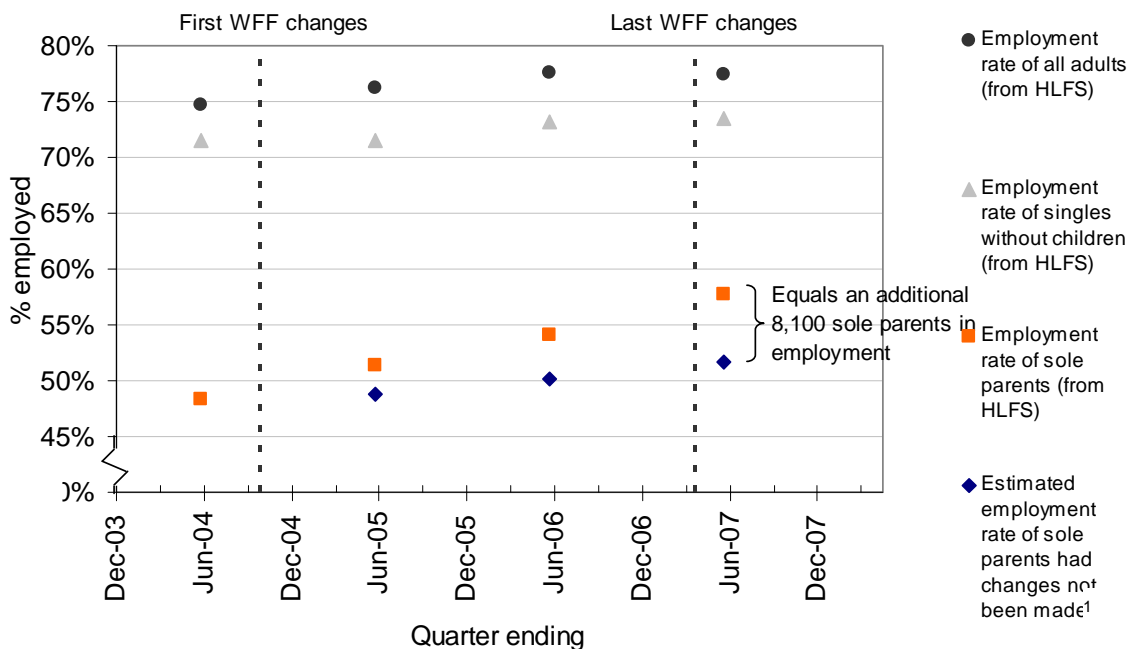
Impact on sole parents' employment

In June 2007 there were an estimated additional 8,100 sole parents engaged in some paid employment as a result of the policy changes.

Over the period of implementation the proportion of sole parents participating in some paid employment increased to the highest levels seen in the Household Labour Force Survey (HLFS) to date.

- Between June 2004 and June 2008, the percentage of sole parents in paid employment for at least one hour per week increased from 48% to 58%.
- Around two-thirds of the increased employment rate of sole parents was due to changes in tax credits and social assistance. In June 2007, there were an estimated additional 8,100 sole parents engaged in some paid employment as a result of the policy changes (Figure 1).
- The growth in sole parents' employment was more than that experienced by single people without dependent children and by the entire population over this period.

Figure 1: Percentage of adults aged 18-64 who are working at least one hour a week



Source: Calculations based on unpublished Household Labour Force Survey data, June quarters.

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 when all the policy changes were implemented.

Increased numbers of sole parents are working 20 hours or more.

- 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 the policy changes in financial incentives and support.
- Over the period of implementation 12% of all sole parents moved from not working at all to having some employment.

There was an increase in the rate of full-time employment during April 2004 to March 2007, the period of implementation, but part-time employment (less than 30 hours a week) remained stable. The stable part-time employment rate is due to some sole parents moving into work from not working at all and others moving from part-time to full-time employment.

Impact on numbers of sole parents receiving benefit

Numbers of DPB recipients fell by 12% from March 2004 to March 2008.

Sole parents' periods of benefit receipt are shorter.

Sole parents previously on benefit are staying off benefit much longer.

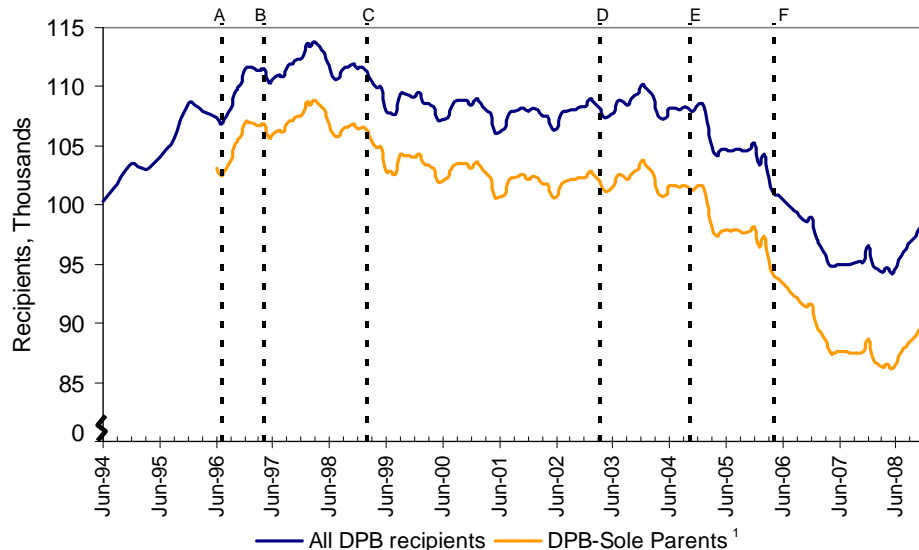
With the introduction of the policy changes providing greater financial incentives and support for work:

- Numbers of *all DPB recipients* fell by 13,500 (12%) from 107,900 at the end of March 2004 to 94,300 at the end of March 2008. Immediately prior to the policy changes,

numbers of DPB recipients had been fairly constant year to year. At the end of December 2008 there was an increase, to 98,700 DPB recipients, likely to be a result of the recent economic downturn.

- Within the group of all DPB recipients the *number of working age DPB-Sole Parent* recipients fell by 15% (15,000) to 86,300 over the same period.
- The percentage of *sole parents who were receiving a main benefit* would have been around 10 percentage points greater in the June quarter of 2007 if the policy changes had not been made.
- The policy changes appear to have had more of an impact on those sole parent beneficiaries who already had some labour market attachment. The number of *DPB-Sole Parent recipients who had some income from other sources* (an indicator of labour market participation) fell by 24% over the period March 2004 to March 2008. The large decline in the numbers of DPB-Sole Parents receiving some income indicates that more of those already working moved off benefit.
- The numbers of people who are *new to receipt of the DPB-Sole Parent* benefit have been reducing. From the year ending March 2004 to the year ending March 2008 the number of new entrants dropped by 6%.
- The results from survival analysis of DPB-Sole Parent receipt, which look at changes in duration of benefit receipt and time off benefit, show that the policy changes have affected DPB-Sole Parent numbers by **speeding exit from benefit** and by **reducing the rate at which sole parents return to benefit** once they have left.

Figure 2: Number of Domestic Purposes Benefit recipients, 1994 – 2008



A= Dual abatement introduced (different abatement rates for work tested and non work-tested benefits)

B= Part-time work-or-training test for parents whose oldest child is aged 14 or over

C= Full-time (youngest child aged 14+) part-time (youngest child aged 6-13) work-tests introduced

D= Enhanced case management introduced. Work tests removed

E= First WFF changes

F= Changes to WFF Tax Credits abatements and thresholds and introduction of in-work tax credit

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

Source: MSD Information Analysis Platform.

Barriers to work remain

For those sole parents who consider themselves available to work the main barrier is finding a job that suits them.

An estimated two out of five unemployed sole parents consider themselves available to work.

After finding a job that suits them (77% of sole parents available for work), the next most important barriers were:

- getting work that pays enough (67% of sole parents available for work)
- getting enough hours for the job to be worthwhile (66% of sole parents available for work)
- having the skills employers want (64% of sole parents available for work).

Methods

Shifts in sole parents' employment and benefit receipt patterns were examined by:

- Difference-in-differences analysis looking at changes in labour force participation of sole parents using data from the Household Labour Force Survey (HLFS).
- Survival analysis looking at changes in the length of time sole parents spend on and off benefit using a research dataset of linked MSD and IR administrative information for all DPB-Sole Parent recipients

The difference-in-differences and survival analysis results are not directly comparable but, rather, capture two aspects of the effect. These are internationally recognised methods that control for the effects of the strong economy that prevailed through the period of implementation. The two approaches were chosen because of their appropriateness in terms of the two outcomes measured, the data available and their complementary strengths.

Full details of the methods will be available in a technical report.

About the policy changes and sole parents

The policy changes that were made as part of the Working for Families package combined substantial changes to in-work incentives and family entitlements with additional support to meet childcare and accommodation costs. The in-work tax credit provides an incentive for sole parents to work at least 20 hours per week.

Many low income families were little or no better off in low-paid employment once work-related costs, benefit abatement, other entitlement abatements (e.g. Accommodation Supplement, tax credits and Childcare Assistance) and tax were taken into account. In particular, those with low earnings potential who needed to use paid childcare were worse off in paid work than on benefit. Qualitative interviews with sole parents carried out in the years prior to the policy changes consistently found that a lack of financial incentives to take up paid work kept some sole parents on benefit.

The Ministry of Social Development and Inland Revenue wrote this report jointly as part of the evaluation of Working for Families, to look at the effect of financial incentives and support for work.