

Commission on Poverty (CoP)

“From Welfare to Self-reliance” – Disregarded Earnings

PURPOSE

The purpose of this paper is to seek Members’ view on the review of the provision of disregarded earnings (DE) and the initial thinkings on how to promote “Welfare to Self-reliance” under the Comprehensive Social Security Assistance (CSSA) Scheme.

ADVICE SOUGHT

2. On DE, Members are requested to advise on the recommendations as follow :

- (a) raise the ‘no-deduction’ limit of monthly DE from \$600 to \$800;
- (b) relax the rule to allow CSSA cases to be eligible for DE from not less than three months to not less than two months;
- (c) maintain the maximum level of DE; and
- (d) maintain no time limit on DE.

3. On “Welfare to Self-reliance”, Members may wish to note the preliminary views of Social Welfare Advisory Committee (SWAC) after its visits to Australia, New Zealand, the United States and Canada in 2006. Any comments from Members are welcome.

BACKGROUND

4. At the CoP meeting held on 13 June, it was agreed that :

- (a) Health, Welfare and Food Bureau (HWFB) would conduct a more detailed examination of the existing DE arrangements in consultation with SWAC; and
- (b) HWFB/SWAC need to study the broad policy direction and interface issues to provide support to those employable able-bodied CSSA recipients to rejoin the labour market.

(A) REVIEW OF DE

Purpose of DE

5. DE refers to the earnings from employment that are disregarded when assessing the amount of CSSA payable. The provision of DE aims to allow CSSA recipients who work to be financially better off than those relying entirely on welfare, thus encouraging those who can work to find and remain in employment.

Changes to the DE arrangements in 2003

6. In June 2003, we raised the maximum level of monthly DE from \$1,805 to \$2,500 and its “no-deduction limit” from \$451 to \$600, while at the same time introducing the rule of allowing no DE for CSSA recipients in cases which have been on CSSA for less than three months. These changes were implemented on a time-limited basis for three years subject to review. We have completed the review and briefed SWAC on the findings.

Current Arrangements

7. The current arrangements of DE are as follows:
- (a) At present, the monthly earnings of CSSA recipients can be partially disregarded up to a maximum of \$2,500. The first \$600 of the monthly earnings (the “no-deduction” limit) and 50% of the remaining monthly earnings are disregarded up to a maximum of \$2,500 :

Earnings	Level of disregard	Maximum amount to be disregarded
First \$600	100%	\$600
Next \$3,800	50%	\$1,900
\$4,400 or above	The first \$600 and half of next \$3,800	\$2,500

- (b) All categories of CSSA cases that have been in the net for not less than three months can benefit from the provision of DE.
- (c) The first month's income from a new job can be totally disregarded on condition that the recipient has not benefited from this provision during the past two years. This provides an added incentive for unemployed CSSA recipients to find work.

Relevant Considerations

8. The provision of DE under the CSSA Scheme is a very complex issue. On the one hand, there appears a case for providing CSSA recipients with more financial incentives through the provision of DE to find and remain in employment. On the other hand, more generous DE may render more people eligible for CSSA and delay their exit from the system.

9. The total amount of earnings of CSSA recipients that is disregarded has risen significantly over the recent past, because of various improvements on DE and the growing number of CSSA cases involving able-bodied adults. It soared from \$298.9 million (equivalent to 2.1% of total CSSA expenditure) in 2001-02 to \$830.7 million (equivalent to 4.7% of total CSSA expenditure) in 2005-06, up \$531.8 million or 178%. Over the same period, by comparison, total expenditure on CSSA went up by 23.3%.

Recommendations

10. We have examined some possible options and recommend to improve the provision of DE as follows.

(a) Raise the “no-deduction” limit from \$600 to \$800

11. The current “no-deduction” limit was last raised in June 2003 by 33% from \$451 to \$600. There has been a suggestion that the “no-deduction” limit should be adjusted upwards to allow those earning a relatively small income from part-time or casual work to retain more of their income. We have examined the options of raising the “no-deduction” limit of monthly DE to various levels at \$700, \$800 or \$900 and recommend a moderate increase from \$600 to \$800. (The financial implication would be \$23 million per annum, benefiting approximately 19 600 recipients.) Our considerations are :

- (i) With the implementation of the New Dawn Project¹ since April 2006, it is expected that more single parents and child carers will find part-time jobs. In recognition of the costs of meals taken at work and other employment-related expenses, for example, clothing and transport costs, a moderate increase of \$200 in the “no-deduction” limit should provide more incentives for CSSA recipients to take up part-time or casual employment if this is all that is available. Part-time and occasional jobs do help welfare recipients maintain contact with the labour market, thus providing them with more opportunities to improve their employability and find a full-time job. It is hoped that through developing a working habit, CSSA recipients will ultimately be self-reliant and leave the CSSA net.
- (ii) We have looked into the possibility of raising the no-deduction limit to \$700 but an increase of \$100 might not be significant to make any impact. On the other hand, if we raise the limit to \$900, which represents a 50% increase in the DE, it might encourage more people to enter the CSSA net, thus increasing the caseload and welfare costs. There is also the danger that some people may choose to remain on CSSA and not to make any real effort to find more remunerative or full time employment.

¹ Under the New Dawn Project, CSSA single parents and child carers with the youngest child aged 12 to 14 are required to seek part-time employment (defined as a paid job entailing not less than 32 hours a month).

(b) Relax the “no DE for the first three months” rule to a two-month rule

12. In the 2003 changes to the DE arrangements, we introduced the rule of allowing no DE for recipients in cases which have been on CSSA for less than three months (the “no DE for the first three months” rule) to prevent those considered to have sufficient means to meet their basic needs from gaining entry into the welfare system. Some groups have criticized the “no DE for the first three months” rule as a disincentive for newly admitted able-bodied CSSA recipients to seek employment in the first three months and call for abolition of this rule. We have examined the desirability of abolishing the rule or relaxing the requirement. We recommend relaxing the rule to a “two-month” rule on the following considerations :

- (i) Abolishing the rule altogether may allow those who are in employment and at income level not eligible for assistance under the current arrangement to become eligible as a result of removing the “three-month” rule. For example, for a 4-person family that is eligible for a monthly payment of \$9,200, if the family has a monthly income of \$9,200, under the current arrangement of no DE deduction for the first three months, this family is not eligible to receive CSSA payment. If the “three-month” rule is removed altogether, due to eligibility for DE deduction, this family becomes eligible for CSSA payment of \$2,500 on top of the family income of \$9,200, thus giving the family a total of \$11,700 per month. It is not possible to make a guess at the number of households that would enter the welfare rolls and the additional expenditure.
- (ii) On the other hand, based on the findings of the review of the DE arrangements, there is no evidence of the ‘no DE for the first three months’ rule act as a strong disincentive to work for newly admitted unemployed recipients.
- (iii) Relaxing the “three-month” rule to “two-month” may encourage existing CSSA recipients to seek employment earlier and it would still have the effect of discouraging those outside the CSSA net to gain entry to the welfare system.

- (iv) We have also examined the option of further relaxing the rule to a “one-month” rule but consider that it may not be sufficient to deter those who have sufficient means to meet their basic needs from entering the CSSA net by temporarily suspending their employment.

(c) *Maintain the maximum level of DE*

13. The existing maximum level of DE was increased from \$1,805 to \$2,500 in June 2003. Now and then there are calls from concern groups to increase the maximum level of monthly DE. We consider that there is no case for further raising the maximum level of monthly DE. The arguments are as follows :

- (i) The basic assumption of DE is that if CSSA recipients are allowed to keep more of their earnings, they would have more incentives to work, and that if more recipients take up employment, the government would spend less on welfare. However, the other side of the coin is that higher maximum DE would allow those who would have worked anyway to receive higher welfare benefits, make more people eligible for welfare, encourage more people to enter the net, and keep people on welfare longer, thus increasing the welfare caseload and spending.
- (ii) At the end of March 2006, only 14 114 or 52% of the employable recipient in paid employment earned a monthly income which is sufficient to allow them to enjoy the maximum level of monthly DE. We have no evidence that there is an unmet demand for higher rates of DE.
- (iii) The current benefit levels for larger households are already appreciably higher than market wages for low-skilled jobs. A higher level of monthly DE will further push the total resources of CSSA families with an employed member further above market wages.
- (iv) The experience of the recent visit of some SWAC members to the US and Canada tells that there is no clear study result showing that DE creates incentives for work.

14. In this light, we do not propose any increase in the level of the maximum amount of DE.

(d) Maintain no time limit on DE

15. There has been suggestion to provide CSSA recipients a more generous monthly DE with a time limit whereby the maximum level of monthly DE will decline over time and be phased out after a certain period. We do not consider it desirable to set a time limit on DE. Our considerations are as follows :

- (i) Those who reach the time limit would have no incentive to continue working as they would lose a dollar of benefit for every dollar they earn. It is likely that many of the low-income recipients would choose to cease working altogether to avoid being “penalized” when they are no longer eligible for DE. It is the case that there are some working poor who genuinely cannot achieve self-sufficiency through no fault of their own.
- (ii) Operationally, the proposal would be complex to administer and difficult for the recipients to understand, given the large number of recipients and the fact that many recipients cycle on and off welfare. It would require development of a computer system to count individual CSSA recipients’ months of receipt of DE and calculate their DE entitlement based on their earnings and their “DE clock” status.

Consultation with SWAC

16. We briefed SWAC on the proposal in para. 2 above on 1 December 2006. Members had no objection to the proposal.

(B) “WELFARE TO SELF-RELIANCE”

17. With a view to promoting “welfare to self-reliance”, SWAC has looked into the social assistance programs in Australia, New Zealand, United States and Canada. A gist of how these places organize their respective welfare to self-reliance programs is set out at Annex.

18. After studying the overseas experience, SWAC members have the following preliminary views on how to promote “welfare to self-reliance” in Hong Kong :

- (a) for the able-bodied unemployed, the best way to lift them from the CSSA net is to assist them in seeking employment. The overseas experience of providing public assistance, employment support and re-training services under one roof or by one co-ordinating body provides useful reference. It is worth considering the possibility of developing an integrated approach or a one-stop service for helping able-bodied CSSA recipients to seek employment, including training/retraining, counselling, job search, job development, work trial opportunities and post-employment support etc.; and
- (b) the idea of introducing a time-limit on the receipt of CSSA payment is a more complicated issue given the “one-household rule” under the scheme and the need to provide subsistence support to those households reaching the time limit, especially the elderly and the children members. Factors like how to limit the requirement and how to manage the impact have to be carefully considered.

19. SWAC has established two ad hoc working groups to follow up on the issues above. Members’ comments on the preliminary views of SWAC are welcome.

Health, Welfare and Food Bureau
Social Welfare Department
December 2006

SWAC Study : Summary Table on Key Features of Social Security Systems

A. Disregarded Earnings (D.E.)

Disregarded Earnings	Australia	New Zealand	The U.S.	Canada
Arrangements	<p>For single recipients, after an initial “free area” of AUD 62 per fortnight, 50% of income up to AUD 142 is withdrawn; a withdrawal rate of 70% thereafter.</p> <p>For partnered recipients, each receives an allowance. If the higher earning partner loses all entitlement to benefit, the spouse’s allowance is reduced of each dollar his/her partner earns in excess of the amount.</p>	<p>The net payment is reduced by 70% of gross earnings for income exceeding NZD 80 per week.</p>	<p><u>New York City</u>: first US\$90 of monthly earnings is disregarded; then 47% of the remaining monthly earnings (in excess of US\$90) is disregarded.</p>	<p><u>British Columbia</u>: Earnings disregard has been abolished since the welfare reform in 2002 that imposed a time limit on welfare payment to employable persons.</p>

B. Welfare to Work/Employment Assistance Programmes

Welfare to Work	Australia	New Zealand	The U.S.	Canada
Requirements for Participation in Work or Community Activities	<p>Client must be doing part-time paid work at least 130 hours over 13 fortnights.</p> <p>Client must participate in Community Work - (150-240 hours in six months).</p> <p>Each applicant has to go through the Job Capability assessment. Can then be referred to an employment support service.</p> <p><u>Employment Programmes</u> Jobs Pathway</p>	<p>Recipients have to enter a Job Seeker Agreement where they agree to look for work or prepare for work. A client's partner may be included in the benefit and may also be asked to enter a Job Seeker Agreement.</p> <p><u>Government Supportive Initiatives</u> Enterprising</p>	<p>Under the Temporary Assistance for Needy Families (TANF) program, recipients must work as soon as job is ready, or no later than two years after coming on assistance.</p> <p>Minimum participation rate of employment activities/training for two-parent families increased to 90% in 1999.</p> <p><u>Employment Activities/Training</u> Single parents have to participate in employment activities/training for at</p>	<p>Ministry of Employment and Income Assistance in British Columbia diverts potential clients through work search and a test of financial independence prior to receiving assistance. Recipients have to have 60-180 days of job search before receiving assistance.</p> <p>Clients able to work should complete an Employment Plan. Each plan is unique, based on a client's strengths and abilities and outlines the necessary steps to move towards employment.</p> <p><u>Employment Programme</u> Service providers work one-on-one with clients.</p>

	<p>Programme - maintain regular contact for at least 6 months with individuals.</p> <p>Job Placement, Employment and Training - maintain regular contact for the length of the program (at least 6 months).</p> <p>Career Planning - involves two small-group sessions.</p> <p>Voluntary work/training courses - Centrelink has a large national register of approved not-for-profit community organisations for voluntary work.</p>	<p>Communities - grants financial assistance to community organisations to design and implement community projects (including employment services)</p> <p>Taskforce Green: supports projects that benefit communities, and provides eligible job seekers with work skills and experience.</p> <p>Activity in the Community programme - allows communities to complete projects and provides positive opportunity for people looking for paid work.</p>	<p>least 30 hours per week and two-parent families for at least 35 hours per week since 2000. Failure to participate in work requirements can result in a reduction or termination of benefits to the family.</p> <p>Activities counted towards participation rate include employment, on the job training, community services, job search and education. But ceilings imposed: no more than 23 months of vocational training; no more than six weeks of job search etc.</p>	<p>Service providers deliver a range of services such as self-directed job searches, workshops on writing resumes, job banks, support for work related expenses and short term certificate training, life skills and work experience.</p> <p>The Confirmed Job Programme assists clients to secure a confirmed job by providing funds for essential items required to begin work.</p>
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<p>Roles of Government and Contractors</p>	<p>Welfare programmes are overseen by Department of Human Services but administered through Centrelink, which is a government agency.</p> <p><u>Agency/Contractor</u></p> <p>Centrelink works under a purchase /provider model with Government. It provides one-stop shop services.</p> <p>The Job Network is an Australia-wide network of organizations dedicated to helping people get and keep a job.</p>	<p>Both social security employment and assistance are administered by the Ministry of Social Development (Work and Income Division).</p>	<p>Federal government provides states with block grants. Individual States design and run their welfare programmes, e.g. New York State's welfare reform provides additional requirements for assistance and creates the Safety Net programme.</p> <p><u>Contractors</u></p> <p>The New York City Human Resource Administration/ Department of Social Services outsourced some of its employment assistance programmes to non-profit making organisations. The funding available is based on the job placements that the organisations had achieved.</p>	<p>Federal Government provides block grants to the Provinces to design and administer social welfare services. British Columbia was the first province to impose a time limit in 2002.</p> <p><u>Contractors</u></p> <p>Employment services are outsourced to three prime contractors which work with more than 80 community-based service providers.</p> <p>Contractors GT Hiring and WCG International are private companies. They provide customized support life skills, training, case coordination, workshops, referrals to community service provider and job placement.</p>
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