A New Zealand Income Insurance Scheme

A discussion document

2 February 2022

BusinessNZ

NZCTU Te Kauae Kaimahi

New Zealand Government

About the Future of Work Tripartite Forum

The Future of Work Tripartite Forum (the Forum), which first met in August 2018, is a partnership between the Government, Business New Zealand (as representatives of business groups) and the New Zealand Council of Trade Unions (as representatives of unions). The Forum aims to support New Zealand businesses and workers to meet the challenges and opportunities presented in a rapidly changing world of work, and provides a place to discuss issues and work together to identify and implement solutions.

Having strong social dialogue can strengthen worker and employer voices on important labour market issues. Policy developed on a tripartite basis is more likely to represent and balance the interests of employers and workers, and to endure.

This discussion document was prepared by the Tripartite Unemployment Insurance Working Group, on behalf of the Forum. The Working Group comprises officials from a range of agencies, and representatives from Business New Zealand, and the New Zealand Council of Trade Unions.

More information about the Forum is available at: www.mbie.govt.nz/business-and-employment/employment-and-skills/future-of-work-tripartite-forum

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Message from the Future of Work Tripartite Forum partners

This discussion document proposes a new way of better protecting workers and the economy: a New Zealand income insurance scheme.

Every year, more than 100,000 New Zealanders are:

- made redundant,
- laid off, or
- have to stop working because of a health condition or disability.

As New Zealand looks to move beyond the economic and social impacts of COVID-19, there are important lessons to be learned from the way in which we were able to support one another through an unprecedented series of challenges.

Government programmes such as the Wage Subsidy Scheme and Resurgence Support Payment aimed to protect New Zealanders' livelihoods and economic wellbeing. This was primarily done through keeping people in their existing jobs and supporting businesses most directly affected by the pandemic.

As we look toward a future where economic activity might be moving toward new sectors and industries, it is appropriate that we consider how we continue to ensure New Zealander's economic security. Future shocks may occur at an international, national or regional level. Equally, individual businesses or workers may find themselves subject to economic displacement for a range of reasons.

Rather than supporting workers to remain attached to their current jobs, as the Government did throughout COVID-19, we need policies that provide economic security to the individual directly and support them to transition into new work, regardless of the source of their displacement.

Few protections are available for people who lose their job. Some receive redundancy payments, but this depends on employment agreements, and is rarely paid if a business fails. Others are supported by welfare, but the drop in income can be large, and many aren't eligible.

This often results in a significant income shock that can affect wellbeing and earnings, even when a person finds new work.

That's because finding a good job takes time. Many people accept lower-paid jobs that don't match their skillset because of the financial pressure to get back to work quickly. Others might not find work, because their skills are no longer needed, as old industries close down or new technologies replace work previously done by people.

These wage losses run into the billions of dollars every year.

People dealing with a health condition might try to keep working to maintain an income, often making their health worse or delaying their recovery. An existing or new disability might mean they need to reduce their work hours or can't keep doing the same job, and they struggle to retrain for a new career.

These outcomes don't just harm individuals and their families, they affect businesses, communities and the economy. In short, everyone.

Businesses lose out on important productivity gains: the current system doesn't give people time to find work that matches the skills they have. Sectors facing critical skill shortages may miss out on key workers, simply because a vacancy wasn't available in the few weeks a worker was desperately looking for work.

People who keep working while unwell are much less productive, and when it takes longer to recover, important skills can be lost. As New Zealand faces a tight labour market and demand for skilled workers, it is in the best interests of workers and businesses that people are employed in areas that make the greatest use of their skills.

Loss of work can affect communities and whānau, especially communities reliant on a major employer. When these businesses shut down, workers have little money to spend, which means other businesses suffer and the community can go into a long-term economic decline lasting for generations. An income insurance scheme could cushion workers and communities from such abrupt income losses, allowing more time to adapt.

We've seen this frequently over the past 40 years, as New Zealand has been struck by economic shocks that have seen even seemingly secure careers affected significantly.

Around 200,000 people lost their jobs and spent time out of work, some for several years, during the late 2000s Global Financial Crisis. The Canterbury earthquakes saw successful businesses close down almost overnight after their facilities were damaged. The COVID-19 pandemic brought our then-largest export earner, tourism, to an abrupt halt. At local levels, many examples can be found, such as the closure of Kawerau's timber mill or Hawkes Bay's Whakatū and Tomoana freezing works.

These economic challenges are likely to become more frequent. Technology could replace more jobs currently done by people, or replace the products and goods we produce. The move to a low-emissions economy will see significant changes in how we do things, and some industries, like oil and gas, will be replaced by others over time. Changing consumer demands, an ageing population and increasing globalisation will all contribute to big shifts in what work we do, what things we produce and what skills we need.

These are confronting challenges, but they also provide exciting possibilities. Since 2006, the value of start-up investment in New Zealand has grown sevenfold. Brand new industries – like our space sector – have emerged and others – like video game development – are growing fast. An income insurance scheme isn't just about helping people find good jobs, it's about giving people the freedom and confidence to enter new sectors, which they might traditionally avoid for fear of not having secure work.

A New Zealand Income Insurance Scheme could play a significant role in better protecting workers and incomes, matching skills with where they are needed, and helping communities and industries during economic shocks and transitions.

The proposed scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work. The proposed scheme would ensure that people losing work due to a health condition or disability would receive the same financial support as people with injuries.

New Zealand is almost alone in the developed world in not having some kind of mandatory, nationwide income insurance scheme or other protection, such as mandatory redundancy payments, for people who lose their jobs.

We believe a New Zealand Income Insurance Scheme could be an important step-change that lets us manage the challenges and harness the opportunities that lie ahead for New Zealand.

The Forum recognises that the proposed scheme most directly benefits working people, but there are also significant benefits for employers. The proposed social insurance scheme would help shift New Zealand to being a higher productivity economy where businesses generate more value and greater returns. The proposal will also create a clearer process for redundancies, with more predictable costs.

Our proposed scheme – which we would like your feedback on – will see workers receive 80 percent of their usual salary for up to seven months. It will cover them if they are made redundant, laid off, or when a health condition or disability means they have to significantly reduce their work hours or stop working entirely. This will give them the time and financial security to find a good job or take part in training or rehabilitation.

The scheme will require people to look for work or take part in training and rehabilitation. It will be funded by levies on wages and salaries, with both workers and employers paying an estimated 1.39 percent each. ACC will manage the scheme.

The challenges of the future are real and inescapable. That’s why Business New Zealand, the New Zealand Council of Trade Unions and the Government have developed this proposal to protect workers, improve productivity and prepare New Zealand for the changing world of work. Now it’s time to hear what the country thinks.

We want to get this right, and we look forward to hearing your views on everything we’ve proposed.

Hon Grant Robertson	Richard Wagstaff	Kirk Hope
Minister of Finance	President	Chief Executive
Te Kāwanatanga o Aotearoa New Zealand Government	NZCTU Te Kauae Kaimahi	BusinessNZ GROWING PROSPERITY AND POTENTIAL

Executive summary

Introduction

Income insurance provides a replacement income when people lose work. The replacement income is usually set at a level close to the amount of lost wages or salaries.

Unlike many countries, New Zealand does not have publicly provided income insurance for people displaced from their jobs (made redundant) or who lose work because of health conditions or disabilities.[1]

This discussion document seeks your views on a New Zealand income insurance scheme for job loss due to displacement or health conditions and disabilities, and on the design of the scheme.

The Government has formed a partnership with union and employer groups - the Tripartite Forum - to support New Zealand businesses and workers to meet the challenges and opportunities presented in a rapidly changing world of work. The Forum considers a good case exists to introduce a new income insurance scheme, and we want to hear your views.

What are we trying to achieve and what challenges do we face?

The Government and its Forum partners are working towards a more productive, sustainable and inclusive economy.

- 'Productive' means living standards are rising, including through adopting new technology, and matching workers to good jobs.
- 'Sustainable' means we are good stewards of our natural environment and that we shift to sustainable industries and jobs.
- 'Inclusive' means everyone shares in growing prosperity. Inclusive also means that people who lose work through no fault of their own are supported back to good jobs – jobs that can provide similar pay and conditions.

Much can be done to make the economy more productive, sustainable and inclusive. In particular, at present, relatively little support is available for people who lose work through no fault of their own, whether due to displacement or because of health conditions and disabilities.

In many countries, such support includes a high level of income replacement, help to find or prepare for work, and help with health conditions.

This low level of support may be why displaced New Zealand workers appear to suffer a bigger wage loss when they do get back to work.[2]

1 Displacement is the involuntary loss of work, due to the disestablishment of a job. Displacement excludes job loss due to poor performance, gross misconduct or resignation. Displacement could arise from restructuring (where a firm's workforce needs to change) or where a firm stops operating. Displacement is a technical term used by economists. Redundancy is often used with the same meaning as displacement.

2 Economists call this effect 'wage scarring'.

Lack of support can also create anxiety because of an uncertain future of work and reluctance to try out new jobs. This could be holding back New Zealand's productivity. The Forum's *Future of Work Strategic Assessment* discusses further the importance of helping people find and keep good jobs, in the context of rapid technological change, climate change, demographic change and globalisation.[i]

To address these issues, the Forum has identified three objectives:

1. minimise the immediate financial impact of losing income and work for workers and their families
2. support workers back to good jobs
3. support the economy to adjust more rapidly to shocks or downturns.

Achieving these objectives calls for both financial and non-financial support for people who lose work. Financial support addresses income loss. Non-financial support includes help to find or prepare for new work or address health conditions.

The Forum sees both financial and non-financial support as equally important, and mutually supporting. In this document, we focus on financial support because it is a particular gap in New Zealand.

Effective financial support would promote our objectives by:

- reducing the impact of sudden large income losses, allowing people time to adjust their circumstances
- reducing the financial pressure to find a new job quickly, allowing time for a thorough job search and to obtain new skills
- maintaining consumer spending through economic shocks and downturns, and keeping people connected to their employers.

We see this approach as a mutual commitment by society and government to provide effective support to workers through change, treating them with dignity and empathy. It would also let workers actively search for work that suits their skills and experience, and engage in programmes that will help in that, or in training.

What are the options for financial support and how effective would they be?

Different approaches can be used for ensuring financial support for people who lose work. The main approaches are:

- personal savings and loans
- welfare payments
- redundancy payments
- income insurance (provided by the private market or government to ensure wide coverage as 'social insurance').

The Forum has thought about the effectiveness of each, balancing the criteria below:

- coverage – ensuring as many people as possible can be covered
- adequacy – ensuring a replacement income that is close to lost wages and salaries, while people adjust their circumstances
- equity – ensuring people are treated fairly and improving outcomes for the most disadvantaged
- incentives – encouraging people to return to good work
- affordability – ensuring the costs are reasonable
- coherence – ensuring alignment with other systems, including the tax and welfare system, and good employment practice.

Each of the financial support approaches is available, to some extent, in New Zealand now, with the exception of social insurance for income loss. Privately provided income insurance options have low take up and fail to cover most workers, particularly those who need it. The situation is similar with private savings. Governments in most developed countries provide income protection insurance because they can ensure lower costs, and wider coverage, than private markets.

Having considered the evidence, the Forum believes that the lack of an income insurance scheme is a significant gap in New Zealand. Compared with other approaches, an income insurance scheme could most effectively and affordably ensure a replacement income that is close to lost wages, for a reasonable time, with wide coverage.

The accident compensation scheme is an example of a compulsory social insurance scheme that provides a relatively high replacement rate (80 percent of lost income), with wide coverage, for people who lose income due to accidents. An income insurance scheme for involuntary, no-fault job loss could provide the same income protection.

As in many countries, an income insurance scheme could complement the welfare system. Even with an insurance system in place, a welfare system is still needed to support people not eligible for insurance, or whose eligibility has lapsed. The Forum strongly supports the continued overhaul of the welfare system.

What are the benefits of a social insurance scheme for income loss?

Introducing an income insurance scheme would be a significant reform, perhaps the largest of its kind since the introduction of the accident compensation scheme in 1974. A new income insurance scheme would impose additional costs – and provide additional benefits – across the whole workforce.

The Forum is confident an income insurance scheme would effectively minimise the immediate financial impact of losing income and work for workers and their families, especially through broad coverage and a relatively high replacement rate. Such a scheme would ensure that a wider range of people losing work would receive support than currently, and receive a higher level of support. Working people would contribute a modest portion of their wages in exchange for a high level of income protection and the peace of mind that brings.

The Forum expects an income insurance scheme would help people return to good jobs, especially with investment in effective support to find and prepare for work. This is a critical objective.

Compared with workers in other countries, displaced New Zealand workers appear to experience greater wage losses when they return to work, suggesting poor use of their skills, lower income and poorer conditions. With insurance payments that are close to the level of lost wages, paid for a reasonable period, workers would have a chance to find the right job, upskill or retrain, or address health conditions. Insurance payments would give workers opportunities they do not currently have.

The overall wage losses arising from the displacement of New Zealand workers are substantial. Independent economic analysis suggests these costs could amount to $15.4 billion per year over the first five years following job loss alone, assuming the displacement of 100,000 working people in a year.[ii] This figure includes both wages lost by workers while unemployed and lower wages when they are re-employed. Wage losses arising from health conditions are additional to these estimates.

The proposed scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

In particular, the amount of financial assistance that people may receive from the social insurance-based accident compensation scheme is usually higher than the family income-tested payments provided through the welfare system.

The proposed scheme would make payments equivalent to ACC weekly compensation, for up to six months. Like ACC, those payments would be unaffected by any assets, or partner earnings.

The Forum recognises that the proposed scheme most directly benefits working people, but there are also benefits for employers. Through improving the skills available to employers, the proposed social insurance scheme would help shift New Zealand to being a higher productivity economy where businesses generate more value and greater returns. Helping workers find and keep decent jobs is also in the interest of employers, who benefit from access to skilled workers.

The scheme also offers advantages for employers over alternatives such as tenure-based mandatory redundancy payments through sharing costs with workers, and through predictable and smooth costs over time, and a clearer process for redundancies. The Forum is also confident an income insurance scheme would support the wider economy by maintaining consumer spending through economic shocks, and keeping people connected to their employers.[3]

Finally, the Forum is confident an insurance scheme can be designed to be equitable, affordable and coherent with related policies.

What would an income insurance scheme cost?

Through compulsory participation, social insurance schemes can reduce the costs that individual workers face. The accident compensation scheme achieves low personal cost through universal coverage.

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[3] An income insurance scheme could help keep employees connected to their employers during a severe economic shock by delivering a wage subsidy policy.

Estimating the cost of an individual insurance claim is straightforward. Estimating the costs across the whole workforce is much more difficult because we cannot be sure how many people would claim insurance due to either displacement or a health condition or disability.

Our current data on displacement and health conditions is limited, and the actual levels are probably higher. The introduction of the scheme would increase the time people spend out of work as they look for the best-matching job, prepare for work or manage health conditions and disabilities. These responses will add to the scheme's costs but are an important part of its value.

We have looked at various ways of estimating the costs of a new income insurance scheme. Given the significant level of displacement that is not observable in current data, and the challenges with precisely forecasting the scale and pace of behavioural change, the approaches identified a range of possible costs. We have proposed an initial levy that reflects a total annual cost of $3.54 billion. This, in our view, reflects a reasonable scenario of likely uptake of the scheme.

The costs are significant in total, but the individual costs are relatively modest and proportionate to income. A worker's pre-loss income would determine their levies, and the size of their insurance payments. Levies and insurance payments would be lower for lower-income people, and higher for higher-income people.

Everyone's situation will be different, reflecting their circumstances. The following are some illustrative examples for people who usually work 40 hours per week, and experience complete loss of work.

- A person working 40 hours per week, earning $880 (before tax), would pay $12.23 a week in social insurance levies. This person would receive $704 (before tax) per week in insurance payments, for complete loss of work.
- A person working 40 hours per week, earning $1160 (before tax), would pay $16.12 a week in social insurance levies. This person would receive $928 (before tax) per week in insurance payments, for complete loss of work.
- A person working 40 hours per week, earning $2000 (before tax) would pay $27.80 a week in social insurance levies. This person would receive $1600 (before tax) per week in insurance payments, for complete loss of work.

Workers' insurance levies would be also matched by employer contributions.

People who receive insurance payments would also receive support from a case manager. The case manager would help an insurance claimant to plan their return to work, and connect them with any available employment or vocational rehabilitation services.

Honouring Te Tiriti o Waitangi

We recognise the importance of meeting the Government's obligations under Te Tiriti o Waitangi in the design of this scheme. In particular, the scheme will apply the principles of kāwanatanga (governance), tino rangatiratanga (independence) and rite tahi (equity of rights).

We expect the scheme will especially benefit Māori workers, because they face a greater risk of job loss due to displacement or a health condition or disability. Because entitlements are based on an individualised assessment, eligibility is wider than welfare, so more whānau will be supported following loss of work.

It is crucial that the way the scheme is governed, delivered and evaluated, tangibly applies kāwanatanga. We recognise that a partnership approach with Māori is necessary to ensure Māori have real authority to develop and implement policies that address their needs in ways that respect te ao Māori. This means the scheme will need to be inclusive and represent the voice of Māori at all levels.

Several mechanisms could ensure the scheme reflects the voice of, works for and is accountable to Māori. These range from Board representation or Board advisory groups to ensure input into decision-making and key performance indicators, to evaluation criteria that ensure outcomes for Māori are treated as core performance indicators.

What would a New Zealand income insurance scheme look like?

Income insurance schemes are complex. Choices need to consider coverage, entitlements, funding and delivery. None of these are simple, and many interactions occur between policy choices. In thinking about a preferred design, the Forum has drawn on best international practice and applied the criteria described above (coverage, adequacy, equity, incentives, affordability and coherence).

This discussion document explores the options the Forum has considered and how it has reached its preferred settings.

Income insurance for displacement would cover involuntary, no-fault loss of an entire job, and seek to cover most working arrangements.[4] Coverage would depend on minimum contributions, with limits for subsequent claims. Payments would be limited to New Zealand citizens and residents. Income insurance would substantially replace lost incomes for up to six months. The Forum also sees value in allowing extensions for approved training or rehabilitation, and we are asking for feedback on an option to provide for this. Allowing extensions could improve outcomes but also raise the scheme's costs. Entitlements would be treated as income for welfare benefits and other transfers. Earnings would reduce income insurance payments, after a threshold. Claimants would be obliged to search or prepare for work, and risk suspension of payments for serious cases of non-compliance. Employers would support the scheme's operation through notice periods and by paying workers a 'bridging payment' of four weeks' pay after job loss.

Income insurance for job loss due to a health condition or disability would largely provide the same entitlements as insurance for displacement. The scheme would cover any health condition or disability that significantly reduces work capacity (more than 50 percent), with health professionals and employers certifying incapacity. Employers would be encouraged to help claimants return to work and to keep jobs open for them for the length of their claim. Claimants would be obliged to participate in work capacity assessments and return-to-work support (such as rehabilitation activities, employment support) where appropriate.

The Accident Compensation Corporation would administer the scheme, handling claims and helping claimants return to good jobs. The scheme would handle disputes independently and efficiently, and take enforcement action where necessary in response to (alleged) fraud or to ensure levy payment.

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4 'No fault' in this context means that the worker is not responsible for their loss of work.

Employers and workers would share the costs of the scheme, although the Crown would contribute in rare situations, such as where entitlements were varied in response to an economic crisis.

If a decision is made to introduce the proposed scheme, the Government would introduce legislation in 2022, and the scheme could start operating in 2023.

Part 1:

Introduction and overview

1 Summary of the proposal

Coverage for displaced workers (**chapter 6**)

Coverage provided for displacement

- The scheme would cover displacement (the loss of work, due to the disestablishment of a job).
- The scheme would not cover job loss due to poor employee performance, gross misconduct or resignation.
- The scheme (for displacement) would cover complete job loss only (including full loss of a part-time job where a person remains engaged in other employment).

Coverage provided for most working arrangements

- The scheme would cover most working arrangements:
- full- and part-time permanent employees (casual and fixed-term employees whose pattern of work resembles permanent employment, and who have an expectation of future income, would also be treated as permanent)
- fixed-term and seasonal employees (where displacement prevents completion of time-limited employment agreements, with entitlements covering the remainder of the employment agreement).
- The scheme would seek to cover those self-employed people who most resemble employees.

Coverage dependent on minimum contributions, with limits for subsequent claims

- To qualify for insurance payments, workers would also need to have contributed to the income insurance scheme for six months or more over the 18 months preceding the claim.
- Statutory parental leave (paid and unpaid) would be included in the qualifying period.
- A limit would apply so workers could only claim up to six months of entitlement every 18 months.

Coverage provided for New Zealand citizens and residents

- Insurance payments would be available to New Zealand citizens and residents only.

Entitlements for displaced workers (**chapter 7**)

Entitlements substantially replace lost incomes for a fixed time

- The income insurance scheme would provide a replacement rate of 80 percent of prior income (up to a cap of $130,911, adjusted annually), for a maximum period of six months, plus an initial period paid by the employer (a ‘bridging payment’) for the first four weeks of unemployment).
- Where a person loses a part-time job and continues to earn income from another part-time job, income insurance would ‘top up’ the worker’s income to 80 percent of the total pre-loss level.
- Income insurance payments would be calculated on an individual basis (with no asset testing or partner income assessment) and would abate (reduce) dollar for dollar (100 percent) once the combination of personal exertion income and insurance reached 100 percent of pre-loss income.

Entitlements generally treated as income for social security payments

- The Ministry of Social Development and Inland Revenue would generally treat insurance payments as income, for welfare and tax purposes.

Employers to support the scheme's operation

- Employers would be required to give at least four weeks' notice to the insurer and to the employee pre-displacement, and meet the cost of the worker's initial period of unemployment for up to four weeks.

Coverage and entitlements for loss of work due to health conditions or disabilities (**chapter 8**)

Similar provisions for displacement and health conditions

- Income insurance for health conditions and disability would provide the same entitlements as income insurance for displacement. The replacement rate, abatement rate, length of coverage, contribution requirements, limits on subsequent claims, citizenship or residence requirements, and interactions with other payments would be the same.

Coverage provided for any health condition or disability that leads to a significant reduction in work capacity, and coverage for all working arrangements

- The income insurance scheme would cover any health condition or disability that results in a reduction of capacity to work of at least 50 percent and that is expected to last for no less than four working weeks.
- Income insurance for health conditions and disability would cover *all* working arrangements (with all forms of self-employment fully covered).

Health professionals and employer to certify the effect of the health condition or disability on work capacity

- To qualify for the scheme, the claimant would need to provide a work capacity assessment (in the form of a medical certificate from the claimant's health practitioner) and, where appropriate and required, supporting evidence from the employer of the claimant's capacity to undertake their job. Any additional independent work capacity assessment would be undertaken as needed.
- The timing of any reviews of a claimant's work capacity would be guided by advice from the claimant's health practitioner and progress made towards returning to work, where appropriate.

Employers to help claimants to return to work and keep jobs open

- Employers would take reasonable steps to support an employee to continue working (including workplace changes or redeployment where possible) before the employee stops work.
- Employers would make reasonable efforts to protect the job where a reasonable prognosis is made of return to work within six months.
- If an employer decided that an employee had to be dismissed because of their health condition or disability, the same notice and bridging payment provisions would apply as for displacement.

Insurance claimants’ obligations (**chapter 9**)

Claimants to search or prepare for work, with payments able to be suspended in cases of serious non-compliance

- Claimants would be expected to be based in New Zealand, to show effort to search for suitable employment, or to prepare for employment (with deferrals for those in certain circumstances, for example, undertaking approved training).
- Claimants would not be required to accept non-suitable offers of employment, such as those that did not offer pre-displacement wages and conditions. Claimants would be expected to accept suitable offers of employment.

Health condition and disability claimants obliged to participate in work capacity assessments, and return-to-work services, where appropriate

- Claimants would provide subsequent work capacity medical certificates (similar to those used by the Accident Compensation Corporation (ACC) or Ministry of Social Development) if required.
- Claimants would engage in return-to-work activities (for example, rehabilitation, training, job search) where relevant and required.
- Any job search obligations could be deferred based on guidance from a health practitioner.

Delivering income insurance (**chapter 10**)

Scheme to be administered by the Accident Compensation Corporation

- Employers or working people could lodge insurance claims with ACC, which would administer the scheme.
- Governance of the scheme would include tripartite and Māori representation.
- The scheme could begin operating in 2023 at the earliest.

Scheme would help claimants return to good jobs

- The scheme would operate a case management system and connect insurance claimants with support to find or prepare for work. The scheme would assign a case manager whose involvement would increase where this would improve a worker’s chances of getting a good job.
- Partner agencies could provide support to claimants to search or prepare for work, where appropriate.
- Where needed, the scheme would refer claimants to existing health and employment services to enable them to return to work, where appropriate.

Disputes would be handled efficiently

- The scheme would operate an efficient and independent dispute resolution process, with multiple escalation steps where needed.

Scheme would take enforcement action where necessary

- The scheme would take appropriate action to collect levy payments, and to deter and respond to misrepresentation.

The Accident Compensation Corporation would require high quality and timely information to deliver the scheme effectively and efficiently

- ACC will develop information-sharing agreements and arrangements with employers, other agencies and service providers.
- ACC will collect information and commission research needed to monitor whether the scheme is meeting its objectives, whether interventions are effective and to enable public transparency.

Funding income insurance (**chapter 11**)

Costs of the scheme to be shared between employers and workers

- The costs of the scheme would be met through a compulsory levy paid in equal proportions by employers and employees. The levy would be adjusted when necessary, to meet the scheme's costs, in much the same way as the current accident compensation scheme levy.
- We have proposed an initial levy of 2.77 percent of salary and wages. This will be split between firms and workers, with each paying 1.39 percent. This reflects a total annual cost of $3.54 billion (made up of $1.81 billion for displacement and $1.73 billion for health condition and disability claims). These all include Goods and Services Tax and administration costs.
- The scheme would operate two funds: one for displacement claims and one for health condition and disability claims. It would be fully funded to meet its annual liabilities, anticipating economic ups and downs. A small reserve fund would help improve the scheme's sustainability in case of worse-than-expected economic conditions.
- The Crown would act as funder and/or lender of last resort when required. This could be repaid through levies (spread over time to maintain manageable, stable levies).The scheme's legislation would provide the flexibility to vary entitlements and eligibility in times of economic crisis. This could include extending maximum entitlement periods or using the scheme to administer a wage subsidy. This could require Crown funding.

2 Discussion document and consultation process

About the discussion document

We want to hear from individuals and organisations on the proposed income insurance scheme, including how it could be improved and how it could affect different groups. Your feedback will help inform advice and the Government's final decisions.

How to have your say

Answer a short survey

If you're short on time, read the summary of proposals and complete a short survey. It should take around 15 minutes, and can be anonymous.

- Read the summary of proposals
- Complete a short survey

The survey closes on 26 April 2022.

Provide a detailed submission

The discussion document has questions throughout on options and proposals. You can download a submission form from the MBIE website. If you cannot or do not want to use the template, you can write your submission on a blank document. If you do this, please clearly indicate which question number you are responding to.

You do not need to answer all questions, and can provide more comments on issues you believe are relevant outside of the questions. Your submission can be anonymous and you can choose not to provide contact details.

Submissions are due by 5pm on 26 April 2022.

You can email your submission to incomeinsurance@mbie.govt.nz, or post it to:

Social Unemployment Insurance Tripartite Working Group
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6145

What happens after you have sent your submission?

Officials from the Working Group will collect all submissions sent by the closing date.

These submissions will be analysed and will help to inform final decisions.

We may contact submitters directly if we require clarification on their submission or would like further information from them, if they have provided contact details.

If the Government subsequently introduces legislation for an income insurance scheme, members of the public will have a further opportunity for engagement through select committee examination of the draft bill.

Release of information

We may publish submissions, or a summary of these, on our website at www.mbie.govt.nz. When you make a submission, MBIE will consider that you have consented to it being published on the MBIE website, unless you clearly state otherwise. If your submission contains any information that is confidential or that you do not want published, you can say this in your submission.

We will not publish any survey responses we receive.

Submissions and survey responses may be requested under the Official Information Act 1992. MBIE will seek to consult with submitters when responding to any such requests. If you object to the release of information in your submission, MBIE will take that into account.

The Privacy Act 2020 applies to submissions and survey responses. Any personal information you supply to MBIE in the course of making a submission will only be known by the project team and used for developing policy advice relating to this project. Please clearly indicate if you do not wish your name, or any other personal information, to be included in any summary of submissions that MBIE may publish.

Questions

If you have any questions about the consultation process or the options for change, please email us at incomeinsurance@mbie.govt.nz.

Part 2:

The case for change

3 Objectives: What we want to achieve and challenges we face

Introduction

The Government and its Future of Work Tripartite Forum partners are working towards a more productive, sustainable and inclusive economy:

- 'Productive' means that living standards are rising, including through adopting new technology, and matching workers to good jobs.
- 'Sustainable' means we are good stewards of our natural environment and that we shift to sustainable industries and jobs.
- 'Inclusive' means that everyone shares in growing prosperity. Inclusive also means that people who lose work through no fault of their own are supported back to good jobs – jobs that can provide similar pay and conditions.

A lot can be done to make the economy more productive, sustainable and inclusive. In particular, we could improve support for people who lose work through no fault of their own.

We want working people to be confident of their place in the future of work and open to taking jobs in dynamic but potentially risky sectors. This confidence would be underpinned by an effective support system for displacement and loss of work due to health conditions. That support system would provide meaningful replacement of lost income and other help to find good work or return to work.

The current lack of support may explain why New Zealand workers who are made redundant appear to suffer a bigger wage loss when they do get back to work, than workers in other comparable countries.

Lack of support also creates anxiety because of an uncertain future of work and reluctance to try out new jobs. It can lead to resistance to changes that affect jobs needed for New Zealand, such as for our response to climate change and new technology. This could be holding back our productivity and ability to adapt to change. The Forum's *Future of Work Strategic Assessment* discusses further the importance of helping people find and keep good jobs, in the context of rapid technological change, climate change, demographic change and globalisation.[iii]

We also seek a support system that is easy for employers to participate in, through clear expectations, and predictable and reasonable costs, and that improves employers' access to skilled workers.

Significant reforms are under way to ensure we are better placed to respond to the challenges and opportunities posed by the future of work. These include:

- modernising the careers advisory system
- overhauling the welfare system
- establishing labour market planning bodies (Regional Skills Leadership Groups and Workforce Development Councils)
- reforming the vocational education system
- fostering regionally based economic development, especially through times of economic disruption
- rolling out industry transformation plans.

Initiatives are also in place aimed at creating workplaces that are more supportive of health and wellbeing. For example, the Government's *Health and Safety at Work Strategy 2018–28* has a focus on work-related health and safety.[iv] Sick leave has increased to 10 days.

The Government has also introduced various reforms to improve health outcomes. These include the response to the Mental Health and Addiction Inquiry (He Ara Oranga[v]) and the Government's decisions and transition to a reformed health and disability system.[vi]

Gaps will remain, however, in the support available for people who lose their jobs due to displacement or health conditions.

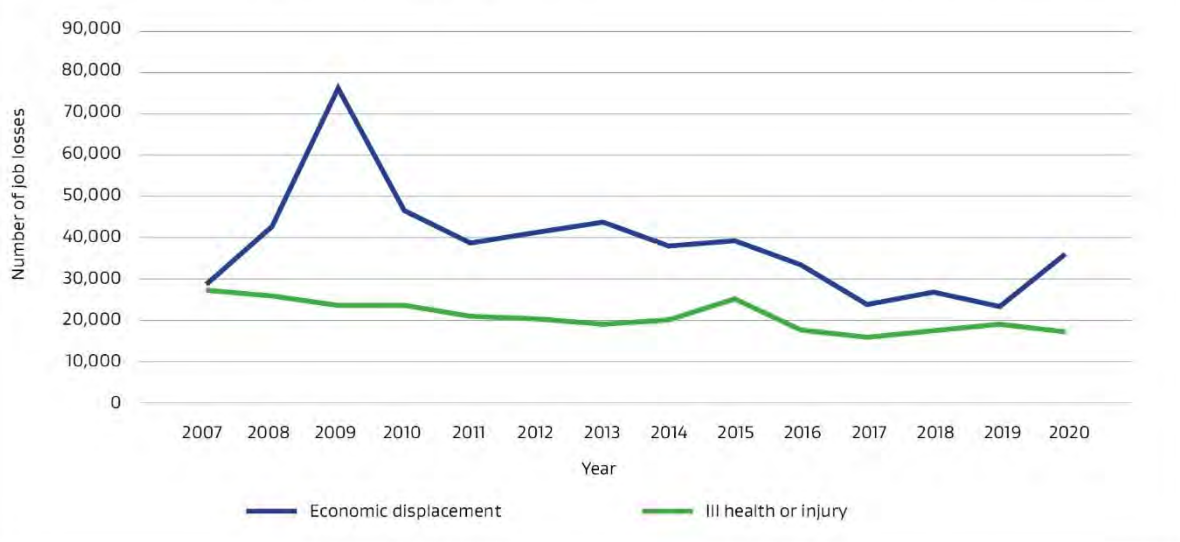
These gaps mean that working people can face large drops in income, risk long-term wage loss and feel an understandable anxiety about the future. The current system also creates inequities where people with similar health conditions receive different levels of support. The Forum wishes to address these problems, in part by addressing the inequities between the levels of income support for workers who lose their job due to a disability or health conditions, irrespective of cause.

The following section discusses these problems and describes the Forum's objectives in addressing them.

Job loss due to displacement or a health condition or disability is common in New Zealand

Figure 1 shows the trends in job losses due to displacement and health conditions from 2007–20.

Figure 1: Estimated number of job losses found in quarterly household surveys due to displacement and health conditions or injuries 2007–20



Source: Ministry of Business, Innovation and Employment

An estimated 115,000 people are displaced, on average, each year, risking sudden falls in income, unemployment, and possibly long-term wage losses.

For this consultation, we define displacement as the involuntary loss of work, due to the disestablishment of a position. Displacement excludes job loss due to poor performance, gross misconduct or resignation.

In New Zealand, the Household Labour Force Survey (HLFS) indicates that around 48,000 people, on average, lose their jobs due to displacement each year. For several reasons, the HLFS undercounts the actual level of displacement. First, the HLFS does not capture a portion of those displaced who are re-employed quickly. Second, the HLFS count excludes people who had multiple jobs.

We can estimate the number of displacements that do not appear in the HLFS data. We know how many job-ends occur in total in New Zealand, but we do not know why a job ends if it is not captured in the HLFS. If these job-ends with either no gap, or a short gap, before re-employment have the same displacement rate as those seen in the HLFS, then the total number of redundancies is estimated to be about 115,000 per year, on average.

Rates of displacement rise and fall with the economic cycle. In 2009, during the Global Financial Crisis, the HLFS indicated around 77,000 people were displaced and not re-employed quickly. This dropped to about 23,000 in 2019 before rising again in 2020 to around 47,000 due to the impact of the COVID-19 pandemic. Young people, particularly young Māori, are disproportionately affected with higher rates. As noted, the total level of displacement was higher, given gaps in the HLFS data.

It is important that firms can flexibly change their labour needs so they can readily adopt more productive business models. This includes exploiting new technologies. But this flexibility can come at a cost. Redundancies harm workers, communities and broader society, unless effective and sustained support is available through these transitions.

These harmful effects can include:

- sudden large falls in income that can be difficult to adjust to
- coming to terms with the job loss and unemployment
- poorer wages or conditions in subsequent employment (known as wage scarring).

The sudden loss of wages or salaries can cause financial hardship that is difficult to adjust to in the short term. Even high-income households can face large fixed expenses such as mortgage payments and other loans. Even where people are eligible for welfare payments, these may not cover the full extent of these fixed expenses. However, most of those displaced either do not qualify for, or do not take up, welfare support.

On average, displaced New Zealand workers do appear to return to work relatively promptly, but many show significant long-term wage scarring. A 2017 study found that displaced workers who regained employment had 25 percent lower earnings in the first year after job loss (compared with matched non-displaced workers) and about 15 percent lower earnings five years after.[vii] Wage scarring suggests poor skills matching, lost productivity, loss of output, lost income, and fiscal costs. The causes of wage scarring are complex and our understanding is developing.[viii]

The overall wage losses arising from the displacement of New Zealand workers are substantial, and rise and fall with economic conditions. Independent economic analysis suggests these costs could amount to $15.4 billion per year over the first five years following their job loss alone, assuming the displacement of 100,000 working people in a year.[ix] This figure includes both wages lost by workers while unemployed, and lower wages when they are re-employed.

While the individual effects of wage scarring are greater for displaced workers with degree-level qualifications, most displaced workers are relatively less skilled, suggesting most wage scarring falls more heavily on this group.

Job displacement and the future of work

The future of work megatrends – rapid globalisation, technological change, climate change and demographic change – are also expected to contribute to worker displacement, while creating new job opportunities. The Forum discussed these trends in its 2019 *Future of Work Strategic Assessment*.[x]

How these trends will affect New Zealand is highly uncertain. Amidst this uncertainty, the future of work presents both opportunities and risks for the wellbeing of New Zealanders.

The Forum sees significant opportunities to generate more and better jobs, to increase productivity, raise living standards and wellbeing, and achieve greater equity and economic, social and environmental sustainability for all New Zealanders. Improving the quality of employment is central to achieving a better future.

But risks are also present, as the skills required to keep pace shift rapidly, tasks currently undertaken by workers are automated and workplace organisation changes.

When these changes are handled poorly, whole communities can suffer, especially communities reliant on a major employer or industry. When these major businesses shut down, workers have little money to spend, which means other business suffer and the community can go into a long-term economic decline that can last for generations. Many New Zealand examples can be found, such as Kawerau's forestry industry and timber mill closure, or the closing of Hawkes Bay's Whakatu and Tomoana freezing works. These impacts have happened frequently over the past 40 years, as New Zealand has been struck by economic shocks that have resulted in even seemingly secure careers being affected significantly.

The future of work trends mean the rate of skill obsolescence and displacement may increase and could worsen income inequality and lower employment quality. These risks and uncertainty create an understandable anxiety about the future. This is why helping workers find and keep decent jobs – including retraining when helpful – is one of five themes in the *Future of Work Strategic Assessment*. Helping workers find and keep decent jobs is also in the interest of employers, who benefit from access to skilled workers.

Workers with health conditions and disabilities are also at risk of sudden falls in income, unemployment and possibly long-term wage losses

Workers with health conditions and disabilities who experience partial or full loss of work capacity may also face significant drops in income and re-employment earnings.[xi] The partial or total reduction of work capacity may be due to changes in a pre-existing or newly acquired condition.

A person with a health condition or disability may find it more difficult to return to or find new work due to additional barriers they face in the labour market. These barriers can include inaccessibility of the workplace, additional costs of employment due to their health condition or disability, lack of support for the role, and fear of a potential employer's perception around their ability to do the job. This can result in long-term unemployment and further detachment from the labour market.

In New Zealand, the HLFS indicates around 20,000 people stop work each year due to a health condition, injury or disability. This is likely to be an underestimate because it only includes those fully exiting employment. Those stopping work completely because of an injury make up a small proportion of this number. This estimate of 20,000 does not include those who reduce their hours of employment or take extended leave from work (but stay employed potentially at a cost to their long-term health). We also know around 22,000 to 30,000 people per year people are granted a Jobseeker Support benefit for a health condition and disability (JS-HCD) after stopping employment during the previous six months.[5] Those who take up a health and disability benefit after leaving work are a subset of all of those receiving a health and disability benefit, because some people will not be eligible.[6]

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[5] This does not allow for people who stopped earning more than six months before starting JS-HCD. This excludes people who stop employment because of a health condition or a disability but are not eligible for a benefit, for example, partner earnings above the threshold. This number includes people who lost their job, took up a Jobseeker Support benefit, developed a health condition or disability and transferred to JS-HCD.

[6] People may transfer from other main benefits or not have been in work when they took up a health and disability benefit. As at the end of April 2021, 78,204 people were receiving JS-HCD and 85,383 people were receiving a Supported Living Payment.

Because the data collected in New Zealand captures only a portion of those ending work due to a health condition or disability, and doesn't include people reducing their hours of work due to a health condition or disability, the actual number affected by a health condition or disability is likely to be much higher than 30,000.

Figure 1 shows that the numbers leaving work for this reason are more stable than the numbers affected by displacement and are less affected by economic cycles. Workers with health conditions and disabilities are vulnerable to job loss in recessions.[xii] However, evidence shows that the take up of sickness benefits is often pro-cyclical (for example, take up increases in good economic times) because: a) more workers with health conditions are employed and experience reductions in work capacity and b) such workers have less fear of job loss.[xiii]

In estimating the costs of an insurance scheme, the Forum has allowed for the likelihood that the actual number of people losing work due to a health condition or disability is greater than shown by current data.

In New Zealand, support is limited for displaced workers and workers with health conditions and disabilities

New Zealand offers less support than many other developed countries to displaced workers and workers with health conditions or disabilities not caused by injury. Countries with well-developed support ensure workers can better maintain their incomes when they lose work, provide help to find work, provide opportunities to retrain and upskill and to address health conditions.

The most effective systems support worker wellbeing with financial security and other training and return-to-work support while promoting a dynamic economy through relatively flexible labour markets. This approach is known as 'flexicurity'. The Forum favours this broad approach.

Some elements of effective support are available to New Zealand workers. The Ministry of Social Development, as New Zealand's lead public employment agency, is strengthening support for people at risk of job displacement as part of a shifting focus from reacting when people come on to a welfare benefit towards early intervention. The aim is to work proactively with businesses, associations, government and community stakeholders in regions, to ensure people at risk of displacement are aware of, and can access, the services and support that the Ministry and partners offer to help them retrain or transition to new and appropriate employment.

Other reforms, such as the Careers Strategy and the Reform of Vocational Education, are also making it easier for working people to identify their career options and access retraining and up-skilling.

Initiatives are also in place aimed at creating workplaces that are more supportive of health and wellbeing. For example, the Government's *Health and Safety at Work Strategy 2018–28* has a focus on work-related health and safety.[xiv] Sick leave has increased to 10 days.

The Government has also introduced various reforms aimed at improving health outcomes. These include the response to the Mental Health and Addiction Inquiry (He Ara Oranga[xv]) and the Government's decisions and transition to a reformed health and disability system.[xvi]

Changes within the welfare system are improving support for those on low incomes, including those who have lost jobs.

Overall, however, significant scope still exists to enhance support for people who are displaced and who lose their job due to a health condition or disability.

Various commentators, including the Public Advisory Group on Restructuring and Redundancy, the Organisation for Economic Co-operation and Development (OECD), the Welfare Expert Advisory Group and New Zealand Productivity Commission have reached similar conclusions. They note the lack of support, commonly found overseas, such as:

- statutory notice periods for redundancy so workers have adequate warning of displacement
- financial support to reduce income loss (including statutory redundancy payments, insurance or widely available welfare payments)
- adequate active labour market programmes to enable upskilling, retraining and re-employment.

The OECD[xvii] and Welfare Expert Advisory Group[xviii] have also highlighted the lack of timely and effective financial and non-financial support for workers with health conditions or disabilities not caused by an injury to return to work.

People with impairments resulting from an injury receive support from the Accident Compensation Corporation (ACC) while those with similar impairments arising from an illness or disability not caused by an injury may receive support from the welfare and health systems. The help people receive from ACC is often greater than health or welfare assistance for the same level of incapacity. This is particularly so for financial support, because the accident compensation scheme operates as a social insurance model.

The Forum aims to address these problems to achieve better outcomes for workers and their whānau, communities, and for the economy

To address these problems, the Forum has identified three objectives:

1. minimise the immediate financial impact of losing income and work for workers and their families
2. support workers back to good jobs
3. support the economy to adjust more rapidly to shocks or downturns.

The Forum has also identified criteria to help develop a preferred approach, and to design it in detail:

- coverage – ensuring as many people can be covered as possible
- adequacy – ensuring a replacement income that is close to lost wages and salaries, while people adjust their circumstances
- equity – ensuring people are treated fairly and improving outcomes for the most disadvantaged
- incentives – encouraging people to return to good work
- affordability – ensuring the costs are reasonable
- coherence – ensuring alignment with other systems, including the tax and welfare system, and good employment practice.

We see this approach as a mutual commitment by society and government. It will provide effective support to workers through change, treating them with dignity and empathy, and let workers actively search for work that suits their skills and experience, and engage in programmes that help in that or in retraining.

The following section explores why a new income insurance scheme could make a significant contribution to achieving our objectives and meeting the design criteria.

4 How a new income insurance scheme could achieve our objectives

Achieving the Forum's objectives through financial and non-financial support

To achieve the Forum's objectives calls for both financial and non-financial support for people who lose work. Financial support addresses income loss. Non-financial support includes help to find or prepare for new work, or to address health conditions.

The Forum sees both financial and non-financial support as equally important and mutually supporting. In this document, we focus mainly on financial support, because this is a particular gap in New Zealand. Work on non-financial support is continuing elsewhere in government.

Good reasons exist for thinking that a new income insurance scheme, provided as social insurance, could be the most effective way to provide financial support.

Income insurance is a source of financial support that is often provided as 'social insurance'

The main purpose of insurance is to protect people from the effects of adverse events beyond their control, such as job loss due to displacement or loss of work due to health conditions or disability. Income protection insurance can provide relief through replacing lost salaries and wages.

While private insurance markets often operate well for many types of loss, private income protection insurance markets are often neither efficient nor effective. Private markets tend to under-provide and over-price income protection insurance due to 'adverse selection'.

Adverse selection occurs when people who judge they are unlikely to claim insurance opt-out, leaving only people who expect to claim insurance. The result is a higher cost per person, leading to lower participation and even higher individual costs. This leads to low coverage.

Social insurance is a form of government-mandated insurance for risks not effectively covered by private markets, such as loss of income. 'Government-mandated' means governments either provide or closely regulate insurance services. Social insurance models are common across Organisation for Economic Co-operation and Development (OECD) countries for various services, including income protection. To overcome adverse selection, participation is nearly always compulsory.

Most developed countries use social insurance to ensure effective income smoothing for people who are displaced or who lose their job due to health conditions or disabilities. International examples of social insurance schemes for income loss are presented in Annex 5.

New Zealand currently has a social insurance scheme for accidents, provided by the Accident Compensation Corporation – but not for health conditions or displacement. People with health conditions and disability may be entitled to welfare support.

For this consultation, we define displacement as the loss of work due to the disestablishment of a position. Displacement excludes job loss due to poor performance, gross misconduct or resignation.[7]

A common element in each case – accidents, health conditions and displacement – is the principle of 'no-fault, involuntary loss of work'. This principle is important because when a person can control the circumstances that make them eligible for insurance payments, they can have a strong incentive to act in ways that will make them eligible. Such behaviour may be undesirable, may lead to insurance payments where they are not needed, and can lead to higher costs for everyone.

Income insurance for job loss arising from displacement or a health condition or disability ensures an income that substantially replaces lost salaries and wages

Income insurance for job loss arising from displacement or a health condition provides loss-related, individualised income replacement to eligible workers. 'Individualised' means that insurance payments are not affected by any partner earnings. This is different from welfare, where partner earnings do affect welfare entitlements.

Income replacement is based on a percentage of prior income. This percentage is known as the 'replacement rate'. Internationally, replacement rates for income insurance tend to range from around 40 percent to 90 percent. This means lost wages or salaries could be replaced by up to 40 percent or 90 percent, for example. Annex 5 provides more information on other countries' income insurance schemes.

By basing payments on lost wages or salaries, income insurance schemes aim to 'smooth incomes' so people do not face abrupt drops in income. This minimises financial loss for the entitlement period.

Also important is that insurance aims to replace 'actual' losses. In the case of income loss, insurance covers the 'loss of reasonably anticipated income'. This is income a worker could reasonably have expected to have received from their work, during the period they could reasonably have expected to work (so for fixed-term workers this would be the length of their remaining employment agreement).

In defining 'reasonably anticipated income', it can be useful to identify an 'established pattern of work'. Part-time, casual and other non-standard workers might not have employment agreements that state their expected hours or conditions. Because insurance is intended to substantially replace 'actual' losses, the true nature of the employment arrangement – as shown by established work patterns – is more important than what appears in any written employment agreement.

Income insurance for job loss arising from displacement or a health condition is usually time-limited. Internationally, entitlements range from around six to twelve months for unemployment insurance and three months to unlimited duration for sickness insurance.

While receiving insurance payments, claimants are expected to search and prepare for work through retraining and upskilling, or engage in treatment and rehabilitation to return to suitable work. Social insurance for income loss is contributory, with employers and employees usually paying levies. In some schemes, the state also contributes.

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[7] Cases may occur where the Employment Court finds that a dismissal was unjustified and the former employee remains unemployed. The Forum welcomes views on any role the proposed income insurance scheme could play in this situation.

Contributions are pooled into a single fund that finances insurance payments for workers who need support. Pooling funds ensures a good level of support for each claimant. This is not possible with individual savings accounts, which are limited to what the worker has saved.

Insurance funds are generally managed so they break even across an economic cycle, meaning they generate small surpluses during normal years and these fund high costs during recessionary periods.

Costs depend on the number of claimants, the nature of their entitlements and length of claims. A greater number of claimants, and higher entitlements, leads to higher costs. By spreading costs across the whole workforce, social insurance ensures much lower individual costs than private insurance, better coverage and better support.

New Zealand's accident compensation scheme provides income insurance for people who have accidents. The scheme provides income replacement (weekly compensation) and support to become vocationally independent. Participation (levy payments) is compulsory. The scheme provides a replacement rate of 80 percent of prior wages or salaries, with funding provided by employer and employee levies.[8]

Income insurance could contribute to achieving each of the Forum's objectives

In chapter 3, we identified three objectives. This section explains how an income insurance scheme could contribute to achieving each objective. The Forum has carefully looked at the costs and benefits of a new social insurance scheme and sees considerable overall benefit for New Zealand.

1 Income insurance could minimise the immediate financial impact of losing income and work for workers and their families

Job loss – due to displacement or a health condition or disability – usually means a substantial fall in income. Without any replacement, income loss can mean loss of spending power, and hardship, on top of the psychological impact of job loss. Many people also have fixed costs that are hard to reduce rapidly, such as home or car loans. [xix] The Forum seeks to reduce the impact of sudden income loss on families and anxiety at what is an already stressful time.

Effective financial support would smooth incomes through a reasonably high replacement rate that substantially replaces the lost income. As noted, the accident compensation scheme provides an 80 percent replacement rate for working people who have accidents through its weekly compensation payments. But it does not support people with other health conditions or disabilities.

The welfare system can help to offset income loss. The welfare system comprises three tiers of payments: main benefits (first tier), supplementary assistance (second tier) and hardship payments (third tier).

The welfare system provides modest financial support where family incomes fall below specified levels. Welfare payments do not relate to a person's previous income from employment (if any); rather they aim to help meet essential living costs and alleviate poverty.

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8 The Government funds a dedicated account for non-earners who suffer accidents.

Further, family income testing means many people who lose their jobs are not eligible for main benefit payments (such as Jobseeker Support). A high proportion of people who are displaced have an earning partner so are less likely to be eligible for benefit support. Therefore, many people face significant drops in income following job loss, especially those not eligible for welfare support due to their partner's earnings.

Income insurance would more effectively smooth incomes for many people who are displaced or whose work capacity is reduced due to a health condition or disability. Through payments linked to lost wages and salaries, and through individually assessed entitlements, income insurance would generally make higher payments, and to a greater number of people who lose their jobs, than the welfare system.

By avoiding large drops in income, workers may also suffer less damage to their health from worrying about work. Schemes with higher payments can provide a protective buffer against the adverse health-related consequences of unemployment and income reduction.[xx]

Such income support is likely to be most valuable for people and their families who have less savings, both in terms of supporting job search and general wellbeing,[xxi] and is particularly important during an economic downturn.[xxii]

Income insurance could also ensure disabled people and people with health conditions receive similar financial support to people who have accidents

New Zealand's accident compensation scheme is a social insurance model. This means people who have accidents that reduce their capacity to work receive earnings-related compensation ('weekly compensation'). They also receive support to restore their vocational independence, including medical support.

People who experience other health conditions are not eligible for weekly compensation but may be eligible for welfare support (through the JS-HCD or Supported Living Payment benefits). The welfare overhaul work programme is improving financial support for those who receive these benefits. But, in most cases, benefits are substantially lower than weekly compensation payments, which means people in similar circumstances can receive different levels of support.

Depending on the preferred design, a new income insurance scheme could ensure that people who lose work due to health conditions could receive similar weekly compensation as people who lose work due to accidents. However, income insurance would be time limited whereas accident compensation scheme weekly payments are not. Nevertheless, income insurance for loss of work due to non-injury related health conditions or disabilities would help to improve support for these workers.

Ideally, claimants with health conditions or disabilities would also receive enhanced non-financial support to return to full work. Income insurance schemes covering workers whose work capacity is affected by a health condition or disability typically provide return-to-work support to improve outcomes and reduce scheme costs. The Accident Compensation Corporation (ACC) provides such support to injured workers.

2 Income insurance could help support workers back to good jobs

People who lose work through no fault of their own – whether due to redundancy or health conditions and disabilities – risk loss of wages and/or conditions when they return to work.

Some loss of wages or conditions may be inevitable and not everyone can return to work. But it is desirable to minimise loss of wages and conditions for the wellbeing of working people, and so the economy can make best use of their skills. For this discussion document, we define good jobs as those that can provide similar pay and conditions to what the worker received before losing their job. Part of this is seeking to minimise wage scarring.

Wage scarring due to displacement

Income insurance could help displaced workers to return to good jobs in two ways.

First, income insurance can reduce the financial pressure people feel to accept poorly matching jobs, allowing more time to find a job that is a good match to their skills. An income insurance scheme could focus on reducing wage scarring by allowing claimants the right to decline job offers that provide substantially lower wages or conditions than their previous jobs.

Second, income insurance could allow displaced workers the opportunity to participate in Active Labour Market Programmes (ALMPs). ALMPs, including active case management, help with job search and career advice, and educational and training programmes. Providing educational and training programmes following displacement can increase human capital and offset the associated loss in earning capacity.[xxiii] Training could be particularly important for people with low qualification levels, or older people with specialised skills but who lack formal credentials, and for people in occupations or industries that are shrinking or where skill requirements are changing.

For an income insurance scheme to have the best chance of reducing wage scarring, it needs to incentivise claimants to search for good jobs and provide access to effective ALMPs matched to claimants' needs.

At the same time, it is possible that people who receive insurance might make less effort to search for work, or that an extended search simply makes little difference to re-employment outcomes. To reduce this risk, insurance schemes often require evidence of job search, and overall scheme design encourages a return to work, through time limits and contribution requirements. The international evidence is mixed as to whether simply receiving insurance payments leads to better job matching given the conflicting incentives. [xxiv]

Wage scarring due to health conditions or disabilities

Similar wage scarring effects can occur where health conditions or disabilities limit a person's capacity to continue working. Financial pressure may compel a person to stay in work when unwell (presenteeism) or leave completely when working part-time could promote recovery and maintain their connection to the workplace. By staying in full-time work, their health condition or disability could worsen, ultimately leading to a longer time away from work.

When a person with a health condition has to stop work, they face similar risks to a displaced worker:[xxv] financial pressure to find the next job quickly, with little opportunity for an effective job search, to retrain and upskill, or to address their health conditions. Workers with health conditions and disabilities can face considerable barriers to returning to work,[xxvi] especially where they do not have a job to return to.

With income insurance, a person with a health condition or disability that reduces their work capacity could afford to reduce their hours of work, creating an opportunity to recover, and potentially resume their usual level of work, and avoid any wage scarring. If they have to stop work for a time, then income insurance would provide similar benefits to a displaced worker.

Intervening early to talk about return to work and the provision of employment and health support will be crucial to support work outcomes. Waiting for people to recover before talking about return to work is less effective and contributes to longer durations out of work.

The proposed scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

In particular, the amount of financial assistance that people may receive from the social insurance-based accident compensation scheme is usually higher than the family income-tested payments provided through the welfare system.

The proposed scheme would make payments equivalent to ACC weekly compensation, for up to six months. Like ACC, those payments would be unaffected by any assets, or partner earnings.

From an employers' perspective, the greater opportunities and benefits for workers with health conditions or disabilities to stay in work or successfully return to their place of work, would reduce staff churn and help keep experienced staff in their jobs.

3 Income insurance could support the economy to better weather shocks or downturns and support local economies

Income insurance could also have a positive effect in helping stabilise the economy through recessions. New Zealand has several policies that automatically counter the effect of a recession: for instance, receipt of welfare payments increases and tax revenue falls in a recession. Countries with larger and more effective automatic fiscal stabilisers need less discretionary change in public spending and revenues to stabilise the economy for a given shock. The OECD estimates New Zealand's existing policies provide automatic stabilisation to the economy at slightly above the OECD average.[9]

Introducing income insurance for those made redundant could contribute to automatic stabilisation of the economy and job market during a downturn, for instance, by helping displaced workers to maintain their consumption, which would then help businesses maintain more output and jobs.

Treasury analysis suggests that introducing an income insurance scheme could make a small-to-moderate contribution to New Zealand's automatic stabilisers, depending on the size of the scheme and responsiveness of levies and redundancy payments to a downturn.[10]

In addition, we would also expect flow-on effects from the automatic release of expenditure into the economy in stabilising aggregate consumption, economic activity and employment. Such effects would then help to maintain the tax base and reduce other forms of government expenditure, such as welfare payments. In this respect, an income insurance scheme would help reduce the severity of a downturn.

But introducing income insurance is unlikely to completely remove the need for other policy responses, for example, monetary stimulus or discretionary fiscal policy such as business supports, during a downturn.

Insurance can also support local economies. Loss of work can affect whole communities and whānau, especially communities reliant on a major employer. Many New Zealand examples exist, such as Kawerau's forestry industry and timber mill and the closure of Hawkes Bay's Whakatu and Tomoana freezing works. When major employers shut down, workers have little money to spend, which means other businesses suffer and the community can go into a long-term economic decline that can last for generations. An income insurance scheme could cushion workers and communities from such abrupt income losses, allowing more time to adapt.

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[9] The Organisation for Economic Co-operation and Development (OECD) estimates that New Zealand's welfare and tax policies change the budget balance by 0.51 percent of gross domestic product (GDP) for every 1 percent of GDP change in the output gap, slightly above the OECD average of 0.50. Refer Price, R., Dang, T. T., & Botev, J. (2015). Adjusting fiscal balances for the business cycle: New tax and expenditure elasticity estimates for OECD countries. *OECD Economics Department Working Papers, No. 1275*. OECD Publishing.

[10] Treasury's methodology looks at how the policy could change the relationship between the budget balance (ie, net government spending to revenue) as a proportion of GDP for a given change in the output gap (ie, the difference between economic output and the economy's full potential output).

Ideally, an income insurance scheme could help prevent a downward economic spiral by maintaining incomes while displaced workers retrain and upskill for jobs in emerging industries. The Government's regional economic development policy and industry transformation plans focus on identifying and growing such industries. This is important where climate change, and other drivers, have made existing industries unsustainable. In this way, an income insurance scheme could be an integral part of a just transition.

Further, in the most severe conditions, such as a robust pandemic response, governments can use income insurance schemes to administer support such as wage subsidies or furlough schemes. In this situation, an insurance scheme can help to keep workers connected to their employers, rather than focus on supporting them to new jobs.

Introducing an income insurance scheme could change the operation of New Zealand's labour market and economy in many ways

Introducing an income protection scheme would be a major change to New Zealand's social security system and employment relationships. It is useful to consider the potential effects across the whole labour market and wider economy.

An income insurance scheme could help to improve job matches and reduce wage scarring for some but could worsen outcomes for others

New Zealand has a relatively flexible and efficient labour market with few impediments in the movement of workers to expanding industries. However, workers tend to experience comparatively higher levels of wage scarring from unemployment.[xxvii]

With the introduction of an income insurance scheme, claimants will face less financial pressure to return to work. Where people use this time for active job search, or to upskill, the result could be better job matches and reduced wage scaring.[xxviii] However, other people could obtain similar or even worse jobs than they otherwise would have, if they remain unemployed for too long.[xxix]

Encouraging and supporting claimants to return to work is a major focus of schemes internationally. Claimants are usually expected to search for suitable work. Most people obtain work easily, spending only a short time unemployed and receiving insurance payments. However, some people require additional support, and schemes often invest in:

- employment services to help workers plan their next steps and to find work
- support for workers to retrain and upskill (either through short or longer courses)
- services to address health conditions and disability that affect work capacity and promote rehabilitation and return to work.

An income insurance scheme could put upwards pressure on displacement and possibly overall unemployment

Compared with many OECD countries, New Zealand tends to have lower levels of economic displacement[xxx] and unemployment (currently around 4 percent).

With an insurance scheme in place, the risks are that employers could become more inclined to make people redundant, or workers in declining firms could wait to be made redundant rather than seeking other employment.[xxxi] These effects could increase economic displacement but are likely to be small. The levy cost estimate assumes behavioural changes as people who lose their jobs take up the income insurance to search or prepare themselves for work, rather than taking jobs that offer inferior pay and conditions. This could increase the number of displaced workers searching for work.

However, such effects would not necessarily affect overall unemployment.[xxxii] Those made redundant only make up a small proportion of the unemployed population, limiting the direct effect of an income insurance scheme on unemployment. While it is possible that unemployment could be amplified due to social and peer influences on others in the labour market, the effect could also be counteracted by jobs being freed up for other jobseekers entering or returning to the labour market, for instance, from study or parenting.[xxxiii] The overall impact is highly uncertain. Several countries with income insurance schemes have lower unemployment rates than New Zealand (Germany, Japan, Korea, Netherlands), whereas others have higher rates of unemployment (Canada, Spain).[xxxiv]

As well as investing in ALMPs to support people to return to well-paying jobs, appropriate entitlement durations, minimum contribution periods, and limits on how often a person can claim insurance can help manage the risks of greater displacement occurring, avoiding pressure on unemployment.

Levies are expected to be at the low end of rates among OECD countries, but are nonetheless an additional cost for workers and businesses.

New Zealand employment costs are comparatively low within the OECD. For instance, New Zealand has the OECD's lowest tax wedge associated with work and the lowest payroll tax.[11]

The anticipated levies for the scheme are at the lower end compared with international schemes.[xxxv] We do not foresee any structural reasons why scheme costs should increase in real terms in the short to medium term. New Zealand's labour force is not expected to face material increases in redundancy or health condition and disability claims costs as the age profile is not expected to significantly change in the short to medium term.[12] Morbidity and mortality trends have generally improved over time.[xxxvi]

However, overall, the introduction of a levy will add to a small extent to employment costs, for both workers and employers. This could potentially have several effects, for instance, it could affect labour market participation and hiring, or lead employers to shift work to non-standard workers who are not subject to the employer levy (for example, independent contracting). Furthermore, while the costs are proposed to be evenly split between workers and employers, employers could over time pass on such costs to workers, for instance, by supressing wage increases.

These risks are reduced somewhat by the wide variety of working arrangements that are proposed to be covered by the scheme, including contractors whose work is most similar to employees. A scheme could also potentially encourage employers to improve terms and conditions over time to attract prospective workers who, supported by a scheme, could afford to hold out for better employment. It could attract people into the labour force because of the greater job security offered.

The scheme is expected to provide benefits for employers, including improving the availability of skilled labour, cost-sharing with workers, predictable and smooth costs over time, and a clearer process for redundancies. Through sustaining consumer demand through recessions, the scheme will also reduce the risk of business closures in these conditions.

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[11] The tax wedge is the ratio between the amount of taxes paid by a worker on average earnings without children and the corresponding total labour cost for the employer. The average tax wedge measures the extent to which tax on labour income discourages employment. This indicator is measured in percentage of labour cost. Refer OECD. (2021). *Tax wedge (indicator)*. https://data.oecd.org/tax/tax-wedge.htm; see also *Tax on payroll (indicator)*. https://data.oecd.org/tax/tax-on-payroll.htm

[12] Current Stats NZ projections suggest that material changes in the age profile could be some time off. The labour force will age over the next 50 years, reflecting general ageing of the population and the increasing labour force participation among people aged 50 years and over. However, the proportion of people aged over 45 in the labour force is expected remain reasonably stable until around 2043.

Costs of an income insurance scheme can be shared between employers and working people

The Forum has worked hard to estimate the costs of establishing the proposed income insurance scheme. Understanding costs is important to deciding whether it is worth establishing the proposed scheme, and understanding the impacts on individual workers and the wider economy.

It is, however, difficult to determine with absolute certainty what the costs of the scheme will be. This reflects both our expectation that behaviour will shift in response to the scheme and that a large number of redundancies are not observable in our data at the moment. We have proposed an initial levy of 2.77 percent of salary and wages (inclusive of GST). This reflects a total annual cost of $3.54 billion (made up of $1.81 billion for displacement and $1.73 billion for health conditions and disability). This reflects a reasonable scenario of likely uptake of the scheme and best balances the risk of the scheme being under funded, with the risk of over-charging levy payers.

Following international best practice, the Forum proposes to raise the scheme’s costs largely from compulsory levies on employers and employees.

The Forum proposes a 50:50 split of the rate between employee and employers because it is simple and clearly shows this is a scheme where both the employer and employee are expected to contribute and benefit. This would result in a levy for employers and workers of 1.39 percent each.

A worker’s pre-loss income would determine their levies, and the size of their insurance payments. Levies and insurance payments would be lower for lower-income people, and higher for higher-income people.

Everyone’s situation will be different, reflecting their circumstances. The following are some illustrative examples for people who usually work 40 hours per week, and experience complete loss of work.

- A person working 40 hours per week, earning $880 (before tax), would pay $12.23 a week in social insurance levies. This person would receive $704 (before tax) per week in insurance payments.
- A person working 40 hours per week, earning $1160 (before tax), would pay $16.12 a week in social insurance levies. This person would receive $928 (before tax) per week in insurance payments.
- A person working 40 hours per week, earning $2000 (before tax) would pay $27.80 a week in social insurance levies. This person would receive $1600 (before tax) per week in insurance payments.

Workers’ insurance levies would be also matched by employer contributions.

People who receive insurance payments would also receive support from a case manager. The case manager would help an insurance claimant to plan their return to work, and connect them with any available employment or vocational rehabilitation services.

A new income insurance scheme provides benefits for employers too

The Forum recognises that the proposed scheme most directly benefits people who lose employment, but there are also benefits for employers.

A key goal of the social insurance scheme is to shift New Zealand to being a higher productivity economy where businesses generate more value and greater returns. The social insurance scheme will promote this goal through:

- longer job search periods that enable better matches between displaced workers and subsequent employers, improving the skills available to employers
- greater opportunities for displaced workers to retrain and upskill, also improving the skills available to employers
- greater opportunities and benefits for workers with health conditions or disabilities to stay in work or successfully return to their place of work, reducing staff churn and keeping experienced staff in businesses
- reduced worker resistance to change (through the confidence of an effective social protection system) leading to more support for business restructuring
- greater worker willingness to leave secure employment for opportunities in emerging and higher productivity sectors where there is a greater risk of displacement, and less need for entrepreneurs to offer premium wages to attract workers into start-ups
- sustaining consumer demand through recessions, reducing the risk of business closures.

Of the alternative models the Forum has considered – such as tenure-based statutory redundancy payments – a social insurance model offers specific advantages to employers. These include:

- clear cost-sharing with workers
- predictable costs
- smooth costs over time.

The proposal will also create a much clearer statutory basis for the redundancy process, reducing employers' exposure to litigation.

Employers will pay GST on their portion of the levies, but will be able to claim back this GST as they would with other business-related expenses. Over time, it is also likely that employer levies will be reflected in wages.

The proposed bridging payment is a direct cost to businesses making staff redundant, but it also lowers the overall cost of the scheme through reducing the number of claims, and ensuring that (for displaced workers) the costs for the first four weeks of entitlement are borne by the 'displacing employers', rather than all employers. The proposed refund mechanism will reduce this cost, where employers help their former employers into new work.

Finally, employers will have the peace of mind that they're helping working people to adjust to the life shocks of losing work due to a disability or health condition, or redundancy.

A new income insurance scheme will have distributional implications

Coverage of work arrangements and the design of the scheme can influence who is eligible for help. This can skew distribution of benefits and costs of the scheme to certain types of work and therefore the profile of workers. For example, while it can be more complex to design a scheme to cover non-standard work, the exclusion of this type of work may disproportionally affect some population groups (such as Māori, Pacific peoples, women and younger workers) and more vulnerable workers.

With the introduction of an income insurance scheme, all employees and some self-employed will bear the cost of the levy. This will reduce a worker's net income. How this affects households depends on individual and family circumstances. Low-income families are likely to feel the effects most materially. This is particularly important because broadly half of children in poverty in New Zealand are in working households.

Number of workers displaced varies from year to year

In 2009, during the Global Financial Crisis, around 77,000 people were displaced and not re-employed quickly. This dropped to about 23,000 in 2019 before rising again in 2020 to around 47,000 due to the impact of the COVID-19 pandemic. Young people, and young Māori in particular, are disproportionately likely to be displaced.

As noted earlier, the data collected in New Zealand captures only a portion of those displaced and not re-employed quickly, so these amounts understate the total number of people displaced. These figures exclude those who find alternative employment quickly. The nature of the economic downturn affects different industries which then affects different workers. For example, the biggest volume of permanent workers are in industries such as health care and social assistance, manufacturing, construction, retail trade and public administration and safety. Casual workers tend to be concentrated in industries such as accommodation and food services, education and training, retail trade, administrative and support services, and agriculture, forestry and fishing. Further, men were more affected by the 2008 Global Financial Crisis and the COVID-19 pandemic has had a significant impact for women.

The number of people leaving work due to a health condition or disability is less affected by the economic cycle. In 2020, 17,300 people left work due to a health condition or disability. Māori are disproportionately likely to leave work for health or disability reasons, and older workers (55–64 years and 65-plus years) face higher rates of displacement due to a health condition or disability. Growth has occurred in the numbers of younger people displaced, which is likely to reflect international trends in the prevalence of mental health conditions.

Most people are displaced from permanent work but non-standard workers make up a significant proportion of New Zealand's workforce

About 2.8 million people are in the labour force. Based on December 2020 figures, 1,702,600 employees are in permanent full-time work and 291,600 are in permanent part-time work. Men make up a higher percentage of permanent full-time work while women make up a higher percentage of permanent part-time work.

In terms of the non-standard workforce, this group comprises:

- 108,600 casual workers
- 49,600 fixed-term workers
- 22,200 seasonal workers
- 7,900 temporary agency workers
- 4,000 other temporary workers
- 343,500 self-employed without employees (and 181,900 self-employed employers).[13]

Casual workers are more likely to be women (55 percent) and are generally younger, with 44 percent aged 15 to 24 years. While the greatest number of Māori are in permanent full-time work, as a proportion, they over-represented in casual work as are Pacific peoples. Self-employed workers are more likely to be men and disproportionately New Zealand European.

The number of people with multiple jobs totals 65,900. People with multiple jobs are more likely to be women and younger people.

Based on current data, most people displaced for economic or health and disability reasons earn less than average

For those displaced for economic reasons, their monthly income before losing work was $3,368 (median). This is slightly above the adult minimum wage, for a full-time worker. Most workers displaced due to a health condition or disability were previously on very low incomes – a median monthly income of $2,269 at March 2021. Because this is below the adult minimum wage for a full-time worker, this suggests that many workers displaced due to a health condition or disability work less than full-time. This in turn could suggest that workers suffering from health conditions gradually reduce their hours before ceasing work completely.

Those with non-permanent work arrangements typically earn less than those in full-time permanent roles. By extending coverage to include non-permanent working arrangements (regardless of whether they lose their job due to economic displacement or health conditions and disabilities) the scheme helps to ensure that those on lower incomes can access the same support as those in permanent work. For example, 63% of those in non-permanent work earn less than $500 per week.

Casual workers provide a useful example of this. Casual working arrangements make up most non-permanent work; in December 2020 there were 108,600 such arrangements. Only a small proportion of these (less than 6%) earn over $1,000 per week, while almost half earn less than $500. In comparison, fixed-term workers tend to have higher incomes compared to other non-standard workers, but make up a very small proportion of the workforce.

Impact of levies

The actual levy and reduction in net income individuals will face will depend on their gross income. A reduction in net income is likely to be material for families already struggling to meet their fixed outgoing costs. Given access to existing support through the welfare system is based on gross rather than net income, entitlements (such as the Accommodation Supplement and Working for Families tax credits) will not increase, even with a net decrease in income from the income insurance levy.

13 As at December 2020.

Non-standard workers cover a variety working arrangements in New Zealand. However, not all non-standard workers have access to the full set of employment rights and responsibilities. Because people in all working arrangements will bear at least some cost of the levy (most self-employed will be required to pay only for the health condition or disability insurance), some working arrangements are more likely to feel the effects. The scheme proposes to cover the variety of non-standard working arrangements, including fixed-term, seasonal and casual, where there is a regular pattern of work and a reasonable expectation of future income. This will reduce issues of inequity (where some workers pay a levy but are not eligible for cover) and protect against people being forced into insecure working arrangements to avoid the levy.

The proposed levy on gross income of 1.39 percent will see a reduction of workers' net income as the following examples show:

- minimum wage earner (40 hours per week and around $800 per week) $11.20 per week
- median wage earner (around $1,060 per week at June 2020) $14.73 per week
- worker earning $500 or less a week, $6.95 per week
- worker earning $1,000 or more a week, $13.90 per week.

While the material effect of the levy could be greater for those on lower incomes, evidence suggests a greater incidence of economic displacement amongst those on lower incomes. Consequently, lower income workers would use and benefit from the scheme more frequently than those on higher incomes and will likely benefit from improved labour market outcomes over the longer term.

Impact for employers

Like employees, all employers will bear the cost of the levy. As a result, all costs for businesses will increase and small businesses may particularly feel the effect of increasing costs on earnings.

New Zealand has around 135,000 businesses with 1 to 19 employees (which are classed as small businesses). The median annual earnings for each worker of businesses of this size are $51,561. Assuming a business has 19 workers who are each earning $51,561, the levy cost to that business would be $13,617 per year (before deductions e.g. GST).

The cost of a four-week bridging payment for a business making a median income earner redundant would be around $3,400.

The Forum has considered alternatives to income insurance

Different approaches can be used to ensure financial support for people who lose work.

In addition to income insurance, the Forum has considered the roles of:

- personal savings and loans
- welfare payments
- redundancy payments.

Given our objectives and design criteria, the Forum considers each of these has a critical role, but important gaps remain that an income insurance scheme could fill. An income insurance scheme can complement these other sources of financial security.

The welfare system remains an essential safety net

Welfare payments remain an essential safety net, but main benefits provide a low wage replacement rate (or none at all) for some families, particularly higher earners and those with earning partners. This means that welfare can effectively smooth the incomes for some lower income families, while many others face significant drops in income following involuntary job loss, especially those not eligible for welfare support due to partner earnings.

Large income drops are likely to increase the pressure these workers feel to accept poor quality job matches, harming their long-run earnings and realisation of their productivity potential. Even a substantial increase in welfare payments would not provide a high replacement rate for many people who lose their jobs, but could mean some people are better off unemployed than in work.

Insurance schemes overcome this problem by providing a replacement income close to, but less than, the lost wages for a fixed period. This means insurance can smooth incomes, while preserving a work incentive.

Operating a welfare system alongside an income insurance system can raise equity concerns because income insurance payments are generally substantially higher than welfare payments. People who have recently lost work receive much greater replacement incomes than others. However, a large cross-over exists between the groups. For many people, higher insurance payments would substitute for lower welfare payments, and for some provide a smoother transition to welfare support.

The Forum's view is that insurance payments should be seen as the pooled savings of working people and employers who have put aside a modest amount of their earnings to protect each other against loss. The replacement incomes workers receive from an insurance scheme would be proportional to contributions from their wages and salaries. This is how the accident compensation scheme operates.

Income insurance schemes usually complement – rather than replace – social welfare systems. Most countries operate both insurance and welfare schemes. Welfare remains essential where people reach the end of an insurance entitlement or are not eligible for insurance. If New Zealand introduced income insurance for health conditions or displacement, the Government would remain fully committed to overhauling the welfare system.

Because insurance aims to replace lost wages, welfare systems usually treat insurance payments as though they were wages or salaries, and adjust any welfare payments accordingly. Getting the 'interactions' right with existing benefits, tax credits and other support is an important part of an income insurance scheme design.

Individual savings are still important

Individual savings accounts (such as KiwiSaver) remain an essential provision for retirement, but problems are involved with relying on such accounts to smooth incomes following displacement or loss of work due to health conditions or disability. If workers could readily access KiwiSaver following job loss, this could undermine KiwiSaver's primary goal of financing retirement. Further, the amount of savings available in an individual account would vary substantially depending on a person's age, working patterns, earnings levels, previous need to call on the savings, and their contributions at the time of job loss. The people who most need them may be those with the least savings.

Income insurance schemes avoid the shortcomings of individual savings schemes by pooling all contributions. This means all eligible people are guaranteed the same replacement rate, and individual contribution costs remain low.

People who lose their jobs can also consider borrowing money, but may struggle to borrow when their ability to repay loans is uncertain. Borrowing is also a risky option for someone in the middle or later stages of their career.

When calculating entitlements, insurance schemes normally disregard any personal savings or other assets.

Redundancy payments can be useful

Some workers are also entitled to a redundancy payment, where this is included in their employment agreement. Around 90 percent of people on collective agreements have a redundancy compensation entitlement, but little is known about most employees' entitlements in individual employment agreements. For a redundancy payment to smooth incomes effectively, for most workers, the payment would need to be both relatively large and compulsory. This is difficult to achieve because:

- redundancy payments are usually linked to tenure in a particular job (and so provide little support for people who have recently joined a firm)
- redundancy payments are not available in some types of non-standard employment
- many failing businesses are not in a position to make redundancy payments
- even viable businesses wish to avoid making provision for potential redundancy costs (contingent liabilities).

Redundancy payments are also not available to people who lose work due to a health condition or disability.

When calculating entitlements, insurance schemes normally disregard any assets, such as redundancy payments.

If New Zealand introduced income insurance for health conditions or displacement, it is likely some working people and (prospective) employers would change the way they negotiate provisions for redundancy payments for future employees. Where a redundancy provision exists within an existing employment agreement, it can only be changed with the agreement of both parties. It is hard to know how this would play out over time, but it is likely both parties would place less reliance on redundancy payments with an income insurance scheme in place.

This discussion document also proposes introducing a minimum redundancy notice period and 'employer bridging payments' as part of an insurance scheme, to help workers get another job and prevent unnecessary redundancies in the first place. With a bridging payment, employers would pay a displaced worker's wages for the initial period of unemployment, before insurance payments started. Bridging payments would also likely diminish the role of negotiated redundancy payments.

The Forum considers the benefits of income insurance for job loss due to displacement or health conditions would outweigh its costs

Introducing an income insurance scheme for job loss due to displacement or loss of work due to health conditions and disabilities would be a significant reform, perhaps the largest of its kind since the introduction of the accident compensation scheme in 1974.

A new insurance scheme would impose additional costs – and provide additional benefits – across the whole workforce.

The Forum has considered alternatives to an income insurance scheme. Compared with these other approaches, an income insurance scheme can most effectively ensure a replacement income that is close to lost wages, for a reasonable time, with wide coverage.

The Forum is confident an insurance scheme would effectively minimise the immediate financial impact of losing income and work, for workers and their families, especially with broad coverage and a relatively high replacement rate. Working people would contribute a modest portion of their wages in exchange for a high level of income protection and the peace of mind that brings.

This is important in a world where the nature of work is changing rapidly. This could mean more frequent displacement and more frequent involuntary career changes.

An income insurance scheme would not only enhance support for workers in this situation but could also 'de-risk' some occupational choices. Currently, a worker may be reluctant to change occupations or industries for fear the new employment is insecure. An income insurance scheme could reduce some of this risk, leading to more participation in emerging industries that are more productive.

The Forum is also confident an insurance scheme would support the wider economy through maintaining consumer spending through economic shocks and keeping people connected to their employers.

The Forum expects an insurance scheme would help people return to good jobs, especially with investment in effective support to find and prepare for work.

The Forum is confident an insurance scheme can be designed to be equitable, affordable and coherent with related policies.

In return, workers could expect a continuing income that largely replaces lost wages, if they were displaced or unable to work. The payment would not be affected by any partner earnings, savings or assets, or redundancy payments. The payment would last long enough to search for work, to adjust to changed circumstances, to complete some retraining or upskilling, or to receive medical care.

We think that's a good deal for New Zealand's working people and employers.

Your views

1. Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?

5 Honouring Te Tiriti o Waitangi

Voice of Māori and hearing the views of Māori

We recognise the importance of meeting the Government's obligations under Te Tiriti o Waitangi in the design of this income insurance scheme. In particular, the scheme will apply the principles kāwanatanga (governance), tino rangatiratanga (independence) and rite tahi (equity of rights).

A Māori perspective is also required to guide the design, development of the policy and operation of the social insurance system. This approach means engaging with Māori in meaningful partnerships in design, delivery and evaluation of services to Māori, including mainstream services.

Applying these principles and approach will help ensure the scheme delivers on good governance and partnership, supports Māori autonomy and ensures equity of access, participation and outcomes for Māori.

In developing this discussion document, the Social Unemployment Tripartite Working Group engaged early with the Ministry of Social Development's Māori Reference Group and Te Puni Kōkiri. Later in the process, the Working Group engaged with the Accident Compensation Corporation's (ACC's) Māori Customer Advisory Committee and the Runanga of the Council of Trade Unions, as well as various stakeholders from across government.

Our engagement with Māori continues with this discussion document, where we are seeking Māori perspectives on the design of the scheme and its likely impacts on Māori. The Working Group will seek the views of Māori, including Māori businesses and iwi, understand what the effect for Māori may be, and discuss how the scheme can best enable Māori aspirations.

Tino rangatiratanga and rite tahi – Equity of access and outcomes and supporting independence

Māori will make up one-sixth of New Zealand's workforce by 2038. Compared with the rest of the workforce, Māori workers are younger. The 15 to 24 year olds represent a higher percentage (21.0 percent) of employed compared with New Zealand Europeans (14.5 percent). The younger and growing Māori population will be essential to support New Zealand's future workforce.

Māori have made significant gains in terms of skills and education.[xxxvii] Despite this, a relatively high proportion of Māori are in lower-skilled and lesser paid occupations and in industries particularly vulnerable to changes in technology and economic cycles (for example, manufacturing, wholesale and retail trade and construction).

Māori have tended to be affected by displacement at higher rates than Pacific peoples or Asian people, and are disproportionately likely to be made redundant relative to their share of employment (an average of 21 percent of those displaced were Māori, compared with 13 percent of those employed). Māori men are affected in higher numbers than Māori women.

Because they face a greater risk of job loss due to displacement or a health condition or disability, we expect the scheme will especially benefit Māori workers. With entitlements based on an individualised assessment, eligibility is wider than welfare, so more whānau will be supported following loss of work.

In particular, for young Māori who are displaced, the scheme could provide a potential pathway to gain the skills and qualifications required in the labour market. This would bring them social and economic benefits and provide employers with the right type of employees to fill future labour market demand.

Māori have a comparatively high disability rate for a population with a relatively young age structure, and evidence indicates Māori are disproportionately more likely to leave work for health or disability reasons. The 2013 New Zealand Disability Survey identified that Māori with disabilities tend to fare worse than non-disabled Māori across a range of outcomes. The scheme is likely to benefit Māori with disabilities who access it in similar ways as non-disabled Māori, as well as provide time to address the effect their health condition or disability has on their wellbeing and support a return to work, where appropriate.

Internationally, indigenous people tend to lack coverage under social security schemes because they often engage in informal work. Where they are covered, they may not meet the eligibility conditions to realise entitlements or are unable to effectively access financial help and other support. This is one of the reasons why the Forum proposes a scheme that covers a variety of working arrangements.

International experience also shows that more stringent eligibility settings, such as employment or contribution history requirements, can be more difficult to meet for people in non-standard working arrangements. While greater numbers of Māori are in full-time permanent employment, they are over-represented as a proportion of casual workers (18.4 percent) and significantly over-represented in fixed-term work arrangements (32.4 percent). The comparatively low contribution history requirement proposed for a New Zealand scheme aims to ensure coverage and access for non-standard workers.

Some Māori face barriers to accessing services and support, and when they do the support and services may not work for them. For example, Māori account for 26 percent of ACC's active sensitive claims (for mental injury suffered because of sexual abuse or sexual assault) and for 24 percent of the active serious injury claims, despite representing 16.6 percent of New Zealand's population. Overall, Māori are under-represented in making claims. The design and delivery of policies and programmes aimed at supporting Māori social insurance claimants into work should be sourced from or informed by te ao Māori.[xxxviii]

One-in-five Māori report having a disability, and due to the young Māori population and higher susceptibility of Māori to disabling health conditions as they age, the incidence of disability is expected to increase. Māori disproportionately leave jobs because of a health condition or disability and generally have worse health outcomes than non-Māori. The governance and delivery of the scheme will need to ensure it also meets the needs of Māori with disabilities and health conditions and their whānau.

Improving how services are delivered for Māori is important across the whole public service. Work is under way that the scheme could build on and leverage, such as the Ministry of Social Development's *Te Pae Tata – Māori Strategy and Action Plan*, ACC's Whāia *Te Tika Māori Strategy*, and changes to the Health and Disability System, for example, establishment of the Māori Health Authority. Whānau Ora also provides a model for delivery of services to support whānau and families.

Some groups of Māori will not benefit from the scheme. Māori are over-represented among working-age people in receipt of main benefits. They will therefore represent a greater share of those who are ineligible for income insurance because they are not in employment and able build up contributions. It will be important to continue with efforts to ensure that levels of benefits improve and Māori currently not in employment are also able move into good work.

People who reduce their hours of work or stop work entirely to care for a family or whānau member will not be covered by the scheme. Evidence shows that, in the case of caregiving, disadvantaged families are more likely to engage in caregiving than those with greater financial resources because they are less likely to be able to afford formal care and may have fewer labour market opportunities.[xxxix] While data is limited on the number of people who reduce their hours or completely stop paid employment for caring responsibilities, nearly two-thirds of carers are employed outside their caring role (63 percent in full-time or part-time employment). Without support, some of these workers may need to reduce their hours or give up work entirely to care for family and whānau members. Carers are twice as likely to be women, and Māori women are more likely to be carers than women in the general carer population and are typically younger.[xl]

Financial help and other support for carers is available through the welfare and health systems, including Funded Family Care, which has changed to pay partners and spouses to look after family members and those caring for children under 18 years. The *Mahi Aroha: Carers' Strategy Action Plan 2019–2023* has a new focus on population groups, including Māori carers, and has actions to support carers in paid work and support carers' pathways to employment.

Kāwanatanga – Good governance and partnership

The way the income insurance scheme is governed, delivered and evaluated should recognise a partnership approach, to ensure Māori have real authority to develop and implement policies that address Māori needs and respect te ao Māori. This could be achieved in several ways, such as representation at the governance level (representation on the Board and/or advisory group to the Board), kaupapa Māori approaches to research, evaluation and policy development, and perspectives of Māori social insurance claimants that inform service delivery.

How the scheme's performance is measured will be an important driver for its shape as it evolves. We therefore need to ensure the scheme's performance indicators reflect a commitment to equitable outcomes for Māori.

By designing a scheme that works for and delivers equitable outcomes for Māori, the scheme can help reduce the social and economic inequities Māori workers face, in particular, the disproportionate risk of job loss due to displacement, health conditions or disabilities.

Your views

2. How can we ensure the proposed income insurance scheme honours Te Tiriti o Waitangi?
3. What are the opportunities for partnership and Māori representation in the proposed income insurance scheme's governance and operations?
4. How can we ensure equity of access, participation and outcomes for Māori in the proposed income insurance scheme?
5. How can we reflect and embed te ao Māori in the proposed income insurance scheme's design?

Part 3:

A new income insurance scheme

6 Coverage for displaced workers

This section focuses on how people would qualify for income insurance on the basis of displacement.

Proposal

Coverage provided for displacement

- The scheme would cover displacement (the loss of work, due to the disestablishment of a job).
- The scheme would not cover job loss due to poor employee performance, gross misconduct, or resignation.
- The scheme (for displacement) would cover complete job loss only (including full loss of a part-time job where a person remains engaged in other employment).

Coverage provided for most working arrangements

- The scheme would cover most working arrangements:
  - full- and part-time permanent employees (casual and fixed-term employees whose pattern of work resembles permanent employment, and who have a reasonable expectation of future income, would also be treated as permanent)
  - fixed-term and seasonal employees (where displacement prevents completion of time-limited employment agreements, with entitlements covering the remainder of the employment agreement).
- The scheme would seek to cover those self-employed people who most resemble employees.

Coverage dependent on minimum contributions, with limits for subsequent claims

- To qualify for insurance payments, workers would also need to have contributed to the scheme for six months or more over the 18 months preceding the claim.
- Statutory parental leave would be included in the qualifying period.
- A limit would apply so workers could only claim up to six months of entitlement every 18 months.

Coverage provided for New Zealand citizens and residents

- Insurance payments would be available to New Zealand citizens and residents only.

Displacement and standard employment (full- and part-time permanent employees)

Issues and options

The main purpose of insurance is to protect people from the effects of adverse events beyond their control. This discussion document proposes an income insurance scheme for displacement. Defining displacement is important because this also defines how people qualify for insurance payments.

Defining displacement and redundancy

Neither redundancy nor displacement are currently defined in the Employment Relations Act 2000, but a commonly accepted definition is provided by the Labour Relations Act 1987. Section 184(5) of the Act defined redundancy as:

… a situation where…[a] worker's employment is terminated by the employer, the termination being attributable, wholly or mainly, to the fact that the position filled by that worker is, or will become, superfluous to the needs of the employer…

The common law accepts the right of the employer to determine the structure of the business and, therefore, to make positions redundant subject to any redundancies being genuine and carried out in a fair and reasonable manner.[xli]

Similar definitions are offered by the Organisation for Economic Co-operation and Development (OECD) and in Australian legislation. In its report on support for displaced New Zealand workers, the OECD notes that:

…job displacement refers to workers involuntarily separated from their job as a result of structural and technological change – such as redundancies, permanent layoffs, firm closures or mass dismissals.[xlii]

Australia's Fair Work Act 2009, section 389, defines genuine redundancy as follows:

1. A person's dismissal was a case of **genuine redundancy** if:

   a) the person's employer no longer required the person's job to be performed by anyone because of changes in the operational requirements of the employer's enterprise; and
   b) the employer has complied with any obligation in a modern award or enterprise agreement that applied to the employment to consult about the redundancy.

The emphasis in these definitions is on the disestablishment of a position, rather than the worker who occupies the position, leading to the loss of work.

Displacement can arise in two broad situations:

- restructuring, where a firm changes its business model or reduces in size so that some positions are no longer required, and the employer and employee cannot find suitable alternative work within the firm (redeployment)
- where the entire firm ceases to operate.

The term 'redundancy' can be reserved for the first situation, with 'displacement' used as a broader term describing both situations. In either situation, the employee has lost their job through no fault of their own. In this document, we use the term displacement to refer to both situations.

Displacement excludes situations where:

- an employee chooses to end the employment relationship (including constructive dismissals)
- an employee is dismissed on the grounds of poor performance or misconduct.

Displacement and standard working arrangements

Most working New Zealanders are in permanent, full-time employment (at least 30 hours per week): 1,702,600 people, at the end of December 2020. For this group, men are somewhat over-represented compared with women (56 percent), and average weekly gross incomes are highest (63 percent earn more than $1,000 a week). The top five industries by volume of employees are: health care and social assistance; manufacturing; construction; retail trade; and public administration and safety.

While Māori are under-represented in this group relative to their share of the overall population (13.6 percent compared with 16.7 percent), the greatest number of Māori in the workforce are in permanent full-time work (245,200 people).

The concept of displacement is readily applied to these standard working arrangements, where a permanent employment relationship exists between an employer and an employee. This could be part-time or full-time employment. People with more than one part-time job (multiple job holders) can also face displacement.

Because the concept of displacement is readily applied to standard working arrangements, it is also reasonably straightforward to use it as the 'triggering event' for an insurance entitlement.

The concept of displacement is less applicable where no employment relationship exists (as in self-employment), or where only a limited expectation of ongoing employment exists (fixed-term employment) or no expectation of ongoing employment exists (casual employment).

Because the concept of displacement is less readily applied to non-standard working arrangements, it is more challenging to define a 'triggering event' for an insurance entitlement. We address how insurance entitlements could be triggered for non-standard working arrangements later in the chapter.

Preferred option and rationale

The Forum proposes that a New Zealand income insurance scheme would adopt a definition of displacement consistent with well-established international practice and New Zealand common law.

The main elements of this definition would include the loss of work, due to the disestablishment of a position. In doing so, the Forum proposes that income insurance coverage would exclude job loss due to poor performance, gross misconduct or resignation.

Any future income insurance legislation would need to establish a formal definition of displacement for the purpose of administering the scheme.

Your views

6. Do you agree with defining displacement as the involuntary loss of work due to the disestablishment of a job?
7. Do you agree with excluding poor performance and gross misconduct as reasons for claiming insurance?
8. Do you agree with excluding resignation as a reason for claiming insurance?

Coverage provided for complete job loss only

Issues and options

Working people can be exposed to total and partial displacement. An income insurance scheme could cover total loss only or also cover degrees of partial loss.

The main scenarios to consider are:

- complete displacement from a full-time job
- complete displacement from a part-time job
- partial displacement from a full-time job (a loss of hours within a job).

The main questions are whether to cover the loss of part-time work or the partial loss of a full-time job. Excluding part-time workers would significantly limit insurance coverage.

A small but substantial number of people are in permanent part-time employment: around 291,600 people. This group is dominated by women (75 percent) and younger people (29 percent are aged 15 to 24 years). Most earn less than $500 a week on average (67 percent). Just over a quarter of people in part-time work (26 percent) are underemployed; that is, they wanted more hours of work.

Some people hold more than one part-time job. At the end of December 2020, about 65,900 people had more than one part-time job ('multiple job holders'). This group is disproportionately made up of women (62 percent) and younger people (22 percent).

Such multiple job holders are also vulnerable to displacement. An insurance system could exclude coverage for multiple job holders who lose one of their jobs. However, this would significantly disadvantage this group, because they would only qualify for insurance in the rare event they lost all of their jobs at the same time.

Preferred option and rationale

The Forum proposes that insurance for displacement would cover complete job loss only, including situations where a person loses only one of several jobs that they hold.

The scheme would not cover a reduction of hours within a job.

This approach ensures most instances of displacement would be covered, while managing the scheme's costs, and would be easier to administer than a scheme that covered a reduction of hours within a job.

This threshold is intended to reduce the number of claims for small amounts of lost income where the amount of income replacement would not have much effect on income smoothing. This would also reduce the administrative burden on the scheme by preventing many small claims.

Where multiple jobs are held, insurance would be payable only where the income loss (for example, from losing one of the jobs) was greater than a 20 percent loss of total earnings, counting income from all of the jobs. This reflects the intention of the scheme to only replace up to 80 percent of pre-displacement income.

Your views

9. Do you agree that income insurance should cover only the complete loss of a job, and cover situations where a person loses only one of several jobs that they hold?
10. Do you agree that insurance would be payable only where income loss was greater than a minimum threshold, such as a 20 percent loss of total earnings, counting income from all of their jobs?

Displacement and non-standard employment – a principle-based approach

Issues and options

Income insurance schemes can struggle to include non-standard working arrangements effectively. But it is desirable to include this group as far as practical.

Including non-standard workers extends the benefits of insurance to a wider portion of the labour force, including more vulnerable workers, and avoids the distortions that can arise when some groups are exempt from levies.

This group forms a reasonably large segment of the workforce. As of December 2020, it comprised around:

- 108,600 casual workers
- 49,600 fixed-term workers
- 22,200 seasonal workers
- 7,900 temporary agency workers
- 4,000 other temporary workers
- 343,500 self-employed without employees (and 181,900 self-employed employers).

The scheme's ability to cover these workers, or not, will have significant distributional effects for different parts of the population because the workforce making up these categories is different from the permanent workforce. For instance, casual work tends to be lower paid (63 percent earn less than $500 a week on average), casual workers are more likely to be women (55 percent) and are generally younger (44 percent are aged 15 to 24 years).[xliii] Māori and Pacific peoples are over-represented as a proportion of casual workers (18.4 percent and 9.8 percent respectively). Seasonal work is more likely to be done by men (60 percent), and Māori are significantly over-represented in this form of work (32.4 percent).

Māori are over-represented in most non-standard working arrangements, for instance: 32.4 percent of seasonal workers and 18.4 percent of casual workers are Māori (compared with 16.7 percent of the population). In general, the proposal to cover non-standard working arrangements, such as seasonal and some casual workers, means that income insurance will help to cover more Māori workers.

On the other hand, Māori are under-represented in self-employed working arrangements, making up 8.2 percent of all self-employed workers.[14] The proposal to cover some, but not all, self-employed workers in the scheme has a relatively smaller effect for Māori compared with other groups.

Preferred option and rationale

To cover non-standard working arrangements, the scheme will need specific settings to assess eligibility and entitlements. The Forum proposes a principled approach to inform these policy settings.

[14] The result is that a higher proportion of Māori are in permanent (full time or part time) wage or salary employment than average, when self-employment is included. Seventy-eight percent of Māori (and 82 percent of Pacific) workers are permanent employees, whereas 72 percent of European are workers are permanent employees (average 2016–20).

The first main principle is that income insurance would cover the 'loss of reasonably anticipated income'. This is income a worker could reasonably have expected to have received from their work, during the period they could reasonably have expected to work. For fixed-term workers this would usually be the length of their remaining employment agreement, but a succession of fixed-term agreements with one employer could suggest the arrangement is similar to permanent employment.

The second main principle is that income insurance entitlements would be based on an 'established pattern of work'. Part-time, casual and other non-standard workers might not have employment agreements that state their expected hours or conditions. Because insurance is intended to substantially replace actual losses, the true nature of the employment arrangement – as shown by established work patterns – would be more important than what appears in any written employment agreement.

Detailed guidance will be developed to specify what exactly amounts to 'reasonably anticipated income' and an 'established pattern of work'.

To cover non-standard working arrangements, the scheme will also need specific settings to assess their entitlements. These are discussed in the subsequent sections.

Your views

11. Do you agree that it is important to provide income insurance coverage to non-standard workers, where practical?
12. Do you agree that income insurance should cover the 'loss of reasonably anticipated income'?
13. Do you agree that income insurance entitlements should be based on an 'established pattern of work'?

Coverage provided for fixed-term and seasonal employees

Issues and options

Fixed-term employees have a fixed end date, so the worker only expects income until the end of the employment agreement.

Seasonal employees are similar to fixed-term employees. Seasonal employees have contracts that guarantee work for a fixed period, based around a particular time of the year.

Two main questions need to be considered for fixed-term and seasonal employees:

1. the triggering event for insurance: as well as coverage for early termination of employment, insurance could also cover situations where a fixed-term or seasonal employment agreement is not renewed, despite a pattern of previous renewals.
2. the duration of an entitlement: if a fixed-term or seasonal employee was made redundant before the scheduled end of the employment agreement, insurance coverage could last for the balance of the (planned) engagement or for longer.

Preferred option and rationale

The Forum proposes fixed-term and seasonal employees would be eligible for displacement payments if they are displaced before the planned end of an employment agreement. The payment would last until the planned end of the employment agreement, or for the maximum length allowed by the scheme, whichever is shorter. This ensures only expected income is replaced by income insurance.

The Forum further proposes to cover fixed-term and seasonal workers beyond the end of the employment agreement, where a regular pattern of work is evident and a reasonable expectation exists of future income. We define these as follows:

- Regular pattern of work: workers may establish a pattern of work by repeatedly taking fixed-term or seasonal contracts with the same employer.
- Reasonable expectation of future income: although an expectation will be clearest in situations where an agreed contract is in place for work, a seasonal worker may have worked regularly for the same employer so that the next season’s work is part of their employment expectations.

In general, workers who meet these criteria, whether they are fixed term or seasonal, will be eligible for income insurance should the expected work not be available. Annex 4 has more information on evidential requirements. It may be useful for the scheme to identify, based on established industry practices, standard start and end dates for seasonal work for relevant sectors.

Your views

14. Do you agree that income insurance should cover fixed-term and seasonal employees if they are displaced before the end of an employment agreement, with the duration of the payment running to the scheduled end of the employment agreement, or the maximum insurance entitlement duration, whichever is shorter?

15. Do you agree that income insurance should cover fixed-term and seasonal employees, where their employment agreements are not renewed, and they can show a regular pattern of work and reasonable expectation of future income?

Coverage provided for casual employees

Issues and options

A defining feature of true casual workers is that they do not have a regular pattern of work with an employer. Workers may find out on the day, or at the start of a week, if they will be working in a particular role. These ad hoc working arrangements make coverage for casual workers more difficult because it is less clear that they have a reasonable expectation of ongoing income from an employer.

If a regular pattern of work does exist, and the work is terminated, then the true nature of the employment relationship may be part-time, permanent employment, and so covered by the scheme.

In those cases – where a casual employee exhibits the characteristics of a part-time permanent employee – the main consideration of the Forum has been whether the scheme should be able to determine that the worker is entitled to unemployment insurance in the absence of a court decision.

We recognise that, even though no regular pattern of work exists, a casual worker may suffer displacement from not receiving casual work where they might have expected to receive work due to a weather-related event or the closing of a company they work for.

Preferred option and rationale

As for fixed-term and seasonal employees, the Forum proposes to cover workers who can prove a regular pattern of work and a reasonable expectation of future income.

Casual employees claiming insurance would also need to identify an event that has interrupted their work. That interruption must be based on an event and their casual employer(s) must certify that they would have employed the casual worker except for that event. The employer will need to certify how long they would have employed the casual worker if the event had not occurred, which will determine how long the worker is eligible to receive payments. That must be consistent with their regular pattern of earnings. Where the employer has gone out of business, they may not be available to respond to the insurer's enquiries. The insurer would be empowered to make a determination in this and other situations, where information is not forthcoming from the employer, based on the evidence that is available to them.

The types of events envisaged as triggering these criteria include the liquidation of an employer, or a weather-related event that prevents casual work being carried out (such as floods for agricultural work). Some casual workers may be affected by such events, but cannot show a regular pattern of work or an expectation of future income. These casual workers would not be eligible for insurance payments.

To cover casual workers who meet the eligibility requirements, it may be necessary for the scheme to make a determination that a casual worker is, in fact, in a permanent part-time employment relationship. The Forum proposes that the scheme will be able to make a determination on this before, and without prejudice to, any separate court decision on the same question. The scheme provider would seek to use the same criteria as the courts to reach this view. But in taking this approach it may mean the scheme and the courts reach different decisions.

Where the scheme has declined coverage to a worker who is later found by the courts to be in a permanent role, the courts will be able to consider appropriate remedies and compensation for the worker.

The Forum considered excluding casual workers from the scheme and not taking a 'regular pattern of work' approach to seasonal and fixed-term work. While these options would be administratively simpler, the Forum preferred to include them to ensure the scheme could achieve the widest coverage possible. This has benefits for equity reasons (employees who contribute to the scheme will be eligible), distributional impacts (covering casual workers will benefit a segment of workers who are particularly low income and predominantly Māori) and because it inherently benefits the scheme to have a wider pool of participants.

Your views

16. Do you agree that income insurance should cover casual employees who can show a regular pattern of work with an employer and a reasonable expectation of future income?
17. How would these design choices work in practice? What risks can you see with the approach to establishing a regular pattern of work?

Coverage for self-employed workers

Issues and options

Context

International experience shows that self-employed workers are amongst the most difficult to include effectively in income insurance schemes. The Forum has devoted considerable attention to finding ways to cover self-employed people effectively.

Overseas schemes take different approaches to self-employment. No comparable scheme has full, compulsory cover for the self-employed, which reflects the difficulty of covering this group of workers. In some countries, such as Canada, the self-employed are eligible for health and other similar cover but not for displacement. In other countries, the self-employed can opt-in to a scheme, but once inside the scheme face difficult conditions for triggering cover (such as completely closing their business).

New Zealand’s accident compensation scheme enables cover for self-employed workers of all types. Self-employed workers pay the full levy appropriate to their business type, and options are available to pay for a set level of income replacement cover.

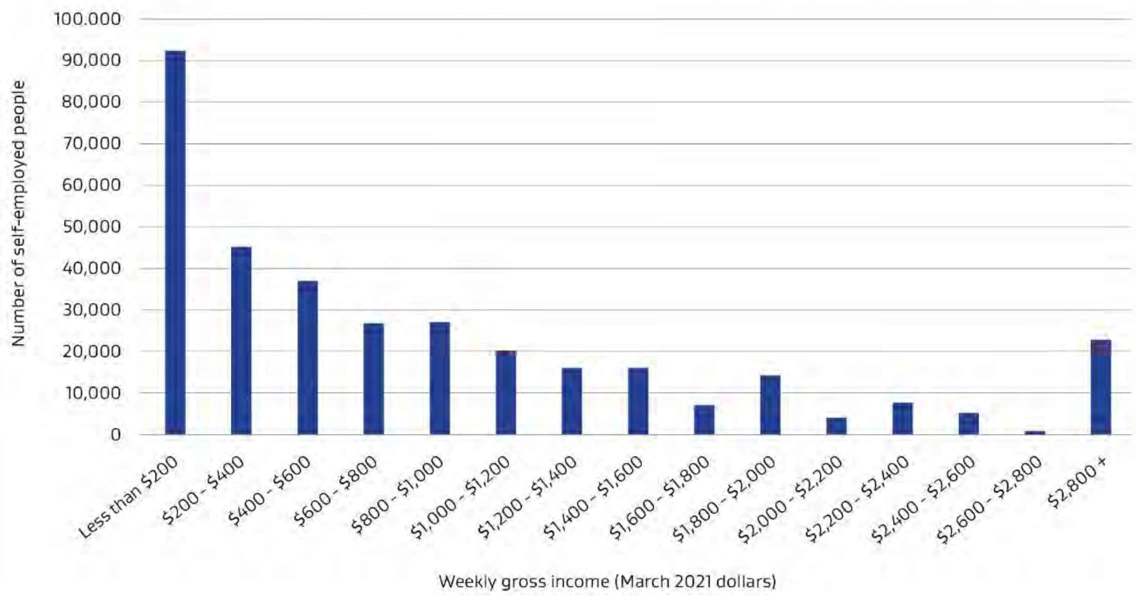
Self-employed workers are a diverse group and include business owners, sole traders, platform workers (for example, Uber drivers), contractors and freelancers. Many self-employed people are also employers. Each of these working arrangements will interact differently with the scheme.

The self-employed workforce has a different composition from the permanent workforce. At December 2020, the primary job for 343,900 individuals was self-employment without employees, and a further 182,000 were self-employed people with employees. These workers are more likely to be men (60 percent), older (40 percent are aged over 55 years) and to identify as New Zealand European (75 percent). Māori and Pacific peoples are disproportionately unlikely to be self-employed (making up 8.2 percent and 2.4 percent of self-employed people respectively).

Within this cohort is a wide range of incomes and a disproportionately large number of low earners (see figure 2). The 2018 Survey of Working Life suggested about 71,200 people were self-employed and relied on one client for more than half of their income.[xliv] The survey identified a further 72,600 who did not rely so much on one client, with the remaining being self-employed in other types of arrangements. These may be tradespeople, sole traders or small business owners.

At the end of June 2020, the mean weekly gross income for self-employed people without employees was $908.16 and the median was $585.24 (both adjusted to March 2021 dollar values).

Figure 2: Weekly gross income for self-employed people in New Zealand (March 2021 dollars), June 2020



Source: Ministry of Business, Innovation and Employment

Coverage of self-employed workers presents challenges

Everyone can experience hardship while unemployed, so, ideally, self-employed workers should be treated the same as standard employees under an income insurance scheme. A scheme that covers all workers, regardless of what their prior employment was, would ensure everyone receives the benefits of the scheme. This approach also avoids incentives to reclassify work. If self-employed workers are not covered, people may want to be self-employed. Employers may pressure employees to change their relationship to self-employment, to avoid paying the levy, or seek standard employment to obtain the benefits of the scheme.

Despite this, we know less about how often, and for what reasons, self-employed workers move in and out of work, compared with standard workers. Therefore, including self-employed workers may make the cost of the scheme more uncertain and could potentially increase its cost to all workers if self-employed workers move in and out of work more often than other workers.

Self-employed workers are also difficult to include in an insurance scheme because it is hard to define an equivalent to a 'no-fault redundancy' type event, as well as distinguish between standard business risk and a redundancy-type event. This could increase the complexity and uncertainty of the scheme, which may also result in higher costs.

Self-employed workers typically have more control over whether they work at any given time, and how much. For this reason, the design of the scheme needs to address:

- integrity challenges, to ensure a method is in place for verifying that only involuntary reductions in work are covered, not planned or voluntary reductions
- sustainability challenges, for instance, by reducing the likelihood of people repeatedly claiming for insurance
- the complexity of the scheme (and therefore the administrative burden)
- minimising the extent to which the scheme takes on standard business risks that should sit with business owners, such as product fit and competitive pressures.

Because of the differences between self-employed and other workers, some of the design choices (discussed below) may look quite different from those proposed for standard workers.

Many of these issues may not apply to job loss due to health conditions and disability. Coverage for health conditions and disability could therefore operate in much the same way as the accident compensation scheme weekly payments do for self-employed workers.

Preferred option and rationale

Approaches to the coverage of self-employed workers

Challenges are involved in considering the coverage of self-employed workers. Parallel to this income insurance project, a tripartite working group is considering alternative ways to categorise self-employment. The Working Group's advice, due with the Minister for Workplace Relations in November 2021, could inform the Forum's approach to insurance coverage for the self-employed.

For now, the Forum proposes to seek public views on the question of insurance for self-employment, and to wait for the Working Group's advice, before reaching a final view. The following discussion on alternatives is provided to help submitters reach their own views on the best approach, and to inform submissions to the Forum.

The Forum has explored four alternative approaches:

1. exclude all self-employed workers, or
2. compulsorily include all self-employed workers, or
3. compulsorily include contractors who depend on a small number of clients (because they have similar characteristics to employees), or
4. offer an opt-in scheme for all self-employed workers (potentially with those self-employed who resemble employees compulsorily included).

Ideally, the Forum would like the scheme to cover self-employed workers who most resemble employees, such as those with a small number of clients. Covering these self-employed workers is desirable because their risk of displacement is similar to standard employees. Like employees, they face the risk that a principal will no longer require their services, effectively making their position redundant, leading to involuntary and no-fault displacement.

This is not the case for self-employed workers who have more autonomy. Such self-employed workers have more control over their working arrangements, provide services to many principals, often choose to take on business risks, and would have more opportunity to arrange their affairs to qualify for insurance.

The Forum does propose that all self-employed workers, including those who are more autonomous and less reliant on a handful of principals, would receive coverage for health conditions and disabilities, because there is less risk these workers would arrange their affairs to qualify for insurance arising from health conditions and disabilities.

Given the complexities with covering self-employed workers, this group could be excluded from the scheme

It is common practice in international schemes to exclude self-employed workers. Choosing not to cover the self-employed, at least in the short-term, would make the scheme simpler and reduce risk. Many self-employed workers may feel they have priced-in the additional risks associated with self-employment, and therefore an income insurance scheme should not be compulsory.

However, this approach may not reflect the reality of New Zealand's future of work. In recent years, and especially since the COVID-19 pandemic, the growth in the self-employed workforce internationally has led some countries to look at how to extend coverage of their insurance schemes to self-employed workers.

Not covering self-employed workers could also distort hiring incentives, because employers would incur lower costs than if they hired employees. Vulnerable workers may be particularly susceptible to employers seeking to reclassify standard work arrangements to avoid paying the levy.

The scheme could compulsorily include all self-employed workers

Including all self-employed workers would ensure the self-employed receive the same benefits as standard employees and remove incentives to reclassify work arrangements.

The main challenge with this approach is designing rules that are simple and apply sensibly to such a diverse group. For example, contractors who rely on a few clients for their income are quite different from business owners who may have thousands of customers. While the former may experience hardship if one main contract ends prematurely, the latter may experience a steady decline in income before complete business failure, and the end of the business may be self-determined. Therefore, the trigger points for determining eligibility for cover may need to be designed to cater for these different employment situations.

Integrity rules would also be needed to deter workers or employers from gaming or otherwise taking advantage of the scheme, especially when some self-employed are able to control when and how much they work. Stricter trigger conditions for eligibility may be needed, as well as stricter re-entry requirements to avoid multiple claims over a short time.

A balance will be needed to ensure the rules protect the integrity of the scheme but do not unnecessarily limit its benefits.

Design elements, such as bridging payments and the length of entitlement, may also need to be tailored for this group. For example, for many self-employed workers who are displaced, there will be no single counterparty to account for the bridging payment.

Compulsorily include contractors who depend on a small number of clients

This approach would cover those self-employed workers who have a high degree of dependence (20 percent or more of their income) on one client or counterparty and have no more than five counterparties in any one year. We expect this would generally include contractors such as platform workers (for example, ride hailing app drivers), courier drivers, contract cleaners and many labour hire workers. Although we do not know exactly how many may fall into this category, we expect it will be between 70,000 and 140,000 individuals.

Many of the contractors in this category have less flexibility in how they deliver their services, and often have much less bargaining power compared with other self-employed workers so may be unable to price their services to include a risk premium for being self-employed.

This approach would cover those contractors who:

1. have paid the displacement levy in at least the previous complete tax year AND
2. can prove a regular pattern of work for the current tax year (or a minimum of the previous three months) AND
3. have not exceeded the re-entry requirements for the scheme AND
4. have no more than five clients or counterparties in any one year.

It would be compulsory for contractors meeting the last criterion to be in the scheme.

An important concern with this approach is the boundary issues that come with having to define sub-groups of self-employed workers. The complexity of setting boundaries between these sub-groups, especially where some characteristics may overlap, increases the risk of excluding vulnerable workers and creating opportunities for some self-employed workers to adapt their business to be in or out of these definitions as they please. This may reduce the overall coherence and integrity of the scheme.

An opt-in scheme for all self-employed workers (potentially with those self-employed who resemble employees compulsorily included)

A further approach is to provide voluntary or opt-in insurance for the self-employed. This would give people a high degree of choice, allowing them to pick the arrangements that best suit them. However, all opt-in schemes create a problem referred to as 'adverse selection', where the highest risk workers opt in to the scheme and the lowest-risk workers opt out. Similarly, when the economic climate is uncertain, more workers will opt in to the scheme compared with more stable economic times. This would likely lead to higher and more volatile costs to the scheme.

A variation on this approach is the compulsory inclusion of those self-employed who resemble employees. All remaining self-employed workers could choose to opt in to a separate self-employed scheme. We expect this scheme would include small business owners, tradespeople, freelancers and contractors who provide services to many clients. A separate, higher levy would need to be considered for this group, worsening the adverse selection risks caused by voluntary approaches.

Under any approach that includes self-employed workers, a levy will need to be collected from these workers

If self-employed workers are covered by the scheme, either compulsorily or voluntarily, how and who returns the levy will be an important consideration.

The levy could be collected in the same way as proposed for standard working arrangements, with the employee and employer paying an equal split of the levy. Practical issues are involved with this approach, however, and compliance costs could be high. For example, it is unlikely to be practical for 'mum and dad' clients, such as individuals who contract a builder to do work on their house, to return the levy.

Another option could be charging clients the levy via the self-employed worker's invoice, similarly to how GST is charged. This would improve transparency and mimic the split levy for standard employee–employer arrangements without some of the practical difficulties described above. The main challenge with this option is how to calculate the levy on a per invoice basis. Currently, the Accident Compensation Corporation (ACC) levies for self-employed workers are determined at the end of the year once the self-employed worker has filed their tax return. Consequently, attempting to calculate the client's share of the levy during the year on a per invoice basis may result in overcharging or undercharging.

The simplest option would be collecting levies in the same way ACC levies are collected from self-employed workers. This means ACC would send an invoice to the self-employed worker once they have filed their tax return. As such, it would be on the self-employed worker to pay the full levy towards the scheme, but this could create incentives for employers to avoid paying the employer levy by pushing employees into contracting.

Your views

18. What risks do you see with covering, or not covering, people in self-employment?
19. Are there some groups of self-employed who should and should not be covered?
20. How can we practically distinguish between contractors who resemble employees and those with a high degree of independence?
21. Because a self-employed person cannot technically be made redundant, what types of events would be appropriate 'triggers' for insurance payments?
22. How do you think the levy should be collected from self-employed workers?

A modest minimum contribution period

Issues and options

Income insurance schemes usually require claimants to satisfy minimum contribution or employment requirements. A minimum contribution or employment period is a specified period of weeks, months or years during which a worker must have contributed to an insurance scheme, or been in employment, to be eligible for support from the scheme. Workers who lose their jobs, but who have not met these minimum requirements, are not eligible for insurance payments, even if they are otherwise covered by the scheme.

These contribution and employment requirements provide incentives to work, mitigate abuse of insurance schemes and promote financial sustainability. Without contribution and employment requirements, the risk is that some workers may cycle between short-tenure jobs and periods in unemployment while receiving insurance payments.

Contributions or employment history requirements can also mean some groups of workers miss out on insurance support, even if they have contributed, and genuinely need support. Contributions or employment history requirements are more difficult to meet for people who move in and out of the labour force, such as for parental responsibilities, or with irregular patterns of work or who change employers frequently.

These requirements can discriminate especially against people in non-standard employment. The more demanding the contributions or employment history requirements, the more significant this discrimination can be.

Across the OECD, minimum contribution or employment periods vary widely. Minimum employment requirements can relate to a worker's tenure in a particular job, or in any job. Most international schemes require a cumulative length of employment or contributions of between three and 36 months.

Preferred option and rationale

The Forum proposes a contributions history of six months over a period of 18 months preceding the claim. The contributions could be across multiple employers and include statutory parental leave, including paid parental leave and unpaid leave, to mitigate against gender bias. This would also ensure that people contribute for at least as long as the duration they would be entitled to claim under the scheme.

While a six-month contribution history over an 18-month period is low by OECD standards, it means that groups likely to be most disadvantaged in the labour market are not affected by stringent requirements and subsequent access to insurance. The risks associated with this low contribution history could be mitigated through other measures, such as limits on the number of claims over a set period (discussed in the following section).

Your views

23. Do you agree with the proposed minimum contribution period of six months over a period of 18 months preceding the claim?

Limits on subsequent claims

Issues and options

The scheme could allow a greater or lesser number of claims within a timeframe. Most people are unlikely to need to claim against the scheme repeatedly. Repeated insurance claims could suggest that a person was trying to exploit the scheme. Placing limits on repeated claims helps to manage this risk.

Limiting claims will also help to manage costs. The longer the minimum period between claims, the lower the overall cost of the scheme to levy payers.

However, such limits will disadvantage some workers, such as those who genuinely experience repeated displacement (for example, because they work in an industry with a high turnover of firms) or who experience recurrent reductions in work capacity due to relapses in their health condition.

Tight limits on repeated claims could also deter people from jobs in more dynamic fields, where the chance of displacement is greater. The Forum has considered various choices for managing subsequent claims.

Preferred option and rationale

Given the relatively low contribution history requirement proposed, a limit on repeated claims becomes a more important way to manage the risk of non-genuine claims, and to manage costs.

The Forum proposes allowing one six-month entitlement every 18 months. This could be spread over multiple claims (using any unused entitlement), with the timeframe beginning from the initiation of the first claim.

Alternatives were considered, such as a shorter period between claims or a longer period between claims (every two years), and a lifetime maximum on the total number of claims. However, the Forum considered that an 18-month period between claims strikes a better balance between managing costs and abuse of the scheme, and mitigating against disadvantaging workers with a genuine need.

Your views

24. Do you agree limits should be placed on the number claims people can make?
25. Do you agree with limiting claims to a total of six months within an 18-month period?
26. Could the risks associated with a low contribution history be managed in other ways?

Coverage for New Zealand citizens and residents

Issues and options

Migrant workers can have a temporary or permanent right to work in New Zealand, and may have open or closed work rights. Migrants with open work rights can work for any employer. Migrants with closed work rights can only work for a specified employer.

As of June 2021, 182,000 migrants had temporary work rights, and 445,087 had permanent work rights (‘residents’). These numbers are somewhat lower than previous years, reflecting the effects of the COVID-19 pandemic.

Where migrants have a permanent right to work in New Zealand, it is important to make the best use of their skills and support them to thrive in New Zealand. Many people with residence class visas hold these visas because they, or their partners, have valuable skills demanded by New Zealand employers. Residents are expected to stay in New Zealand for the long term. Supporting residents through the insurance scheme would be consistent with its core purposes of reducing wage scarring and ensuring good transitions between jobs.

Temporary work visa categories vary, they include working holiday visas, international student visas, and temporary work visas.

The case for supporting temporary migrants through the scheme is less strong. For working holiday makers and international students, their main purpose for being in New Zealand is to holiday or to study. Employment is a secondary activity.

For temporary work visa holders, employment is their main reason for being in New Zealand, but their visa will often be linked to a particular employer. If that worker is made redundant, or becomes unable to work, they will lose their eligibility to work in New Zealand.

One option is to exclude all temporary visa holders from either contributing to the scheme or receiving support from insurance. This would, however, reduce the cost to employers of hiring temporary migrants, to the disadvantage of New Zealander job seekers.

International schemes take a range of approaches to migrant workers. Some jurisdictions (such as Germany) provide voluntary coverage for all foreign workers as long as they meet their minimum contributions, while other jurisdictions (such as Finland) exclude visa holders.

Preferred option and rationale

Because of the importance of supporting residents to participate in New Zealand to their fullest ability, the Forum proposes that they would pay the same contributions and receive the same benefits as New Zealand citizens. This includes Australian citizens and permanent residents issued an Australian Resident Visa on arrival in New Zealand. The Australian Resident Visa allows holders to visit, work and live in New Zealand indefinitely.

Although resident class visa holders will be eligible to claim, the scheme’s objective is to support return to good work in New Zealand. If the resident visa holder returns overseas (for longer than 28 days), social insurance payments would not continue.

The Forum proposes that working holiday makers, international students and other temporary work visa holders would not be eligible for coverage by the income insurance scheme. Allowing them to access the scheme would generally be inconsistent with the basis for their eligibility to be in New Zealand.

To ensure this approach does not disadvantage New Zealander job seekers, the Forum proposes that working holiday makers, international students and other temporary work visa holders – and their employers – would still contribute to the scheme's costs.

The Forum recognises this could be perceived as unfair by temporary migrants, and reduce the attractiveness for some people of working in New Zealand. However, such arrangements are common in other countries.

Your views

27. Do you agree with limiting coverage of the proposed income insurance scheme to New Zealand citizens and residents?
28. To ensure New Zealand workers are not disadvantaged by lower-cost international workers, do you agree that working holiday makers, international students and temporary work visa holders – and their employers – should contribute to the proposed income insurance scheme's costs?

7 Entitlements for displaced workers

Insurance schemes can be more or less generous in the financial and non-financial support they provide. These design choices influence how well a scheme supports eligible workers, financial incentives to work and what the scheme costs.

Proposal

Entitlements substantially replace lost incomes for a fixed time

- The income insurance scheme would provide a replacement rate of 80 percent of prior income (up to a cap of $130,911), for a maximum of six months, plus an initial period paid by the employer (a 'bridging payment' of four weeks).
- Where a person loses a part-time job, and continues to earn income from another part-time job, income insurance would 'top up' the worker's income to 80 percent of the total pre-loss level.
- Income insurance payments would be calculated on an individual basis (with no asset testing or partner income assessment) and would abate dollar for dollar (100 percent) once the combination of personal exertion income and insurance reached 100 percent of pre-loss income.

Entitlements treated as income for social security payments

- The Ministry of Social Development and Inland Revenue would treat insurance payments as income, for welfare and tax purposes.

Employers to support the scheme's operation

- Employers would be required to give at least four weeks' notice to the insurer and to the employee pre-displacement, and meet the cost of the first four weeks of the worker's period of unemployment (with the 'bridging payment' refunded by the insurer to the employer if the employer helped the worker into a new job in this period).

Income caps and income replacement rates that match the accident compensation scheme

Issues and options

The level of insurance payments is defined by a replacement rate and a cap on the amount of income that is insured. The choice of replacement rate and income cap are critical to:

- the overall cost of an insurance scheme
- how effectively insurance protects against income loss
- the incentives claimants face to search for work
- the type of work claimants accept.

The replacement rate is the proportion of lost salary or wages that the insurance pays. An income cap is an upper limit on insurable income. Any income above the cap is neither insured nor subject to levies.

Higher replacement rates and higher income caps more effectively protect against income loss. This means such an insurance scheme ensures a high level of 'income smoothing', so that claimants do not experience large drops in income when they lose employment. This can be important for allowing people to adjust to sudden income loss in a considered way.

Replacement rates and income caps also affect the types of jobs a claimant will seek. A person receiving insurance payments has no financial incentive to accept job offers that pay less than their insurance payments until the end of their entitlement approaches.

This means when replacement rates and income caps are high, claimants have an incentive to look for jobs that pay a similar salary or wages to the jobs they have lost. Higher income replacement rates and caps should therefore help to reduce wage scarring to the advantage of working people, employers, communities, and the economy.

Finding such a suitable job can take time, as can any retraining or upskilling. For this reason, the maximum entitlement period is also an important factor. Entitlement periods are discussed in later in the chapter.

High replacement rates and income caps have disadvantages. As well as increasing costs, they can reduce the incentive to search for work at all; some claimants can be content to rely on their insurance payments rather than to search or prepare for work. Long entitlement periods could increase this 'moral hazard' effect. These effects are more likely for people who claim insurance following complete job loss than for those who retain some level of employment (such as people who lose some of their capacity to work but can continue to work part time for their existing employer).

Such moral hazard behaviour would increase the cost of the scheme – without social or economic benefit – and diminish public confidence in it. Reduced confidence could lead to more 'gaming' behaviour, such as avoiding levy payments, and undermine public support for the scheme. Obligations and support to find work can reduce such behaviours. Obligations and job search support are discussed in chapter 9.

Internationally, replacement rates and income caps vary widely. Replacement rates that approach 100 percent of prior income provide little incentive for claimants to search for work, until they approach the end of their entitlement period. Equally, rates that provide only a modest income replacement will give claimants a strong incentive to search for work, and potentially to accept jobs that pay less than their previous incomes (wage scarring).

Various options are available for the replacement rate and income cap

The Forum has considered a range of alternative replacement rates and income caps. These lead to very different levels of income protection.

With a replacement cap of 80 percent, for example, a person who loses a job that pays $50,000 per year, would be entitled to a maximum possible insurance payment, before tax, of $40,000. This example assumes a 12-month entitlement period and that the person remains entitled for the full 12 months.

Choices are also available for the income cap, including having no cap at all. For example, with an annual salary income cap of $100,000 and replacement rate of 80 percent, the highest possible insurance payment for a 12-month period is $80,000, even if a person earns more than $100,000. The income cap also applies to insurance levies, so levies are not paid on income above the cap.

Replacement rates and caps are also critical to scheme costs and levies. Higher replacement rates naturally increase the cost of a scheme. Income caps, however, affect both the amount that someone can receive from the scheme and the amount of income that can be levied to support the scheme's overall cost. The level of replacement rate and cover provided also affect people's financial incentives to work while in receipt of insurance.

To give a New Zealand example, the accident compensation scheme pays a replacement rate of up to 80 percent of lost income, and applies an annual salary cap of $130,911.[15] This means the maximum possible income replacement payment through the accident compensation scheme for a six-month period is $52,364, before tax ($104,729 for a full year).[16]

Preferred option and rationale

For New Zealand, the choice of replacement rate and income cap should be guided by the purposes of the insurance scheme. These are principally to smooth incomes effectively following job loss and to reduce wage scarring by ensuring a strong incentive to search for a job that pays a similar salary to previous employment. For these reasons, the Forum proposes setting a relatively high replacement rate of 80 percent and an (indexed) income cap of $130,911. These settings are the same as the accident compensation scheme, which aims to provide fair compensation for loss. The Forum proposes the same replacement rates and income caps for claims arising from both displacement or health conditions and disabilities.

Table 1 provides examples of what this recommended approach means for how much income insurance someone may be entitled to, based on their income before job loss.

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[15] This income cap is indexed and tends to rise over time with median incomes.

[16] ACC clients may also be entitled to other non-cash benefits.

Table 1: What an 80 percent replacement rate and cap of $130,911 mean for social insurance entitlements

Annual income prior to job loss (before tax)	Approximate Social Insurance entitlements (before tax)		
	Annually	Fortnightly	Weekly
$30,000	$24,000	$923	$462
$50,000	$40,000	$1,538	$769
$70,000	$56,000	$2,154	$1,077
$90,000	$72,000	$2,769	$1,385
$100,000	$80,000	$3,077	$1,538
$150,000	$104,729	$4,028	$2,014
$200,000	$104,729	$4,028	$2,014

To maximise the scheme's impact, it is important that other scheme settings support work incentives, such as abatement settings, obligations, and job search support. Obligations and job search support are discussed in chapter 9. Abatement is discussed later in this chapter.

Even with an 80 percent replacement rate, some families may struggle to meet their regular outgoing costs when they have a 20 percent drop in income. Such families may be eligible for welfare support that helps to meet these costs.

Another option could be to provide a 'minimum replacement floor' that is higher than 80 percent. For example, the scheme could provide a 100 percent replacement rate based on the minimum wage. A 100 percent replacement rate based on the minimum wage would mean that someone working 30 hours per week on the current minimum wage ($600 per week) would receive $600 from insurance rather than $480 as would be provided for under an 80 percent replacement rate.

The risk is that a 'minimum replacement floor' such as this would reduce financial incentives to work for those on lower incomes, particularly because they may no longer have the costs associated with being in work (for example, travel) and so may be financially better off out of work than in work. Introducing a 'minimum replacement floor' would also mean that the income insurance scheme provided more support for low-income earners than the accident compensation scheme.

Your views

29. Do you agree with a replacement rate set at 80 percent?
30. Do you agree with a cap on insurable (and leviable) income set at the same rate as the accident compensation scheme (currently $130,911)?

Where a person loses only some of their income, insurance would top up their income to 80 percent of their pre-loss level

Issues and options

Cases will occur where someone may be eligible for income insurance while still retaining some income and hours from employment. For example, they could be multiple job holders who lose one of their jobs or those who have a reduction in work capacity due to a health condition or disability.

While applying the replacement rate to instances of complete job loss is straightforward, choices are available in how the replacement rate applies to partial income loss. These choices have implications for the level of income replacement provided, financial incentives to find additional work, and for the scheme's affordability.

The Forum has examined three approaches for replacing partial loss of income, from more to less generous:

1. the replacement rate is applied to total pre-loss income, to determine a maximum insured amount, and any losses equal to or below this are fully covered (the accident compensation scheme approach)
2. the replacement rate is applied to the lost income only (option two)
3. the replacement rate is applied to pre-loss income to determine a maximum insured amount, and insurance tops up residual income to this amount (option three).

The first approach matches the accident compensation scheme.[17] The accident compensation scheme applies the replacement rate as though a worker has lost their entire job, and then reduces the entitlement depending on the remaining income.

As an example, a person with a $100,000 annual salary, would have any losses equal to $80,000, or less than $80,000, *fully covered by insurance*. And any losses greater than $80,000 are *not covered at all*.

This approach has important implications. Where the loss is greater than $80,000, this person has some financial incentive to find work to replace the lost income. However, where the loss is equal to or less than $80,000, this person has no (immediate) financial incentive to find additional work, because the combination of continued earning and insurance means they lose no income at all (for the period of the insurance entitlement).

The second approach simply applies the replacement rate directly to lost income. The worker receives 80 percent of the income that has been lost. Using the example above, someone with an annual salary of $100,000 who lost 50 percent of their income would be entitled to $40,000 insurance (because this is 80 percent of the $50,000 they lost). This means their total income would be $90,000 ($50,000 from employment and $40,000 from insurance).

[17] Note that eligibility for support from the accident compensation scheme is linked to recovery rather than fixed entitlement periods.

This option means the combination of continued earned income and insurance will always be less than total pre-loss earnings. This would maintain a greater financial incentive to find additional work than the accident compensation scheme.

Under the third approach, an insurance scheme could top up income to ensure the worker receives 80 percent of their pre-loss earnings. This means that a person who lost only 20 percent of their earnings would receive no support from insurance, but they would receive insurance support for any losses greater than 20 percent. This approach would provide an even greater financial incentive to find additional work.

As outlined in Figure 3, which uses a $100,000 pre-displacement income as an example, these three approaches all provide 80 percent income replacement when a worker loses their entire job but provide different payments for partial loss.

Figure 3: Options for an 80 percent replacement rate based on percentage of income lost

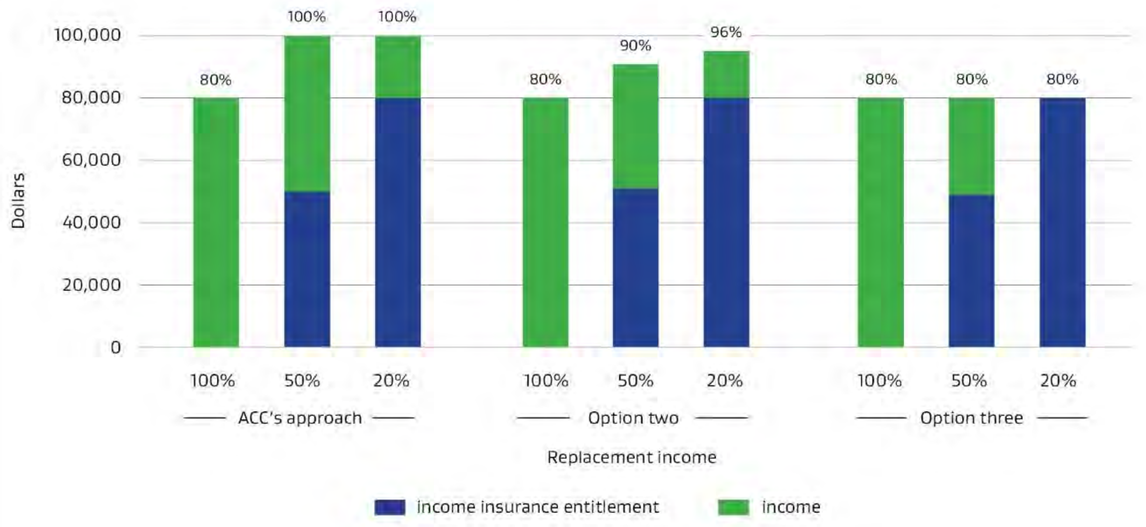

Figure 3 shows that the accident compensation model and option two allow for more support with partial loss of income than option three, which provides up to 80 percent of previous income regardless of the income lost. Higher payments for loss of income would provide greater income smoothing but may affect financial incentives to work when compared with option three. Option three also means there would be no entitlement to insurance until more than 20 percent of income had been lost.

Preferred option and rationale

The Forum proposes that the replacement rate is applied to pre-loss income to determine a maximum insured amount (as proposed: 80 percent) and insurance tops up residual income to this amount (option three as outlined above).

This option ensures a financial incentive to work remains for those who lose their jobs and reduces the scheme's cost for covering partial loss of income. While this option is not as generous as the two others outlined above it still provides for 80 percent of income cover to provide a level of income smoothing.

Further choices can be made in how any income picked up post-displacement, such as through an increase in hours or new part-time work, would affect entitlements. This is discussed in the following section.

Only personal exertion income would abate (reduce) insurance entitlements

Issues and options

Insurance schemes aim to replace lost income. If a claimant begins earning additional income, this starts to reduce their income loss, raising questions about how this should change the entitlement.

The first question is about the sources of income that could affect insurance entitlements. Individuals and families may have income from several sources, including earned income from employment and income from investments. The Forum has considered various options for what income should affect entitlements to income insurance, including any source of income, no sources of income or only certain types of income.

A second question is whether a partner's income should affect the claimant's entitlements. In the welfare system, entitlement is based on family income, meaning one partner's income can affect the other partner's entitlements. In the social insurance-based accident compensation scheme, entitlement is based on an individual's income only and disregards any partner income.

Preferred option and rationale

The Forum proposes that income insurance would only be abated (reduced) by personal exertion income.

Personal exertion income means income that is earned, derived or received by a person by way of payment for their active labour, for example, wages, salary or income from self-employed work. This would mean that other income, such as from investments, would not affect entitlements for income insurance. This approach is consistent with the role of insurance in replacing lost income, rather than ensuring a minimum level of income. How this income affects entitlements depends on the abatement rules, which are discussed in the next section.

The Forum also proposes that income insurance entitlements would be individualised, as with the accident compensation scheme. This means that one partner's income would not affect the other partner's entitlements to insurance. While this differs from New Zealand's welfare system, it is common in insurance schemes internationally. Individualised entitlement ensures that the income provided effectively smooths a family's combined income and ensures the claimant does not face financial pressure to find an unsuitable job because they have an earning partner.

Your views

31. Do you agree that only the insurance claimant's personal exertion income should affect their insurance entitlements?
32. Do you agree that income insurance should have individualised entitlement, meaning a partner's income would not affect the rate payable?

Abatement rules would ensure a claimant is not financially better off as a result of their loss of work

Issues and options

Abatement rules determine how and when earned income reduces insurance payments. Abatement rules should reward work, while ensuring that people are not better off as a result of losing their employment.

Abatement rules vary in income insurance schemes internationally. Some countries suspend entitlements as soon as any income from employment is earned while others allow for some income to be earned before it affects their entitlement (an abatement-free threshold). How much income can be earned before it stops or reduces entitlements varies from country to country, with some having a set amount or percentage that can be earned and others allowing a certain number of days or hours to be worked. While several countries abate (reduce) payments dollar for dollar after exceeding the abatement-free threshold, others, such as the Netherlands, reduce at 70 cents for every dollar up until a certain point when entitlements stop all together.

New Zealand has differing abatement rules in the welfare and accident compensation systems. Main benefits have a set abatement threshold that currently allows for someone to earn $160 (eight hours on the minimum wage) before earnings affect their benefit entitlement. Once earnings exceed this threshold, entitlements reduce by 30 cents to 70 cents for every dollar, depending on the circumstances. Those in receipt of Accident Compensation Corporation (ACC) weekly compensation can earn up until their combined weekly compensation and income from employment reaches 100 percent of their income before their accident. Once they exceed 100 percent, ACC weekly compensation reduces by a dollar for every extra dollar earned.

The main abatement design choices include:

- How much should someone be able to earn before earning affects insurance payments – the abatement-free threshold?
- How should that income affect those payments?
    - Is it gradual, for example, losing 70 cents of entitlement per extra dollar of income earned?
    - Is it sudden, for example, once you earn a certain amount you lose all of your entitlements?

Preferred option and rationale

While many options are available for abatement rules, the Forum proposes abatement settings that ensure a person is not financially better off as a result of their loss of work. Insurance recipients would be able to earn up until the point where their combined income insurance entitlements and income from employment reach 100 percent of their employment income before losing their work or reducing their hours before it affects their entitlements, as with ACC weekly compensation.

For example, someone who was made redundant from a job that paid $1,000 per week (before tax) would be entitled to $800 income insurance per week (before tax). Under the abatement setting proposed above, this person could pick up part-time work while in receipt of insurance and earn $200 without affecting their insurance entitlements. This means they would have $1,000 per week overall: $800 from income insurance and $200 from paid employment.

The Forum proposes that income earned above this point should then abate (reduce) insurance entitlements 'dollar for dollar'. This means, for every additional dollar earned from employment, they would lose a dollar of insurance.

Using the example above, if this person earned $201 from paid employment, their insurance entitlement would become $799, or if they earned $300 from paid employment, their insurance entitlement would become $700. In either scenario, their total income (from insurance and paid employment) per week will still be $1,000, but how much of that is from paid employment and how much is from insurance changes.

These proposed abatement settings would mean that people receiving insurance have the ability to 'top themselves up' to their previous level of income through finding some form of employment, providing an incentive to pick up part-time work or increase hours from remaining employment while receiving insurance. However, abating (reducing) entitlements dollar for dollar once the recipient has reached 100 percent of their previous income means that no one should be better off financially as a result of their redundancy, health condition or disability than they would have been in work.

This also means no financial gain would be achieved from taking work subject to 100 percent abatement, because any earned income would reduce insurance payments by the same amount.

Other options for abatement settings would change how much someone was able to earn while receiving insurance payments. Options include:

- Not having any 'abatement-free threshold', so insurance entitlements would begin to reduce from any income earned from employment.
- Reducing the rate of the abatement, so instead of reducing $1 of insurance entitlement for every $1 of income earned, entitlements reduced more gently, for example, a 70 cent reduction of insurance for every dollar earned.

These options would make the abatement regime either tighter or looser, and would have different effects. Not having an abatement-free threshold may discourage people from picking up part-time work while in receipt of insurance, even where this may be beneficial. Abating entitlements to insurance more gently may mean people could be financially better off from their redundancy or health condition or disability where they are able to subsequently pick up another job or increase the number of hours they work.

On balance, the Forum has recommended providing an abatement-free threshold to incentivise paid employment while in receipt of insurance, while having dollar-for-dollar abatement after this point to ensure no one is better off as a result from their job loss.

Your views

33. Do you agree that someone should be able to earn some income from paid employment before it affects their entitlements to income insurance?
34. Do you agree that income insurance should abate 'dollar for dollar' when earned income and insurance combined reach 100 percent of previous income?

Insurance would generally be treated as income, to determine eligibility for welfare and student support

Issues and options

Through the welfare system, a range of support is available for individuals and families with low or no income. This includes (but is not limited to) main benefits, Working for Families tax credits and supplementary assistance to help with specific costs such as the Accommodation Supplement, Disability Allowance and Childcare Subsidy.

Almost all of this support is income tested on the basis of family income (and family assets), with the family defined as the nuclear family (that is, adults and any dependent children). The income tests and abatement settings in the income support system mean the amount of income a family has affects the amount of income support they are entitled to (if any).

How insurance payments are treated for the purpose of existing income support will determine how much (if any) other income support someone is eligible for while receiving their insurance payments.

Preferred option and rationale

The Forum proposes that insurance entitlements would generally be treated as income for assessing entitlements for these forms of income support.

This means for individuals who already had entitlement to this support before their loss of work, for example, the Accommodation Supplement, their entitlements may increase as their income from employment drops to their level of insurance entitlement, for example, from 100 percent to 80 percent. It also may see individuals and families become eligible who were just over the income cut-out point at their previous income but are below the cut-out point at the level of their insurance entitlement.[18]

For those whose family income (that is, both partners combined) continues to exceed the income cut-out points, they will continue to have no entitlement to other income support.

Some Working for Families tax credits, such as the In-Work Tax Credit and Minimum Family Tax Credit, are designed to encourage people into employment, ensure people are better off in work than on a benefit, and help with in-work costs. Therefore, they are generally only paid to people in employment. Consistent with the purpose of these tax credits, the Forum proposes that income insurance claimants would not be eligible for the In-Work Tax Credit or Minimum Family Tax Credit.

The Forum also proposes insurance would be treated as income for student support eligibility. Insurance being considered as taxable income also means that Student Loan repayments may be deducted from insurance payments should they meet or exceed the repayment threshold. As with income support, the Forum proposes treating insurance as income for entitlements to student support such as the Student Allowance.

[18] The point at which a person's payment is reduced to zero because of their income or assets is known as the 'cut-out point'. Above this point, people are no longer entitled to the income support payment at all.

Your views

35. Do you agree that insurance should be treated as income for assessing eligibility for income support such as main benefits and Working for Families tax credits and student support?
36. Given the purpose of the In-Work Tax Credit and Minimum Family Tax Credit in encouraging people into employment and helping with in-work costs, do you agree that income insurance claimants would not be eligible for these tax credits?

Insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension

Issues and options

Unlike main benefits, entitlement for New Zealand Superannuation and Veteran's Pension is not based on family income, because these payments are not income tested.[19]

Preferred option and rationale

At present, no income test applies, and recipients are still able to work while receiving New Zealand Superannuation or the Veteran's Pension. Given this, the Forum proposes that New Zealand Superannuation or the Veteran's Pension and income insurance could be received at the same time, so long as the eligibility criteria (and any obligations) were met. This is particularly important for those receiving New Zealand Superannuation or Veteran's Pension who rely on income from employment to meet their outgoing costs.

At present, the length of time is capped that a person can receive weekly compensation from ACC after New Zealand Superannuation qualification age, so a person can only receive both for up to 24 months. Because insurance is already time limited, the Forum does not propose a similar cap to the duration for which insurance can be received alongside New Zealand Superannuation.

Your views

37. Do you agree that income insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension?
38. Do you think a limit should be placed on the amount of time someone can receive New Zealand Superannuation or the Veteran's Pension and income insurance?

[19] An income test applies for those receiving New Zealand Superannuation as a grandparented, non-qualified partner. It is proposed that income insurance would be considered income where these income tests are applied.

Where eligible, insurance claimants could choose whether to access Paid Parental Leave or income insurance and may receive both sequentially

Issues and options

Paid Parental Leave (PPL) is available for up to 26 weeks in New Zealand for those eligible. Generally, PPL is paid when an expectant parent stops work or begins parental leave from work.

Instances may occur where someone may be eligible for both PPL and income insurance at the same time, given both aim to replace income. For example, this could happen for those made redundant while in receipt of PPL or those who have a health condition resulting from their pregnancy or birth, which reduces their capacity to work.

As with welfare, several choices are available for how PPL and social insurance may interact, such as income treatment or a 'one or the other' rule.

Preferred option and rationale

The Forum proposes that PPL and insurance should both be available to those eligible. However, they could not be taken at the same time. In practice, this means payments could be accessed sequentially. For example, someone who has a health condition[20] during pregnancy that reduces their capacity to work may be able to access insurance and then subsequently access PPL after the birth.

The income that would be paid through the insurance scheme (assuming sequential take up) would be 80 percent of the worker's pre-PPL income, and would not include their PPL payments in the calculation.

Your views

39. Do you agree that income insurance and Paid Parental Leave could be accessed sequentially but not at the same time?

[20] This could include complications associated with the pregnancy.

Insurance claimants could also receive ACC weekly compensation where it covers a different income loss

Issues and options

As with PPL, circumstances may occur where someone qualifies for both weekly compensation from ACC and income insurance for displacement at the same time. For example, multiple job holders could lose one job because of an accident and another through redundancy. This could also happen when someone is receiving ACC weekly compensation but is still attached to their employer and is then made redundant.

Preferred option and rationale

The Forum recommends that in cases where a claimant independently qualifies for ACC weekly compensation and income insurance for separate events, they could access both. However, entitlements to insurance would not cover lost income already covered by ACC weekly compensation (or vice versa). In practice, this means that:

- income insurance would not top up a claimant to more than 80 percent of previous income (inclusive of any ACC weekly compensation being received)
- income insurance and ACC weekly compensation could be received at the same time for independent qualifying events but only where they cover a different loss of income.

These principles, alongside ACC's abatement rules,[21] mean claimants will not be better off than their pre-injury and displacement income but could access both payments where eligible for both for differing income loss.

In cases where they are eligible for both for the same income loss (for example, those who are receiving ACC weekly compensation while still attached to their employer and who are subsequently made redundant), it is proposed the claimant could either opt to continue to receive ACC weekly compensation or opt to receive income insurance instead. Should the claimant remain on ACC weekly compensation, they could claim any remaining insurance entitlement were their ACC weekly compensation to end during the base duration entitlement for income insurance.

Allowing claimants to access both ACC weekly compensation and income insurance at the same time for differing income loss acknowledges the levies paid as well as supporting the objectives of both schemes to provide compensation for loss and reduce pressure to find work should claimants face a loss of employment.

Your views

40. Do you agree that claimants should be able receive both ACC weekly compensation and income insurance at the same time for differing income loss subject to independently meeting the eligibility criteria for both?

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[21] It is proposed that income insurance would be considered income for the purposes of weekly compensation from ACC, where claimants are able to receive both.

A sufficient base entitlement period

Issues and options

The generosity of income insurance is typically measured by the replacement rate and maximum length of entitlement.

For displaced workers, the length of insurance entitlement shapes the opportunities available to them. A shorter entitlement is likely to incentivise more rapid job search. A longer entitlement gives claimants more time to find a better job match and to retrain or upskill.

Longer maximum entitlements create more opportunities for displaced workers, but they also risk longer periods of unemployment, and higher scheme costs, potentially without improving employment outcomes. With long entitlements, the risk is that some workers will lose their motivation to search for work until near the end of their entitlement.

Internationally, entitlements last from three months to one year or more. Entitlement lengths can vary according to geographical location, age, contribution and earnings history, and stage of the business cycle. During the COVID-19 pandemic, and previous recessions, some countries have extended the length of entitlements, recognising the difficulty of finding work in a depressed labour market.

No international consensus has been reached on the optimal maximum length for an income insurance entitlement.

Preferred option and rationale

The Forum proposes a base insurance entitlement length of six months, plus a four-week bridging payment paid by the employer. This option would allow an extended and supported job search and maintain return-to-work incentives but may not be sufficient to enable a period of training or rehabilitation. We discuss this issue further below.

For people with fixed-term arrangements, coverage would also be limited by the length remaining in the employment agreement.

Your views

41. Do you agree with a base insurance entitlement length of six months, plus a four-week bridging payment paid by the employer?
42. Would you support a longer or shorter length of base insurance entitlement?

Extending the maximum period in specified circumstances

Issues and options

The Forum considered whether to let claimants extend the length of their entitlements for training or vocational rehabilitation.

On average, people spend four-and-half months on the Jobseeker Support benefit following displacement. For many income insurance claimants, the proposed base period is likely to be sufficient to find work. But some may take longer to find work because they need to undertake training or vocational rehabilitation that extends beyond the base period due to significant skill gaps or more complex health issues.

Many international insurance schemes let claimants undertake programmes within the base period (with no opportunity for extension), if this does not interfere with their ability to look for work or accept a job offer. Some jurisdictions extend benefit length on the grounds of training.

Allowing for extensions of income insurance would give those who need it sufficient time to undertake approved training or vocational rehabilitation and could improve the longer-term labour market outcomes of claimants and help to meet labour market demand.

Evidence shows that Active Labour Market Programmes, including training, can improve labour market outcomes if targeted to individual needs and labour market demand. Training is generally effective over the medium to longer term and most effective for addressing significant skill gaps and structural mismatch of skills with the labour market. Job search assistance and matching is more effective in the short term and effective for people with a high probability of finding work.[xlv]

Strong evidence is also available that many aspects of vocational rehabilitation,[22] if it is work-focused healthcare in combination with accommodating workplaces, improve labour market outcomes for people with disabilities and health conditions. Some research suggests that simple and inexpensive healthcare and workplace interventions in the early stages are effective at increasing return-to-work rates and reducing long-term disability. More structured vocational rehabilitation interventions are effective if they take place between one month and six months after the onset of an absence from work and more complex biopsychosocial rehabilitation is needed for a more prolonged absence (more than six months).[xlvi]

[22] Vocational rehabilitation includes various measures to help people return to work, including mainstream Active Labour Market Policies, counselling, training, healthcare or supported employment.

The benefits of extending the base period for training or vocational rehabilitation need to be balanced with the risks of an extended length of unemployment and the practicalities of ensuring extensions are well targeted and effective:

- Uncertainty exists around the number of claimants who may need extensions because it would be dependent on the needs of claimants and the availability of appropriate job-relevant training and vocational rehabilitation. Irrespective of the magnitude of the need for extensions, allowing for them would increase the costs of the scheme.
- Linking training or vocational rehabilitation to extended periods of income insurance could create risks that claimants enter low-value programmes just to extend the income insurance and reduce job-search effort and work incentives, making it more difficult to return to the labour market over the longer term.
- Extensions could also create inequities between the level of help provided through insurance and that provided by the welfare and education systems.

There are gaps in the infrastructure to identify and link claimants to appropriate training or vocational rehabilitation as well as gaps in effective training or rehabilitation support and services. Programmes of work, such as the Reform of Vocational Education (ROVE) Employment, Education and Training programme, and reforms within the health and disability system may address these gaps and would need to be in place by the start of the scheme.

Extending the base period for training or vocational rehabilitation would increase the cost of the scheme and consequently the levy. The exact magnitude of the increased cost is unclear due to the uncertainty about the number of claimants who may need an extension and the average length of such extensions. The need for an extension would be influenced by the need for training or vocational rehabilitation, which would need to be assessed at an individual level and the availability of appropriate courses and programmes. Based on international experience and extending up to a maximum of 12 months, it is estimated the uptake could range between 2.5 percent and 10 percent. This would see the levy increase from 2.77 percent to 2.9 percent or 3.3 percent respectively.

Preferred option and rationale

The Forum seeks feedback on the option of enabling extensions to the base period for training or vocational rehabilitation. This could allow an extension of the base period for training or vocational rehabilitation for up to a maximum of 12 months, provided the appropriate services and programmes are available and in place to satisfy the following criteria:

- early identification of training or vocational rehabilitation needs
- a clear link between training and labour market demand
- vocational rehabilitation programmes or services support recovery, and a return to work (where a return to work is appropriate)
- provision through approved providers only
- a requirement that claimants report on their progress.

Your views

43. Do you think the scheme should allow extensions to the base period of income insurance entitlements for training or vocational rehabilitation?

Enhancing the income insurance scheme with notice periods

Issues and options

Lack of notice can contribute to the disruptiveness of displacement. New Zealand law currently has no minimum notice period for displacement, although employers are required to give employees 'reasonable notice' of displacement. Many OECD countries do specify notice periods, with longer tenure workers receiving more notice.

Lack of notice can mean that employees receive little warning of job loss, reducing their opportunities to prepare for a drop in income, or to look for other work, before their employer stops paying them. Lack of notice therefore worsens the adverse effects of displacement.

A minimum notice period between the notification of redundancy and the redundancy taking effect would also let the insurer:

- front-foot a redundancy by working with employers and unions on other options (for example, redeployment within the firm)
- work quickly to help affected workers to find a new job or enter training
- process insurance claims promptly
- reduce costs and the levy payment through better job matching and support.

Preferred option and rationale

Modest notice periods for displacement would significantly improve the operation of an insurance system, with clear benefits for working people facing displacement, and for the insurer. Further, while not always possible, modest notice periods would impose little additional cost on employers. The Forum proposes a minimum notice period of four weeks for displacement.

While not possible in all circumstances, a notice period of four weeks would be a reasonable minimum. Employers would lodge a claim for insurance on behalf of affected employees at the same time as confirming the redundancy to employees, at least four weeks before the redundancy takes effect. This would help to ensure rapid processing and payment.

A minimum statutory four week notice period may be less achievable for short fixed-term employment agreements, and may not be applicable for self-employment.

Your views

44. Do you agree that employers should give at least four weeks' notice to employees, and the insurer, before redundancy takes effect?

Avoiding unnecessary redundancies

Issues

Introducing an income insurance scheme could influence layoff decisions, based on the experience of overseas schemes (for example, Canada, Spain and the United States of America).[xlvii] In some cases, terminations could be reclassified as redundancies, and, in others, firms could be less restrained in opting to end the employment relationship.

It is therefore important incentives are in place to avoid unnecessary redundancies, because these would push up scheme costs and affect workers. At the same time, it is important that the cost imposed on employers is not so great as to deter hiring or incentivise unlawful dismissals and disputes.

New Zealand has weak incentives to prevent unnecessary redundancies
New Zealand does not have a statutory definition of what constitutes a redundancy. Rather, a broad definition is held of what constitutes a redundancy in common law. Determinations of whether a redundancy is genuine or not can only be properly tested via a personal grievance case through the courts, which consider the specifics of a given situation and procedure followed. Obtaining such a determination can take time and be expensive. With the introduction of income insurance, the incentive to dispute the legitimacy of a redundancy will only be reduced.

New Zealand has provisions in law to prosecute people who seek to obtain a financial benefit fraudulently, and requires employers to maintain records as potential evidence that could be applied to intentional misrepresentation of claims to the scheme. However, investigating and prosecuting such cases can be resource intensive and is not always successful.

Existing redundancy compensation provisions in employment contracts could provide an incentive for some employers to avoid unnecessary redundancies. However, it is estimated fewer than half of New Zealand employees have redundancy provisions in their contracts. New Zealand does not require employers to provide redundancy payments. Such provisions are commonly negotiated in collective agreements (79 percent in the private sector and 90 percent in central government), and tend to be reasonably generous (58 percent in the private sector and 89 percent in central government provide for maximum compensation payable of 14 weeks or more).[xlviii] However, collective contracts only cover around 18 percent of employees, and indications are that while redundancy compensation provisions are widely included in Individual Employment Agreements, they may essentially be included to clarify that no compensation is payable.[xlix] Many employment relationships are therefore unlikely to be protected from the potential for an unnecessary redundancy.

Many countries recognise the need to mitigate against unnecessary or misclassified redundancies
Most countries with income insurance include specific (often criminal) penalties for people who intentionally seek to defraud the scheme.

Some income insurance schemes require employers to make redundancy compensation payments. Such payments generally require a minimum tenure, and longer-serving employees receive higher payments.[l] Most comparable countries either have a statutory provision for redundancy payments or they are included in collective agreements, which often have broad coverage.

Countries often also impose a cost on claimants in the form of a short stand-down for entering the scheme but these are frequently in the context of a statutory severance payment by the employer (for example, Canada).[li] In facing such a cost, workers will find the prospect of a redundancy less acceptable and also be incentivised to initiate job search on receiving notice of being made redundant. However, the Forum considers it would not be fair for those made redundant to bear the cost of a stand-down, given the situation is not of their making and because such an approach can place significant financial pressure on low-income workers.

A significant risk is that introducing income insurance in the context of New Zealand's current institutional provisions could result in unnecessary and spurious redundancies, additional claims costs and undue effects on workers. Therefore, consideration needs to be given to adopting similar controls to those used overseas.

Options and rationale

Proposal 1: Employer bridging payments for initial period of unemployment

The Forum considers the best way to mitigate against unnecessary redundancies is to ensure that employers of displaced workers face a direct cost in making people redundant.

The Forum proposes to establish employer bridging payments to avoid unnecessary and spurious redundancies. The bridging payment would be paid by employers:

- to cover the initial period of unemployment (for example, four weeks) based on 80 percent of normal pay before entry to the scheme
- to all workers made redundant and medically dismissed by the employer, but not to workers who initiate the end of their employment due to a health condition or disability
- subject to a refund of unused payment if the employer helps the worker to find work within the initial period of unemployment
- in addition to any negotiated redundancy compensation provision, given existing contractual provisions may reflect an express or implicit wage sacrifice
- at an appropriately scaled rate for premature termination of fixed-term appointments, including seasonal workers, if less than four weeks' employment remain in the fixed term.

Bridging payments would differ from redundancy payments because they would be paid as continuing income rather than a lump sum.

The benefits of introducing a bridging payment requirement would be to:

- encourage employers to give more careful consideration to whether a redundancy is the best choice for their business, whether employee redeployment is an option, or whether the employer could help with finding another job outside the firm
- discourage employers from cooperating with employees to lodge spurious claims, such as a claim where the employee is voluntarily leaving the firm or as an alternative to a dismissal for poor performance
- offset an otherwise higher levy (a six-month scheme without a bridging payment is expected to require a levy of at least 2.88 percent rather than the 2.77 percent rate if a bridging payment is in place).[23] A bridging payment therefore reduces the costs for most employers while placing higher costs on those who create costs for laid-off workers and the scheme.

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[23] We note that this would be an under-estimate of the cost, because it would not account for any behavioural changes arising from the lack of a bridging payment. Were a bridging payment not included, these behavioural changes could significantly increase the costs of the scheme.

However, potential costs are associated with requiring a bridging payment.

While small firms would tend to have redundancies infrequently, the bridging payments would involve lumpy costs for these firms (a single redundancy could cost more than an annual levy for small firms). This could raise the cost of restructuring and so increase the risk of insolvencies.

The introduction of bridging payments could result in some employers who currently offer redundancy compensation as part of negotiated employment agreements seeking to renegotiate these terms. However, changes can only be made to employment agreements with the consent of both parties.

A bridging payment requirement could deter hiring, or incentivise unlawful constructive or unfair dismissals that would disadvantage workers and increase disputes. However, with a relatively short four-week bridging payment, we think these effects would be modest.

A bridging payment could involve small additional scheme costs. For instance, a bridging payment may not always be forthcoming, such as where an employer becomes insolvent. In such circumstances, the scheme could pay the bridging payment and recover the funds from the firm or liquidator. This approach is considered preferable in terms of ensuring workers are not left out of pocket, and are not inhibited from doing what they need to do to return to well-matched employment. Moreover, the costs are likely to be negligible given the low number of insolvencies annually.

A bridging payment requirement could be formulated in several ways, to reduce costs and risks:

- A bridging payment requirement (for example, four weeks) would provide a stronger incentive to employers to avoid unnecessary redundancies.
- If bridging payments were adopted, they may need to apply to all workers, including those not eligible for income insurance (for example, migrants and those who do not meet the contributions requirements). This could raise costs for employers, but could be necessary to avoid other such employment approaches from becoming relatively cheaper and attractive to employers.

Proposal 2: Focus on clear enforcement standards

The Forum also considers that, as part of the establishment of income insurance, it will be necessary to establish clear legal standards for determining if a redundancy is genuine and to ensure enforcement and remedies are deployed for non-genuine redundancies.

At a minimum, it will be necessary to establish a clear legal definition of what constitutes a genuine redundancy as part of the legal trigger for entry to the income insurance scheme.

The Forum also considers it will be necessary to establish specific offence and penalty provisions (along with more broadly applicable criminal provisions) and resourcing to detect, investigate and enforce those provisions against employers and workers who seek to defraud the scheme. The Accident Compensation Act 2001 has provisions that could provide a model for the new scheme. For instance, a specific offence applies to the provision of misleading information (see section 308), and a provision is in place making it clear offences and penalties are applicable to company directors, agents and officers (see section 312).

It may also be useful to establish clearer legal standards for redundancy procedures, and remedies to lessen inappropriate redundancies, but these would most appropriately be managed by the Labour Inspectorate (MBIE) and Employment Relations Authority, which would require additional resourcing.

If bridging payments are not adopted, we expect much greater non-compliance with the scheme, with significant consequences in terms of the cost of the levy to both employers and employees. This would require greater resourcing for ACC to undertake audits and investigations and for enforcement agencies to undertake litigation against employers. This would then raise administration costs of the scheme and further increase the scheme's costs.

Legal enforcement on its own is unlikely to address the issue of firms being less restrained in opting to end employment relationships, and so in the absence of a bridging payment we would expect to see a greater number of claims.

Your views

45. Do you agree that employers should pay former workers for the initial period of unemployment for four weeks?
46. Should bridging payments be applied to all workers, including those not eligible for income insurance?
47. Should the income insurance scheme finance bridging payments in circumstances where the payments are not forthcoming from employers, and refund employers for bridging payments if workers find work within this period?
48. Do you consider that stronger integrity measures are necessary to manage the risk of spurious claims to the income insurance scheme?

8 Coverage and entitlements for loss of work due to health conditions or disabilities

This section focuses on how workers would qualify for income insurance on the basis of losing work due to a health condition or disability.

Proposal

Similar provisions for displacement and health conditions

- Income insurance for health conditions and disability would largely provide the same entitlements as income insurance for displacement. The replacement rate, abatement rate, length of coverage, contribution requirements, limits on subsequent claims, citizenship or residence requirements, and interactions with other payments would be the same.

Coverage provided for any health condition or disability that leads to a significant reduction in work capacity, and coverage for all working arrangements

- The income insurance scheme would cover any health condition or disability that results in a reduction of capacity to work of at least 50 percent and that is expected to last for no less than four working weeks.
- Income insurance for health conditions and disability would cover *all* working arrangements (with all forms of self-employment fully covered).

Health professionals and employer to certify the effect of the health condition or disability on work capacity

- To qualify for the scheme, the claimant would need to provide a work capacity assessment (in the form of a medical certificate from the claimant's health practitioner) and, where appropriate and required, supporting evidence from the employer of the claimant's capacity to undertake their job. Any additional independent work capacity assessment would be undertaken as needed.
- The timing of any reviews of a claimant's work capacity would be guided by advice from the claimant's health practitioner and progress made towards returning to work, where appropriate.

Employers to help claimants to return to work and keep jobs open

- Employers would take reasonable steps to support an employee to continue working (including workplace changes or redeployment where possible) before the employee stops work.
- Employers would make reasonable efforts to protect the job where a prognosis is made of return to work within six months.
- If an employer dismissed an employee on the grounds of medical incapacity, the same notice and bridging payment provisions would apply as for displacement.

An income insurance scheme for health conditions or disabilities could have similar rules to an income insurance scheme for displacement, with some important differences

Many kinds of health conditions and disabilities can reduce a person's capacity to continue working either partially or fully.

An income insurance scheme for health conditions or disabilities could have similar rules to an income insurance scheme for displacement, with important differences. The replacement rate, abatement rate, duration of coverage, contribution requirements, limits on subsequent claims, citizenship or residence requirements, and interactions with other payments could all be the same.

However, job loss due to a health condition or disability poses some different policy questions. The main questions are:

- What health conditions and disabilities should be covered?
- What degree of impairment would trigger eligibility for insurance?
- Which working arrangements should be covered?
- How would claims be assessed?
- What role would employers play?

Insurance schemes for health conditions and disabilities seek to cover people with genuine need while avoiding coverage for those who are able to work. Ascertaining work capacity can be difficult, and work capacity can change over time. The effect of a health condition or disability on work capacity involves weighing a mixture of medical, psychological and social factors. It can be extremely hard to make a correct decision even with solid information. These difficulties increase the risk of people gaining entry to the scheme who do not need support. The Forum has considered several policy choices to manage these risks.

The relationship between a health condition, health, wellbeing and work is complex

In New Zealand, disability is understood within the context of the social model. This means it is not the person's impairment or disability that is disabling but the barriers they face to access and take part in employment, their community and society.[lii] While disabled people experience worse health outcomes than others, health and wellness are not the same as the presence or absence of disability.

Health and wellbeing are multidimensional concepts encompassing social, economic, psychological and biomedical factors and exist on a continuum. Individuals may progress along this continuum from health to illness and back again. These determinants of health and wellbeing not only affect individual health outcomes but generate highly patterned health differences in populations that reflect inequalities in society. Māori and Pacific peoples are disproportionally affected by health conditions and disabilities.

Typically, unemployment is a negative experience – especially if prolonged – and is linked to poorer health and wellbeing outcomes. Recessions have a negative effect on health, with the strongest effects being for mental health conditions.[liii] The evidence linking unemployment and poor health is well established, although the direction of causality may still be contested, that is, employment increases health status and healthy people are more likely to work.

Being in suitable work is generally good for health and wellbeing.[24] Healthy people are more likely to seek and maintain employment. Although their circumstances and support needs vary, many people with health conditions and disabilities can, with the right support, work part time or full time in suitable work.

Workplaces and organisations also benefit from better supporting workers with health conditions and disabilities. These include the social and financial benefits that diverse and inclusive workplaces bring, reduced presenteeism and improved productivity,[liv] improved staff engagement, reduced turnover and costs associated with replacing staff.[lv]

The proposed scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

[24] Work appears to be good for wellbeing but with caveats. The beneficial health effects of work depend on the nature and quality of work. It is possible the work–health association reflects people in good health being more likely to work, versus work causing good health. The social context must be taken into account, particularly social gradients in health. Findings are about average or group affects, and a minority of people may experience contrary health effects from work. See Waddell, G., & Burton, A. K. (2006). *Is work good for your health and well-being?* Cardiff University, Centre for Psychosocial and Disability Research.

No restrictions on the types of conditions covered by the income insurance scheme

Issues and options

Internationally, spending on health- and disability-related benefits in insurance and welfare schemes has grown. People granted a benefit on the grounds of a mental health condition make up a greater share of the caseloads. This is the situation in the New Zealand welfare system.

It is unclear what is driving the trend, but various reasons are possible. People have increased awareness and acceptance of mental health conditions leading to greater claims acceptance. Work can be supportive of wellbeing, and good work is supportive of recovery. However, some aspects of workplaces place greater mental and psychological demands on individuals (for example, long and/or unpredictable hours, low job control, job insecurity, bullying and discrimination), which can undermine health and wellbeing. Social deprivation, trauma, exclusion and aspects of modern life (for example, greater social isolation) also contribute to increased mental distress.[lvi] Evidence suggests that health and welfare agencies have not responded effectively to support those with mental health problems to remain in or return to work.[lvii]

Within this context, it is challenging for income insurance schemes to verify conditions and their effect on work capacity[25] where a high reliance exists on subjective information, co-morbidities, and the severity of conditions fluctuates. Mental health conditions have these features.

One response to this challenge could be to limit coverage to health conditions and disabilities where the diagnosis does not rely on subjective information. Given that mental health conditions are likely to be common amongst the scheme's claimants, limiting coverage could reduce scheme costs.

However, consistent evidence is lacking that such policies encourage people to remain in work[lviii] along with evidence of unintended effects (for example, longer waiting times to receive claims and the associated distress, increased median claims duration, an upsurge in claims for other conditions that are covered[lix] or claims for other benefits,[lx] and financial hardship where people cannot remain in work).

Excluding some types of conditions is likely to be considered unfair by many. People unable to work who have health conditions not covered by the scheme would pay for levies but be unable to claim for those conditions, and experience the adverse effects associated with loss of income, including worse health outcomes. For people with long-term physical health conditions, comorbid mental health conditions are common. Allowing one group of people with mental health conditions access to the scheme and not others is difficult to justify.

Failing to support workers adequately where their mental health problems reduce work capacity is associated with substantial costs for workplaces (for example, in reduced productivity, the effect on the productivity of co-workers, and the training and recruitment of new staff).[lxi]

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[25] A diagnosis can indicate possible work-related problems, but the extent to which the condition affects work capacity can vary significantly across individuals with the same diagnosis.

Usual international practice is to cover all forms of health conditions or disabilities (pre-existing and newly acquired), where these limit a person's capacity to continue working. Many schemes have implemented policies to reduce the costs associated with claims for work loss due to mental health conditions (for example, certification guidelines for health practitioners, greater and earlier support for claimants to use remaining work capacity, improved access to mental health services).

Preferred approach and rationale

The Forum proposes that the scheme would not place any coverage restrictions on the types of health conditions or disabilities that cause a loss of work (with the exception of accidents covered by the accident compensation scheme, which would continue to be covered by that scheme). The focus would be on the extent to which the health condition or disability reduced work capacity.

This approach is equitable, avoids arbitrary distinctions between types of health conditions and will simplify assessment procedures.

Your views

49. Do you agree there should be no restrictions on the types of health conditions covered by the scheme?

No restrictions on the working arrangements covered by the scheme

Issues and options

Insurance coverage for displacement can be challenging for some working arrangements, especially for self-employment. Providing insurance coverage for health conditions and disabilities can be simpler because they can often be observed independently by a health professional. This helps to ensure the loss of income is genuinely caused by a health condition or disability. In this sense, little difference exists between non-standard and standard workers.

Most international schemes cover people working in standard and non-standard employment.[lxii] Most sickness insurance schemes include the self-employed. Some exceptions exist (such as the Netherlands) and, in some jurisdictions, participation is voluntary for the self-employed (such as the Czech Republic) while others only pay a flat rate benefit to the self-employed (such as Belgium).

Preferred approach and rationale

The Forum proposes that the scheme would cover people in all working arrangements in the same way as insurance coverage for displacement, with full coverage for all forms of self-employment.

Including all working arrangements will ensure as many workers as possible have equal cover for a health condition or disability.

Your views

50. Do you agree that all work arrangements should be covered (assuming other eligibility criteria are met)?

Coverage for loss of at least 50 percent of capacity to work, for at least four weeks

Issues and options

Insurance coverage could be limited to full loss of work capacity only or also cover partial loss of working capacity due to a health condition or disability. This choice will influence claimant behaviour and health outcomes, and the scheme's costs.

Limiting coverage to full loss of work capacity would significantly reduce costs. Further, workers whose capacity is partially reduced may be able to continue to work full time with the right support.

But significant drawbacks are also involved. A requirement for full loss of work capacity could lead to:

- presenteeism – where people with limited capacity continue to attend the workplace full time, because they cannot afford to reduce their hours, affecting workplace productivity
- poorer health and employment outcomes, because health conditions would need to become severe before insurance became available
- more people becoming fully detached from employment (with low prospects of returning to work)
- working people over-stating symptoms to qualify for coverage.

An alternative is to also cover partial incapacity. Most European countries cover workers for full and partial job loss. Allowing partial payments to cover lost hours rather than full job loss is associated with shorter sickness absence and higher work participation.[lxiii] This can create gains, such as slowing skill and earnings deterioration,[lxiv] maintaining a connection with the employer and allowing for a gradual return to work, as well as signalling that people with health conditions and disabilities have valuable contributions to make to the workplace. Further, suitable work can support positive benefits for health, especially mental health.[lxv]

Partial loss schemes still specify a minimum threshold of lost work capacity. Internationally, these insurance schemes vary considerably (as shown in Annex 5). Some have relatively low thresholds. Denmark covers a loss of four hours a week. Other countries set higher thresholds. In Switzerland, people can only access the sickness benefit if they lose 50 percent of their work capacity.

Setting the threshold too high risks the same problems as providing coverage for full loss only. In setting the threshold too low, the risk is a large number of claims, including claims for minor and short-term conditions.[lxvi]

To manage costs, many schemes require employers to fund the initial period of absence and/or have unpaid waiting times before benefit take up, but evidence shows that waiting days foster presenteeism, which can have a negative effect on businesses.[lxvii]

Another aspect of the severity threshold is the expected duration of the effect a person's health condition or disability has on their ability to work. While most international schemes do not have a minimum duration requirement for health conditions and disabilities, as an alternative to waiting days, coverage could be limited to health conditions and disabilities that are expected to affect a person's capacity to work for a minimum time. This could also reduce the risk of large numbers of claims for minor and short-term conditions and abuse of the scheme.

Preferred approach and rationale

The Forum proposes the New Zealand scheme would cover complete loss of working capacity and a partial loss of at least 50 percent of working capacity. Coverage would be limited to health conditions and disabilities that are expected to persist for at least four working weeks. Coverage for loss of 50 percent of working capacity is an important difference from the displacement scheme, where coverage is only provided for complete job loss.

People experiencing loss of work capacity below this threshold would be expected to use sick leave. This provision could disadvantage workers who have limited or no sick leave. The duration provision could be waived or reduced in a pandemic such as COVID-19.[lxviii]

Take up of partial payments would be voluntary and require the employer's support. Where the employer is unable to support a drop to part-time work, and the claimant cannot remain in work due to their health condition or disability, they would be covered for their full loss of earnings. However, because they have been assessed as having partial work capacity, they would be subject to part-time work obligations.

Your views

51. Should the scheme cover partial loss of earnings due to a health condition or disability reducing work capacity?
52. If partial loss is to be covered, do you agree claimants should have at least a 50 percent reduction of capacity to work caused by a health condition or disability and that reduction is expected to last for at least four working weeks?

Claimants' medical practitioners would assess work capacity, with final eligibility assessed by the scheme administrator

Issues and options

An assessment of work capacity is a central part of scheme eligibility in most jurisdictions. It is the loss of work capacity due to a health condition or disability that triggers access to insurance benefits, rather than the health condition or disability itself.

Assessing work capacity is complex because it is multidimensional and dynamic. Work capacity may be defined as "the overall ability of an individual to perform the physical, mental and emotional tasks that are needed for the requirements of a particular job, or class of jobs".[lxix] A person's health or disability is only one factor affecting work capacity. The same condition may affect individuals differently, depending on various factors, including work environment and labour market position.

A worker's health condition or disability and the workplace environment interact to influence work capacity.[26] Reduced work capacity may occur together with other issues that influence the ability to work, such as a skills mismatch, financial problems or caring needs. Absolute certainty in work capacity assessments is an unrealistic goal.[lxx]

Various work capacity assessment models are used internationally to assess eligibility and support needs, and each has benefits and limitations. In most countries, claimants' general practitioners (GPs) carry out these assessments. GPs typically provide a medical certificate indicating the effect the health condition or disability has on a person's capacity to work.

Similar to international jurisdictions, in New Zealand, GPs and other health practitioners carry out work capacity assessments. For ACC claims, most health professionals can lodge claims, providing the injury condition is within their scope of practice. But only medical practitioners and nurse practitioners can certify incapacity (includes certifying for as 'fit for selected work' or 'fully unfit') for the purposes of weekly compensation. The information provided also helps ACC to identify what support a person needs to return to work.

More complex claims are reviewed and assessed by ACC staff, for example, sensitive claims, serious injuries, or claims where it is difficult to tell whether an injury has been caused by an accident, illness or general wear and tear. Sometimes, further medical information is sought before a decision is made. Guidance and training on assessing work capacity is available for health practitioners.[lxxi]

This is an imperfect approach. Numerous studies highlight considerable variation in assessment practices.[lxxii] Health practitioners can lack awareness of a claimant's work tasks, the workplace environment and how this interacts with the health condition or disability. GPs can also be conflicted between their role as health advocates and as health assessors on behalf of the insurance provider.[lxxiii]

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[26] For example, in the workplace environment: how the job is structured, stress levels, the physical conditions and the social and attitudinal conditions of employment.

Independent medical assessments provide some assurance, but at significant cost. The use of independent assessments has also been associated with greater claimant stress and delays in claim management.[lxxiv] Such assessments do not always consider a person's remaining work capacity or opportunities to change working arrangements to allow some continued work. Independent assessments can be seen as a tool for denying access to benefits, leading to frequent challenges of decisions.

Ideally, assessments should take a holistic approach, considering all factors that influence work capacity, and an interdisciplinary approach to assessment and support. Such holistic approaches bring together the claimants, health professionals, vocational rehabilitation specialists, employers and employment specialists.

The stringency of work capacity assessments will depend on the entry thresholds. Stricter assessment processes come with trade-offs. Stricter entry requirements may lead to genuine claimants being excluded. Broader entry requirements may lead to more people receiving a payment who should not.[lxxv] More stringent and time-consuming processes are also associated with poorer health and economic outcomes.[lxxvi]

Schemes typically require employers to be informed of a person's reduced work capacity but employers are rarely asked to counter-check medical certificates. Some schemes allow employers to ask the insurer for additional evidence of the person's incapacity. For example, in Germany, if the employer is unsure about an employee's incapacity for work, they can ask the relevant health insurance fund to obtain an expert opinion. The insurer may deny this request if they have sufficient information to make a decision on work capacity.

Employer actions can affect work capacity negatively or positively, and employer perceptions of 'being able to work' are influenced by many factors.[lxxvii] Some workers may be reluctant to make a claim because of privacy and discrimination concerns if they disclose to their employer. Issues with disclosure of a mental health condition are a well-documented feature of the employment relationship, with significant research providing guidance on how this should be managed.

Preferred approach and rationale

For a New Zealand scheme, the Forum proposes that the claimant's health practitioner (GP, nurse practitioner or specialist) would provide an initial assessment with targeted use of more costly second opinions. The use of the claimants' health professional is common internationally and is less costly than the alternatives.

The risk that health practitioners certify a person meets the entry criteria when they do not can be mitigated through:[lxxviii]

- focusing health assessments on what a claimant can reasonably still do and what workplace changes may be necessary to support a return to work
- monitoring certification practice and providing certification guidelines to treating health practitioners
- systematically undertaking independent medical reviews.[lxxix] In Switzerland, this measure reduced disability insurance incidence by 23 percent and increased labour market participation.

The New Zealand health workforce already faces capacity constraints. Health practitioners will need dedicated training so they can provide work capacity assessments efficiently and effectively.

Employers would also provide supporting information for the work capacity assessment, where appropriate and required. An employer could sign a declaration that their employee's work capacity is reduced by at least 50 percent, and that the employer has made reasonable accommodations to support the employee to remain in work. Employers will need guidance to support them in this role.

Where an employer does not agree that the employee has lost at least 50 percent of their work capacity, the employee could apply directly with the scheme. Occasions may also occur where the employee has good reason not to disclose their health condition or disability to their employer, and this could also lead to the employee directly applying to the scheme.

The final decision to accept a claim would rest with the scheme administrator. The administrator will need the expertise to make eligibility decisions based on the health assessment, and the employer's declaration, and to determine when second opinions are needed. An appeals and review process will be available.

Your views

53. Do you agree that the claimants' health practitioner should be the main assessor of work capacity?
54. Do you agree that, where appropriate, employers could provide supporting information to inform the claimant's work capacity assessment process?

Employers would remain responsible for taking reasonable steps to support an employee to continue working

Issues and options

A common criticism of health- and disability-related income insurance schemes is they do not adequately incentivise employers to engage in preventive and reintegration activities.[lxxx]

While employers have only a partial influence over their workers' health status, many workplace factors can directly affect employee health and work capacity. These include job design (including control over work), hours worked, degree of social support at work, conflicts between work and family commitments, perceived levels of fairness and perceptions of job security.

Employers can contribute to preventing and limiting health conditions and disabilities, and reintegrating affected workers.[lxxxi] International jurisdictions have placed greater obligations on employers to support work retention and return to work for claimants with health conditions and disabilities.

Employers can reduce the effect a health condition or disability has on a person's work capacity through reasonable changes to the way they operate, to ensure equality of opportunity to an employee's needs in relation to a disability. Ensuring reasonable changes often costs very little or nothing at all.

A common workplace change is flexible working hours (for example, letting someone work part time or supporting a gradual return to work). Most European jurisdictions allow claimants to keep partial payments if they take up part-time work. Good evidence is available that gradually increasing hours (a graded return to work) supports return to work.[lxxxii]

Other accommodations include changing tasks or workload,[lxxxiii] or providing equipment to accommodate a health condition or disability, or changing attitudes. From an employer's perspective, making these accommodations is a good way to reduce staff churn, and to keep experienced staff in the business.

Preferred approach and rationale

Under the New Zealand Human Rights Act 1993, an employer has to take reasonable measures, that is, provide services and facilities where this is reasonable, to meet an employee's needs. What is 'reasonable' depends on several factors, including the specific legal provisions that apply, the facts of a particular case, any costs involved and whether the required actions could pose a risk to other people. Support (including financial) and guidance on reasonable accommodations are available. It is also good practice for employers to be involved in return-to-work planning.

Given these existing provisions, the Forum does not propose placing any additional obligations on employers to make reasonable changes to support work retention.

The Government is also progressing work on a proposal for accessibility legislation that could introduce new measures and standards for accessibility, including in the workplace.

Where possible, employers will be expected to redeploy claimants to support work retention, but the Forum is not proposing any changes to existing employer requirements in this respect.

As part of making reasonable accommodations, the Forum proposes the scheme allow for a graded return to work because this has been shown to help a faster return to work. Employer participation would be voluntary.

Your views

55. Are the current requirements on employers to make workplace changes sufficient to allow health condition and disability claimants to return to their regular employment (or alternative work)?
56. How could employers be supported to help workers with health conditions or disabilities to remain in or return to work?

Employers would be expected to make reasonable efforts to keep a job open where a return to work within six months is likely

Issues and options

Time-limited insurance schemes often protect the jobs of people whose work capacity is reduced due to a health condition or disability. In the United Kingdom, for example, Statutory Sick Pay claimants' jobs are kept open for 28 weeks.[lxxxiv]

In New Zealand, an employer has no statutory obligation to keep a job open for a person who stops working due to a health condition or disability. This contrasts with the maternity leave protection offered to mothers and protections under the Accident Compensation Act 2001, including employer obligations in relation to work-related (vocational) rehabilitation where it is practicable for a claimant to return to pre-injury employment with the same employer. Keeping a job open would support a person's return to work and reduce the risk of poor labour market outcomes. It may help to reduce scheme costs and downstream welfare costs.

On the other hand, requirements to keep jobs open are likely to discourage employers from hiring people with disabilities or health conditions. Keeping a job open could be easier for larger employers, and where insurance entitlement durations are relatively brief.

Preferred approach and rationale

Employers will be expected to make reasonable efforts to protect a job where a reasonable prognosis is made of return to work within six months. However, this expectation will not be obligatory, because requiring employers to keep jobs open could deter hiring.

Employer practice can be monitored by the scheme. Job protection while on the scheme could be strengthened in future if a significant increase occurred in dismissals for medical reasons.

If an employer decided that an employee had to be dismissed because of their health condition or disability, the same notice and bridging payment provisions would apply as for displacement.

Your views

57. Where an employee must stop work entirely because of a health condition or disability, do you think employers should be expected to keep a job open and help with vocational rehabilitation where a reasonable prognosis is made of return to work within six months?
58. Should this be a statutory requirement placed on employers or an expectation?

The scheme would generally meet the full cost of income replacement once a claim is accepted

Issues and options

Most European countries require employers to meet the cost of an employee's initial absence from work. This cost-sharing is intended to encourage employers to help keep their employees at work and avoid the need to claim for insurance.

Employers in most of these schemes bear a greater portion of the costs of short-term sickness (often referred to as sick pay), while the cover for workers with longer-term sickness is financed by health and social insurance funds.

Employer-funded absence periods for health conditions and disability vary considerably but many are less than one month (see Annex 5). In a New Zealand context, such an absence period could be equated with mandated sick leave.

Countries where employers cover an initial period of absence tend to have lower absence rates than countries where employers can pass the costs of sickness absence on to the insurance scheme.[lxxxv] However, the optimal time-profile for benefits during a spell of sickness is unclear.

Requiring employers to fund an initial absence period before workers can obtain insurance payments may lead to fewer shorter-term absences and less inappropriate claiming. Employers may increase reintegration activities for workers with reduced work capacity because of a health condition or disability to reduce their costs. Reintegration activities will help people already in employment. However, management pressures may be placed on workers not to leave or reduce work for a health condition or disability, to avoid the payment. This may result in longer sickness benefit durations because people do not resolve health problems earlier.[lxxxvi]

Employers obligated to directly bear the costs of workers' poor health may terminate the employment of these workers or not hire them.[lxxxvii] In the Netherlands, increased employer requirements induced employers to hire workers with health conditions or disabilities on a temporary basis only.[lxxxviii] Anti-discrimination legislation can reduce this risk but enforcement can be challenging.

Small businesses may have difficulty affording both the continuation of wages for people with disabilities or health conditions and the wages for the worker's replacement. This may incentivise hiring those not subject to the requirement.

Short employer-funded absence periods may be insufficient to change employer behaviour significantly[lxxxix] but could affect employees' behaviour, that is, the generosity of employer-funded absence periods will have an effect on numbers leaving work with a health condition or disability during this period. Absences typically increase with the generosity of the payments.[xc]

Preferred approach and rationale

The main role of employer payments, such as bridging payments, is to discourage unjustified insurance claims. This is particularly important for displacement claims, where employers can have choices in how to manage their workforce, such as whether to make a position redundant.

Such choices are less relevant when insurance is available for health conditions and disabilities, because the employer and employee have much less influence over whether a health condition or disability develops, and because the existence or severity of the health condition or disability is subject to third party scrutiny by a health professional. This means the need for a bridging payment to discourage unjustified claims is reduced.

Further, requiring a bridging payment could have unintended consequences, such as discouraging employers from hiring people with existing health conditions or disabilities, because the employer could be become liable for the bridging payment.

While a bridging payment could usefully encourage employers to make reasonable workplace changes, existing legislation sets out reasonable measures employers should undertake. The current process of medically dismissing a worker also limits the ease with which employment can be terminated due to a health condition or disability.

The Forum therefore proposes that, in general, no bridging payment would be required for health condition and disability claims.

The Forum also proposes that employers should pay a bridging payment where they dismiss an employee on medical grounds. This payment would help discourage employers from dismissing employees with health conditions or disabilities too readily, when a chance exists they could return to work.

Medical dismissal could occur if the employee does not want to resign but the employer decides there is no alternative but to end the employment relationship through dismissal for medical incapacity. This process can take weeks or months and such dismissals are rare. The bridging payment would be payable at any point during the claim when the employer dismisses the employee on medical grounds. Where the employer and employee agree to end the employment relationship – medical retirement – the bridging payment would not apply.

The Forum's proposed approach does mean that workers claiming income insurance for a health condition or disability will be eligible for up to six months of insurance payments, where displaced workers will be eligible for six months plus the four-week bridging payment.

The Forum recommends monitoring trends in hiring and dismissal of workers with disabilities or health conditions following the introduction of the income insurance scheme and making adjustments if needed.

The Forum also notes that the Government has recently increased sick leave provisions and proposes that people would be required to use statutory sick leave before accessing income insurance. This creates an incentive to use sick leave before entering the scheme because paid leave provides a higher replacement rate. Over time, employers could respond by reducing sick leave requirements to the statutory level. This behaviour will also need to be monitored.

The Forum considered employer experience ratings as an alternative to bridging payments following medical dismissal.[27] However, employer experience rating is not commonly used in public sickness or disability insurance schemes, and significant complexities are associated with experience ratings.

An income insurance scheme could encourage good employer practice through levy discounts or public recognition, alongside continued guidance and awareness raising of existing obligations. This could then have positive impacts for overall provision and knowledge around supporting people with disabilities and health conditions in the workplace.

Your views

59. Do you agree that employers should only pay a bridging payment to employees leaving work because of a health condition or disability when the employment is terminated by the employer?

[27] Experience rating is based on the idea that employers should be charged a premium that accurately reflects their risks. Those with a high risk of experiencing an event (for example, illness, disability, accidents) pay higher premiums.

9 Insurance claimants' obligations

Insurance schemes, much like welfare systems, usually require claimants to meet certain obligations. These obligations, and any related consequences for non-compliance, require careful design.

Proposal

Claimants obliged to search or prepare for work, with payments able to be suspended in cases of serious non-compliance

- Claimants would be expected to be based in New Zealand, to show effort to search for suitable employment, or to prepare for employment (with deferrals for those in certain circumstances, for example, undertaking approved training).
- Claimants would not be required to accept non-suitable offers of employment, such as those that did not offer pre-displacement wages and conditions. Claimants would be expected to accept suitable offers of employment.

Health condition and disability claimants obliged to participate in work capacity assessments, and return-to-work services, where appropriate

- Claimants would provide subsequent work capacity medical certificates (similar to those used by the ACC or the Ministry of Social Development) if required.
- Claimants would engage in return-to-work activities (for example, rehabilitation, training, job search) where relevant and required.
- Any job search obligations could be deferred based on guidance from a health practitioner.

Reasonable obligations for people receiving income insurance payments

Issues and options

Obligations can help mitigate the risk that providing income insurance reduces work incentives. Obligations determine what someone is required or expected to do while receiving financial help, and can vary, depending on the desired goal of the scheme. Some obligations are necessary to underpin the operation of income insurance schemes, such as providing earnings information to the insurer so the correct entitlements can be paid.

Other obligations relate to the scheme's intended outcomes, such as obligations to participate in job search or to prepare to return to work. Many overseas insurance schemes have obligations to look for employment and report on job search efforts. Those with health conditions and/or disabilities may be required to prepare to return to work and undertake rehabilitation.

Similar obligations to look for suitable work apply to recipients of the main welfare benefits in New Zealand. The accident compensation scheme obligates weekly compensation claimants to prepare to return to work.

While obligations are common across New Zealand and international schemes, setting onerous obligations could risk pushing people into poorly matching jobs, undermining core scheme objectives of supporting workers and helping them to find suitable jobs.

Limited evidence is available on the effectiveness of obligations (in isolation) in supporting return to work because the reasons why people exit insurance schemes vary, and it is hard to isolate the effect of obligations from other influences.

Preferred option and rationale

The Forum proposes a set of reasonable obligations that respect claimants' rights, and proposes allowing the insurer to waive obligations, where appropriate. The Forum recommends that income insurance claimants have the following obligations:

- inform the insurer of any change in circumstance that may affect the eligibility for or rate of income insurance
- actively search for work and demonstrate job search activity
- accept suitable offers of employment that offer at least pre-displacement wages and other terms and conditions or are seen by both claimant and insurer as suitable, given work capacity and childcare responsibilities
- complete a return-to-work plan (where required).

Claimants will not be expected or required to accept offers of employment that provide lower wages or conditions.

It is likely that people will sometimes not be able to meet some obligations for good reasons but will still require support from the insurance scheme. Based on this, the Forum recommends waiving work obligations in part or in full for claimants who, for example:

- have health conditions or disabilities (based on work capacity)
- are undertaking approved training
- are participating in approved active labour market programmes
- have a change in childcare responsibilities while in receipt of income insurance that may prevent them from returning to similar or any work.

These obligations aim to support the scheme's objectives without being too onerous for claimants. The Forum considers other obligations, such as those relating to child wellbeing,[28] are not necessary to support the desired outcomes of an insurance scheme.

The insurer could support claimants to meet their obligations by:

- connecting claimants to appropriate employment services and job opportunities
- using case management to understand individual needs and barriers, and to develop a return-to-work plan.

Overseas insurance schemes often require claimants to remain or reside in the country while receiving insurance payments. The Forum considers it appropriate to have a similar requirement for the New Zealand scheme, given its objective is to support workers to find work in New Zealand. Having a requirement to remain in New Zealand while receiving insurance would also signal that the period covered by insurance is intended to be used for job search or to recover from a health condition and not for leisure.

However, it may be that insurance recipients need to travel overseas during their entitlement period, for example, to visit ill family, attend a wedding or funeral. To allow for this, insurance payments could continue for a short time, for example, up to 28 days. This could be extended in certain circumstances, for example, if a claimant was required to be overseas to support ill family for a period longer than 28 days. This aligns with the period in which beneficiaries can travel overseas (for approved reasons) while continuing to receive a main benefit, including that circumstances are limited where a benefit could be paid for longer than 28 days.

[28] Social obligations currently require main benefit recipients to enrol their children in specified health and education services.

Your views

60. Do you agree claimants should be obligated to look for work or prepare to return to work while receiving insurance?
61. Do you agree that claimants would not be expected or required to accept offers of employment that provide lower wages or conditions?
62. Do you agree the insurer could waive obligations partially or fully where a claimant is unable to meet those obligations?
63. Do you agree claimants should be obligated to remain in New Zealand to remain eligible for income insurance?
64. Do you think a period of time, such as 28 days, should be allowed for travel overseas, for example, to support ill family?

Specific obligations for claimants with a health condition or disability

Issues and options

Most sickness insurance schemes require claimants to regularly provide proof (for example, work capacity medical certificates) that their work capacity remains limited by their health condition or disability. Some countries have more stringent reassessments after some time receiving payments. In Finland, for example, claimants are required have their capacity for work evaluated by an occupational health provider after the person has been paid sickness allowance for 90 days.

Claimants assessed as fit for work may lose eligibility or face additional work requirements.

In response to a growth in numbers receiving health and disability benefits, and a desire to improve employment outcomes, schemes providing such benefits have moved from being passive schemes to requiring claimants to take steps to return to work. Most countries have increased the requirements on health and disability claimants to engage in return-to-work planning, including rehabilitation with a case manager where appropriate. ACC has similar requirements. Evidence shows that requiring claimants to engage with a case manager and others (for example, health practitioners, employers) about return to work reduces the length of sickness absences, and the estimated benefits exceed estimated costs.[xci] Several European jurisdictions go a step further and require claimants to engage in rehabilitation and employment activities that support return to work. This approach requires:

- a well-balanced case management model to effectively triage and provide people with the level of support they need, and sufficient case managers to coordinate the return-to-work process for those who need it
- timely access to effective, and often integrated, rehabilitation and employment services.

Across the Organisation for Economic Co-operation and Development (OECD), however, the tendency is to exempt jobseekers with a health condition or disability from participating in active labour market programmes and job-seeking requirements, and wait until they return 'treated and cured'.[xcii] Moreover, obligations on claimants to prepare for work have often not been supported by sufficient or timely return-to-work services.

Preferred approach and rationale

The obligations for claimants are intended to support scheme integrity and incentivise return to work. The Forum proposes the income insurance scheme obliges claimants with health conditions and disabilities to:

- inform the insurer of any change in circumstance that may affect the eligibility for or rate of social insurance
- provide the insurer with subsequent medical certificates should a work capacity reassessment be required by their health practitioner within the entitlement period
- undertake any assessments related to returning to work required by the scheme. Assessments are to be undertaken by an independent third party unaffiliated with the scheme. The scheme would pay all costs associated with the assessment
- prepare to return to work, where appropriate. This includes working with the insurer to prepare, update and follow a rehabilitation and return-to-work plan (where such a plan is appropriate). This could include engaging in rehabilitation activities

- actively search for work (and demonstrate job search activity) where their capacity to work allows
- where the capacity to work improves, accept suitable offers of employment that offer at least pre-displacement wages and other terms and conditions.

Having a time limit on the payment means people cannot remain on the scheme for a long time. Nevertheless, a strong case exists for assessing a claimant's ongoing need for insurance because:

- additional help may be required
- people may recover or return to work with workplace changes but this may be difficult to observe without an assessment
- receiving income insurance is a substantial disincentive to resume work within the timeframe, even after recovery.[xciii]

Where claimants are able to return to work full time, they would be subject to the same work obligations as displaced workers (outlined above).

Where claimants are unable to work, their obligation to look for work could be deferred. However, the Forum proposes claimants with deferred work obligations be required to engage in return-to-work planning, including rehabilitation with a case manager where employment is a possibility. Such requirements are common in other insurance schemes for sickness and disability, including ACC. The view that people must wait until they recover before discussing and planning to return to work is outdated and contributes to longer periods out of work.

Where claimants do not meet their obligations, consequences will be in place for serious non-compliance (discussed in the following section). The application of consequences and sanctions needs to be carefully considered where claimants have health conditions or disabilities. Considerable evidence is available that harsh sanctions can be detrimental to health.[xciv]

Your views

65. Should claimants with health conditions or disabilities be subject to obligations to participate in rehabilitative programmes and other support, where appropriate?
66. Should claimants with health conditions and disabilities be subject to obligations to search for work or undertaking training where they are able to?

Consequences for non-compliance

Issues and options

Many claimants will be motivated to find suitable employment. Claimants may therefore willingly comply with the scheme's obligations.

Compliance is likely to be greater, however, if financial consequences are in place for non-compliance. In both the welfare and accident compensation systems, claimants face consequences for not meeting obligations. In the accident compensation scheme, these consequences include a cessation of payments until the person complies. In the welfare system, obligation failures can lead to sanctions that can result in the loss of 50 percent to 100 percent of benefits and supplementary payments.

It is common for insurance schemes to impose penalties for non-compliance, particularly where claimants refuse suitable employment. In these cases, many schemes suspend or terminate insurance payments for 4 to 52 weeks. In most countries, repeated non-compliance leads to larger penalties and can lead to a permanent loss of entitlement. However, harsh financial consequences could undermine the objective of reducing wage scarring through pressuring insurance claimants to accept poor quality jobs.[xcv]

The scheme could operate without financial penalties and simply rely on voluntary compliance and the incentive provided by a limited entitlement period.

Effective case management can also support compliance through regular check-ins on job search and reminders about the upcoming end of an entitlement.

A risk still exists, however, that claimants may not comply with the scheme's obligations, leading them to rely on insurance payments for longer than necessary. This risks an increase in the overall cost of the scheme. This may also undermine the sense of public trust and confidence in the scheme to support good employment outcomes, if the view is held that people are not taking the opportunity to seek suitable employment.

A considerable range of design choices is available. Financial consequences could be light, such as the partial loss of payment, or harsh, such as a 50 percent to 100 percent loss of payment, or a 'sliding scale' between the two.

Evidence suggests that sanctions do not need to be harsh to be effective. Harsh sanctions may be counterproductive by pressuring claimants into wage scarring jobs, and reducing income smoothing.

Preferred option and rationale

The Forum recommends that financial sanctions for non-compliance would be used only as a last resort in cases of serious, intentional non-compliance with obligations. In these cases, the Forum recommends aligning with ACC's approach:

- Entitlements could be suspended for as long as the claimant unreasonably refused or unreasonably failed to meet certain obligations.
- The claimant would receive written notice of the proposed suspension within a reasonable period before the proposed starting date (with the opportunity to re-comply before the suspension took effect).
- Entitlements would be resumed once the claimant had re-complied.

The Forum recommends setting a high threshold for suspension, and allowing claimants sufficient time to re-comply with their obligations before any suspension takes effect. This is particularly important where even a minor reduction in insurance payments could cause financial difficulties. Suspension of payments would be a last resort.

Setting clear obligations and a high threshold for suspension would claimants decline unsuitable job offers without fear of financial consequences.

Your views

67. Do you think financial penalties should be in place for people who do not meet their obligations while receiving insurance payments?
68. Do you agree that payments could be fully suspended in cases of serious, intentional non-compliance with obligations?
69. Do you think any other consequences should be in place for people repeatedly not meeting their obligations, such as permanent suspension of entitlements?

10 Delivering income insurance

The Forum is committed to an income insurance scheme that will be trusted and accountable, cost efficient and effectively deliver the intended outcomes for New Zealanders over the long term.

Proposal

Scheme to be administered by the Accident Compensation Corporation

- Employers or working people could lodge insurance claims with ACC, which would administer the scheme.
- Governance of the scheme would include tripartite and Māori representation.
- The scheme could begin operating in 2023 at the earliest.

Scheme would help claimants return to good jobs

- The scheme would operate a case management system and connect insurance claimants with support to find or prepare for work. The scheme would assign a case manager where this would improve a worker's chances of getting a good job.
- Partner agencies could provide support to claimants to search or prepare for work, where appropriate.
- Where needed, the scheme would refer claimants to existing health and employment services to enable them to return to work, where appropriate.

Disputes would be handled efficiently

- The scheme would operate an efficient and independent dispute resolution process, with multiple escalation steps where needed.

Scheme would take enforcement action where necessary

- The scheme would take appropriate action to collect levy payments, and to deter and respond to misrepresentation.

Accident Compensation Corporation would require high quality and timely information to deliver the scheme effectively and efficiently

- ACC will develop information-sharing agreements and arrangements with employers, other agencies and service providers.
- ACC will collect information and commission research needed to monitor whether the scheme is meeting its objectives, whether interventions are effective and to enable public transparency.

Independent and effective delivery

Issues and options

The Forum is committed to an insurance scheme that will be trusted, accountable, efficient and that effectively and empathetically delivers the intended outcomes for New Zealanders.

Having a competent and independent entity, subject to strong governance arrangements, is important for providing assurance, for instance, that the scheme's employer and worker levy funding will be used for the purpose for which it is collected (rather than diverted to other uses). It is also desirable that functions are consolidated in an existing rather than new entity, if that can be done efficiently and effectively.

The Forum also considers the income insurance scheme would be strengthened by bringing in employer and worker perspectives to inform its operation and Māori perspectives to guide the aspirations and equity of the scheme over time. This would help provide assurance the scheme is being run in the way intended: providing effective support to workers through change, treating them with dignity and empathy.

The aim is to build a scheme that:

- is accessible and low compliance for employers and workers, and that provides timely assessment and payment of entitlements
- has integrity, for instance, in mitigating against fraud and resolving disputes
- is adaptable but robust, to be used when difficult circumstances arise
- treats workers needing its services with dignity and empathy.

This will require investment in information technology platforms, staff, good information collection and sharing with other agencies, so that information already collected by agencies can be used efficiently and safely by the scheme to deliver its services and manage integrity. It will also require suitable information to monitor whether the scheme is meeting its objectives, whether interventions are effective and to enable public transparency.

Establishing an income insurance scheme would be a major project. If a decision is taken to proceed, then legislation could be introduced in 2022, with a scheme operating from 2023.

Preferred option and rationale

The Forum recommends that ACC administers the income insurance scheme, which would be delivered alongside, but separate to, the accident compensation scheme, which would not be changed.

ACC has a strong record in delivering the levy-funded accident compensation scheme. As a Crown agent, ACC has an appropriate level of independence to manage levy funding for its intended purpose. This would be reinforced in similar ways as for the accident compensation scheme, for instance, with the establishment of clear legislated rules and effective oversight (discussed in the next section).

ACC has the leadership and capability to effectively establish and deliver the proposed scheme. ACC has strong knowledge and capability in system development given its recent transformation programme. The proposed income insurance and accident compensation schemes could also be mutually supportive over time.

Administering the proposed scheme would strengthen ACC's return-to-work focus, an important driver of the accident compensation scheme's rehabilitation performance.

ACC administration of the scheme is the most practical and cost-effective option. The proposed income insurance scheme could be built from many of the same platforms that ACC uses to deliver the accident compensation scheme. ACC has existing organisational and technical capacity (systems and staff) to establish and deliver over time:

- stable levies
- fund management (with income insurance funds managed separately from other funding streams)
- accurate and low-compliance assessment and payment systems
- effective case management (including medical expertise that could be leveraged to support people with health conditions and disabilities)
- data insights and scheme delivery improvement.

ACC also has capabilities that could be used over time as the scheme beds in, for example, its sophisticated levy platform could support improved equity and performance as understanding of experience in the scheme increases.

While establishing the proposed scheme in a new Crown entity or department, such as MSD, would be possible, these options involve more significant costs and risks than using ACC. It would be more difficult to realise synergies across the accident compensation scheme and the new scheme, and alternatives would require either a more extensive system build at considerably higher cost or reliance on ACC developing a large number of the systems needed for a shared services arrangement. While a shared services arrangement would not be too much more costly to manage over time, it would be an extensive and complicated arrangement to set up and manage.

Your views

70. Do you think it is best for ACC to deliver the income insurance scheme alongside the accident compensation scheme?
71. Would the income insurance scheme be better delivered by a government department or a new entity?

Accountable and effective governance

Issues and options

Governance arrangements are important for ensuring an insurance scheme is accountable, delivered effectively and in a way that engenders trust.

ACC is governed by a Board whose members are chosen for their skills to direct ACC's operational performance (for example, managing its multi-billion dollar fund).

ACC, as a Crown agent, has a form of legal separation from the Crown. Governance arrangements are based on the Minister–Board relationship. Ministers, on behalf of the public, set performance expectations for the Board to discharge and establish through legislation the operating parameters of the accident compensation scheme. Ministers are supported by government officials responsible for monitoring ACC's performance and advising on accident compensation scheme policy.

Preferred option and rationale

The Government proposes establishing standalone legislation to govern the income insurance scheme that sets out how funding requirements will be determined, what levy funding can be used for, and the cover and entitlements people can expect. Ministers (supported by government officials) will provide ongoing performance and legislative stewardship of the scheme.

We are aware that establishing the scheme within ACC could potentially stretch ACC, particularly during the scheme's establishment phase. We think this could be managed by maintaining the ACC Board's skill set, providing appropriate resourcing for the scheme's establishment, and resourcing and establishing good performance monitoring for the scheme.

The Forum also believes the income insurance scheme would be strengthened by bringing in employers' and workers' perspectives to inform the establishment, governance and delivery of the scheme. Equally important will be to bring in Māori perspectives to guide the aspirations and equity of the scheme over time.

Your views

72. How could employer and worker perspectives best be incorporated to strengthen the income insurance scheme's delivery for New Zealanders?
73. How could Māori perspectives best be incorporated to ensure the income insurance scheme is delivered equitably and with aspiration?

Displaced workers: Getting back to good jobs

Issues and options

An important purpose of income insurance is to help people return to good work. While people with health conditions and disabilities may be able to return to an existing job, those made redundant need to find new work.

Many insurance design features influence how successfully people find work after job loss. These include the generosity and duration of insurance coverage, the expectations placed on claimants, claimants' rights to decline poor job matches, and the support claimants receive to find or prepare for work.

Finding work can be difficult, especially for people with specialised skills that are no longer in demand, or those not used to looking for work, or when jobs are scarce. Where technological change has led to redundancy, workers may need to retrain or upskill to obtain skills relevant to the new economy.

These challenges mean income insurance alone may not be enough to give people their best chance of finding the right job. They may need extra help to:

- identify career options
- retrain or upskill
- search for work.

Such help could make the difference between finding the right job, accepting a poor job or remaining unemployed.

For these reasons, Active Labour Market Programmes are an integral part of income insurance schemes internationally. Such programmes can include education and training, job subsidies and public employment programmes.

Professional employment case managers can help claimants navigate such employment services, help identify career choices, and provide motivation and encouragement. The case manager's role often includes monitoring and enforcing job search requirements and providing employment assistance to those receiving insurance.

Obligations to report to public employment agencies are commonly used in other countries to monitor job search activity. Most schemes require visits to employment centres on a monthly or even fortnightly basis.

Training schemes are often integrated into insurance systems, and receipt of insurance payments in many cases is conditional on participation in approved training programmes.

For many people, an insurance entitlement following job loss could represent an ideal opportunity for retraining and upskilling. Entitlement durations are discussed further in chapter 7.

Such support to return to work is available to New Zealand workers to an extent. Employment services have expanded substantially (though temporarily) as part of the COVID-19 response. MSD, as New Zealand's lead public employment agency, is also strengthening support for people at risk of job displacement as part of the shifting focus from reacting when people come on to welfare benefit towards early intervention.

The aim is to work proactively with businesses, associations, government and community stakeholders in regions to ensure people at risk of displacement are aware of, and can access, the services and support that MSD and partners offer to help them retain their employment or transition to new good and appropriate employment or training.

Agencies are increasingly looking to partner with iwi and Māori to provide employment and related services. This reflects the recommendations of such groups as Te Ara Mahi Māori – an independent reference group advising the Government on a new Māori employment action plan – in calling for Māori decision-making power and control over services for their communities, including employment services. Māori service providers can draw on local networks to provide wrap-around support and embed mana-enhancing te ao Māori values, such as whakawhanangatanga and manaakitanga.

Other reforms, such as the Careers Strategy and the Reform of Vocational Education, are also making it easier for working people to identify their career options and to access retraining and upskilling.

In addition to these public services, private employment services are also provided through recruitment agencies. This market offering could grow in quantity and quality if there is a demand from insurance recipients.

Preferred option and rationale

The need for employment, training and rehabilitation services will vary between individuals and under different labour market conditions. Claimants with highly demanded skills, who are confident navigating the labour market, may need little help to find work. These claimants could self-manage or may choose to engage a private recruitment agency.

Claimants who need to change careers or retrain, who are less confident navigating the education and training system and/or labour market, will need more help to find work.

The scheme will establish the capability to identify promptly those claimants who can self-manage and those who need direct help, and who is best placed to deliver it. This capability will evolve, as the characteristics of claimants become known.

A dedicated employment case manager will be assigned to claimants with higher needs, once these have been identified. Professional employment case managers can help claimants identify career choices, training options and employment opportunities (job brokerage).

While ACC will have overall responsibility for the income insurance scheme, MSD is the lead provider of public employment services. MSD and ACC may therefore wish to develop a service agreement whereby ACC purchases case manager services at full cost from the Ministry. This could be limited to the purchase of specialised health and disability case manager support, or include more general work-focused employment case manager support.

Case managers will develop tailored return-to-work plans with claimants, and encourage and support them to return to work. For some claimants, these plans could be a 'light touch'. For others they could be more intensive with regular contact and support.

Insurance levies will cover this cost. The cost estimates for the scheme assume administration and case management costs will account for up to around 10 percent of total costs.

Both ACC and MSD currently operate a tiered approach to case management, with only a small proportion of claimants receiving the most intensive services. The same approach will be appropriate for the income insurance scheme.

Where useful, case managers will connect claimants with services and products provided by MSD. These could include wage subsidies, employment placement (through work brokers) and help to apply for jobs, along with support for claimants with health conditions and disabilities to return to work. MSD will also continue to respond to larger scale redundancy events with its Rapid Response Teams. These services are currently available for both beneficiaries and non-beneficiaries. This is likely to mean an additional demand for the Ministry's services.

More broadly, over time, it may be desirable for ACC to purchase a wider range of services from various providers. This could lead to better employment and wellbeing outcomes. While this would cost more, effective employment services could reduce the time people spend receiving insurance, reducing overall costs.

Insurance claimants would also face obligations to seek work and participate in services to support a return to work. Obligations are discussed further in chapter 9.

Your views

74. What practical support should be available to insurance claimants to return to work?
75. Who should provide that return-to-work support?
76. What type of claimants would need an employment case manager, and who could self-manage?
77. What do you think a 'return-to-work plan' should include?

Health condition and disability claimants: Getting back to good jobs

Issues and options

Engaging in suitable work is generally good for wellbeing, and intervening early with effective measures to support a return to suitable work is important. The longer people are out of work with a health condition or disability the harder it is to return to work, even after recovery.

The needs of people who lose work due to a health condition or disability vary widely and may change over time as their conditions change. Someone's health condition or disability is only one factor affecting their return to work. As such, the level and type of support and services needed also vary.

Some people may have only a temporary loss of capacity and be able to return to their usual place of work. Others may face a lasting or recurrent loss of capacity and need to find different work and a different employer. Some may not be able to return to work at all.

Where people are out of work due to a health condition or disability, symptom reduction and/or management is important. Where people with health conditions and disabilities cannot return to their workplace, but wish to resume working, employment services can be useful.

Countries with established insurance schemes have dealt with many challenges in helping claimants with health conditions and disabilities return to work. Coordination between the actors involved is important. In New Zealand and elsewhere, however, people with health conditions or disabilities face complex and fragmented systems. Effective support services are often not available.[xcvi]

Evidence on what works is growing and the main elements of promising approaches include:

- intervening early with the appropriate level of service with a focus on early placement in suitable work in the regular labour market. Waiting until people recover before talking about returning to work is not effective. Some may only need simple and inexpensive healthcare and workplace interventions that, in the early stages, can be effective at increasing return to work rates and reducing long-term disability. Others may need more structured and intensive services[xcvii]
- listening to and understanding the person in their context
- working with the person to plan and deliver a tailored and agreed plan
- mobilising and coordinating support and services (often multidisciplinary, multi-stakeholder) to access, maintain or return to employment or other useful occupation. Having integrated employment and health services and accommodating workplaces is important
- understanding that moving into work is not an all-or-nothing event. It is a process where people prepare for, move closer to and engage in work. This process may not be linear. People may need support to sustain employment.

The Organisation for Economic Co-operation and Development (OECD) has recommended that improving outcomes for people with health conditions and disabilities requires a coordinated approach across systems, including:

- working to prevent the incidence of ill health and disability, especially amongst young people
- bringing a greater focus on employment to the health system
- creating workplaces that are supportive of health and wellbeing

Progress has been made in New Zealand, but opportunities for improvement exist.

Preferred approach and rationale

The proposed income insurance scheme for job loss due to health conditions and disability will include several specific features to support these claimants:

- Claimants will be able (and encouraged) to work part time and to gradually increase their hours of work as they recover and adjust to their health condition or disability.
- Employers will be encouraged to keep jobs open where a reasonable chance exists of a return to work.
- Employers will be encouraged to make workplace changes to support people back to work.
- Where appropriate, the case management system will seek to provide specialist employment support for people with health conditions and disabilities.
- The scheme will refer claimants to relevant public health services.

The Government has also introduced various reforms aimed at improving health outcomes. These include the response to the Mental Health and Addiction Inquiry (He Ara Oranga[xcviii]) and the Government's decisions and transition to a reformed health and disability system.[xcix]

Initiatives are also in place aimed at creating workplaces that are more supportive of health and wellbeing. For example, the Government's *Health and Safety at Work Strategy 2018–28* has a focus on work-related health and safety, and sick leave has increased to 10 days.

The Forum recognises that people with health conditions or a disability can face additional barriers to work and broader wellbeing outcomes, and that access to and gaps in services for this group are larger. Addressing these gaps will take time. Providing a replacement income equivalent to the accident compensation scheme would be a significant step forward.

Your views

78. What practical support should be available to income insurance claimants with a health condition or disability to return to work?
79. Who should provide that support to return to work?
80. What type of claimants would need a case manager, and who could self-manage?

Dispute resolution

Issues and options

Any scheme with defined entitlements will lead to disputes. Disputes for the proposed income insurance scheme are likely to occur in only a small number of cases relating to:

- determinations of eligibility based on how a person became unemployed, and whether they have met work history requirements or other requirements
- compliance with scheme obligations, such as the requirement to search for work
- clinical assessments of work incapacity for health conditions and disability cases.

It will be important for disputation to be accessible and fair. Given the scheme's fixed period of entitlement, swift resolution of disputes will particularly be important.

Preferred option and rationale

The Forum proposes a four-step dispute resolution process for the scheme, with the main aim of resolving disputes as soon as possible:

1. Internal review: the scheme provider undertakes an internal review of a review application, which may result in the original decision being overturned. It is expected that a large proportion of disputes would be resolved at this stage.

2. Conciliation: for those reviews unable to be resolved internally, conciliation could be offered as an alternative dispute resolution tool.

3. Formal review: Unresolved disputes would be referred to an independent, third-party reviewer for a legislatively defined formal review. Claims could be withdrawn or settled before a review hearing took place.

4. Appeal to the courts: A review decision would be appealable to the District Court and from there to the High Court. It is expected that few claims would reach this point, but this would be an important element for clarifying scheme parameters over time.

One of the main principles underpinning the dispute resolution process will be that timeframes must allow for the time-limited nature of insurance payments. An extended dispute resolution process that takes more than six months to reach a decision will not meet the income-smoothing or income replacement objectives of the scheme.

Timeframes for completion of each stage of the dispute resolution process will be clearly set out, and resources will be allocated to achieve these timeframes. Employer and worker representatives will have a role in monitoring the performance of the resolution service to ensure it delivers the goals, objectives and spirit of the scheme.

To reduce disputes, ACC, in consultation with representatives of workers, Māori and business, could develop guidance on interpretation of the matters most likely to lead to disputes. This would be updated in view of relevant dispute decisions.

The dispute resolution process will be aligned with the process already operated by ACC. This includes that, in general, where a dispute exists over eligibility, the requestor will not receive insurance payments until the dispute is resolved. ACC has a process in place with MSD where an applicant may apply and, where eligible, be granted a benefit until entitlement can be determined, which could be replicated for the income insurance scheme.

The Forum considered whether to allow insurance payments to continue while eligibility is established. In this case, any income replacement payments made would need to be repaid if the requestor is determined to not be eligible. The Forum rejected this approach because of the significant debt this could create for the scheme and individuals.

Your views

81. Do you agree with the proposed four-step dispute resolution process for the scheme?
82. Are there specific aspects to the scheme's dispute resolution you think should be considered?

Scheme integrity and enforcement

Issues

The proposed income insurance scheme will need to manage risks to its integrity. These include:

- non-payment of levies
- non-provision of information, for example, claimants not declaring changes in circumstances, or employers refusing to provide information required for administering a claim
- providing misleading information, for example, misrepresenting dismissals for poor performance as redundancies
- falsification of claims, for example, using fictitious or stolen identity information
- misappropriation of sensitive information.

The scheme's proposed design will include several features to prevent abuse, such as measures to discourage unjustified claims, and ensuring information sharing between agencies. New Zealand also has several institutional features that can support the scheme's integrity, such as employer obligations to keep accurate records.

Broader criminal provisions are also available. The Crimes Act 1961 and Secret Commissions Act 1910 include general fraud and corruption provisions, which are subject to the Criminal Proceeds Recovery Act 2009, and could be invoked for serious abuses of the scheme.

Options and rationale

Managing risks to the scheme will require a balance of prevention, detection and investigation, proportionate, credible responses, and reporting.

The Forum also recommends establishing an effective offences and penalties framework to protect the scheme (in addition to the broader criminal provisions). Several offences and penalties can be modelled from the Accident Compensation Act 2001. Under the Act, ACC is provided with specific offence and penalty provisions for dealing with non-payment of levies (refer section 316), failing to provide information (section 309) and providing misleading information (refer section 308), which could be adapted for the scheme. The penalties, such as maximum fines payable, may need to be updated, however, given the amounts have not been inflation-adjusted in almost 25 years.

In no circumstances would non-compliance by an employer alone affect a worker's entitlements.

ACC is not able to take prosecutions or criminal proceeds recovery actions, but can instruct the Crown Law Office and New Zealand Police to take prosecutions and recovery actions on its behalf.

Your views

83. Do you agree with the proposal to establish an effective offences and penalties framework to protect the scheme's integrity?

Information collection and sharing

Issues

To operate effectively, the scheme will need information to inform:

- accurate levying of workers and businesses
- quick, straight-forward determination of claimant eligibility and benefit levels
- claimant compliance with scheme obligations
- identification of potential frauds and waste in the scheme.
- monitoring of the scheme and information, for public transparency.

To be efficient, the scheme will need to draw from information already collected by agencies and collect some additional information. To be trusted, the scheme will need to ensure it stores and uses that information in a way that maintains its integrity.

Administrative agencies (including ACC, Inland Revenue, New Zealand Customs Service, Immigration New Zealand, Ministry of Transport and Department of internal Affairs) already collect information that the scheme will need to operate. Information sharing with those agencies and functions would avoid unnecessary additional collection and help avoid imposing additional compliance costs on businesses, workers, and claimants. We would also expect that information sharing, as opposed to additional collection, would help to improve timeliness of services (for example, claims acceptance), minimise inadvertent non-compliance by claimants and businesses, and identity verification to prevent intentional frauds against the scheme.

It will be important for the scheme to share information with other systems, such as the welfare system, so those systems can operate effectively and efficiently.

Additional information would still be needed in some instances. This will impose costs on individuals and businesses, as well as create potential anxiety, given the information could be highly sensitive, but nonetheless fundamental to the scheme's operation. For instance, to determine eligibility for health condition and disability claims, the scheme will need to obtain details of medical assessments. In some cases, the scheme may require information to validate a claim from employers (for example, reason for leaving) or self-employed people and those they contract with (for example, supporting collateral disclosure for change in status).

Preferred option and rationale

The Forum acknowledges the public interest and sensitivity around information sharing, collection, use and protection.

Information sharing will require a clear rationale and the authority and capability to safely share information amongst agencies. Collection will require investment in information lodgement. The authority for information collection and sharing will be provided by the enabling legislation for the scheme. Both sharing and collection will require investment in information management IT and protocols to ensure it is safely managed and appropriately used.

Details of what information would be proposed to be shared and collected, and protections and limits on use and storage, will depend on the scheme settings ultimately adopted. These details will be provided as the overall design of the scheme progresses. Examples of information collection and sharing could include information from:

- Inland Revenue to establish a claimant's employment history and earnings to determine eligibility and the level of support
- Immigration New Zealand on visa terms to determine scheme eligibility
- Ministry of Transport, Department of Internal Affairs for identity verification, given the higher risk of identity and cyber frauds
- New Zealand Customs Service about how long clients have spent outside the country, for the purposes of determining their continued eligibility.

It would also be important in some cases to have discretion to source and verify core information for a claim from employers, for instance, to validate position, benefits, bank account, tenure, reason for leaving (for example, for evidence of misconduct). Similarly, information may be required from self-employed people and their contractual relationships to validate benefit flow and change in status

Having the discretion to obtain such information, rather than seeking it by consent and compliance when a worker is already receiving entitlements, would enable the right client experience (a faster, straight-forward claim entitlement process) and would be critical where fraud has become an issue.

Once information sharing agreements are in place, specific issues relating to information collection, storage and use need to be managed. The Forum acknowledges this additional information would likely cause impacts for those needing to provide information. Where additional information needs to be collected, the scheme would require the consent of affected individuals to obtain this information.

Information collected is also expected to be important for research and evaluation of scheme outcomes (and broader labour market dynamics) over time. Consideration will be given to how information collected, and scheme data, can be safely incorporated within the Government's broader statistics, ensuring proportionate protections are in place for sensitive data (for example, maintaining anonymity). The Canadian Employment Insurance scheme publishes detailed information and analysis annually, which is essential for the public to monitor the scheme's effectiveness and its effect on different parts of the community. Consideration should be given to similar publication here.[c]

Your views

84. Do you agree with the proposal to develop information sharing agreements and sharing arrangements with employers, other agencies and service providers?

11 Funding income insurance

Operating a new income insurance scheme will involve significant costs that need to be funded. Choices can be made in the funding design, including how to share costs.

This section discusses the estimated cost of income insurance.

Proposal

- The costs of the income insurance scheme would be met through a compulsory levy paid in equal proportions by employers and employees. The levy would be adjusted when necessary, to meet the scheme's costs, in much the same way as the current accident compensation scheme levy.
- We have proposed an initial levy of 2.77 percent of salary and wages. This will be split between firms and workers, with each paying 1.39 percent. This reflects a total annual cost of $3.54 billion (made up of $1.81 billion for displacement and $1.73 billion for health condition and disability claims). These all include Goods and Services Tax (GST).
- The scheme would operate two funds: one for displacement claims and one for health condition and disability claims. It would be fully funded to meet its annual liabilities, anticipating economic ups and downs. A small reserve fund would help improve the scheme's sustainability in case of worse-than-expected economic conditions.
- The Crown would act as funder and/or lender of last resort when required. This could be repaid via levies (spread over time so as to maintain manageable, stable levies).
- The scheme's legislation would provide the flexibility to vary entitlements and eligibility in times of economic crisis. This could include extending maximum entitlement periods or using the scheme to administer a wage subsidy. This could require Crown funding.

Income insurance will involve costs

The Forum has worked hard to estimate the costs of establishing the proposed income insurance scheme. Understanding costs is essential for deciding whether it is worth establishing the proposed scheme, and understanding the effects on individual workers and the economy.

It is, difficult to determine with absolute certainty what the exact costs of the scheme will be, for multiple reasons. A significant factor is that the scale of displacement currently observed reflects only a part of the picture. Many workers who lose their jobs often move on to other jobs without any period of unemployment. These workers are not observable in the data we have.

In addition, the scheme is intended to shift behaviours in the economy. If successful, we expect workers who are displaced to take more time to find the right job, rather than taking the first one available, which might be a poor fit with their skills and experience. This is likely to see more workers finding a good job that best suits their skills and experience. Estimating the scale of this behavioural change is challenging. The Forum has looked at various possible inputs – both domestic and international – to help inform its views about the likely costs of the scheme and consequent levy rates. As a result, the Forum has based its costs on a set of assumptions about the number of likely claims, the average length of those claims and the average income people earn before they are displaced.

International examples, while informative, are often not comparable with the likely New Zealand experience. Similar schemes overseas have been in place for many years. This makes it difficult to extrapolate what the behavioural response is likely to be to the introduction of such a scheme in New Zealand. Equally, various contextual factors are involved (such as the design of the respective schemes, the nature of the labour market in that jurisdiction, including its labour market regulatory systems, different cultures around redundancies, and the broader economic context). This may mean the New Zealand experience could be significantly different from those of international comparators. When estimating the likely costs of the scheme, the Forum considered both a variety of international experiences and the historical experience of displacement and job loss arising from health conditions and disability. We also considered relatively well-established evidence that behavioural changes take time to establish. Given this, we modelled various scenarios using different assumptions for the key inputs (claim numbers, duration and level of income).[29]

The proposed initial levy presented in this document is 2.77 percent and is at the higher end of the costs we modelled. The Forum's view is this rate is a prudent level to set the initial levy. By taking this approach, we seek to ensure the scheme is sustainable in its early years and that people can have confidence in its viability. This would help ensure future levy rounds are less likely to see significant spikes. The levy presented here is the best estimate of an initial levy rate, assuming the scheme is implemented along the lines suggested in this document. If the proposed design changes, as a result of feedback after consultation, for example, the indicative levy would also need to change.

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[29] This levy rate makes the following assumptions about the key inputs: claim numbers – 112,300 for displacement and 135,300 for health conditions and disability (HCD); average duration – 21.2 weeks for displacement and 11.6 weeks for HCD; pre-displacement income (annualised) – $49,488 for displacement and $57,072 for HCD.

The initial levy may need to change for other reasons, such as changes in the economic data we use to estimate the cost, or refinements in how the costs are modelled. Given the complexity of the scheme and its impacts on other parts of the economy, further refinements are possible.

After the scheme is introduced, the levy may also need to change as we collect more data about the number and size of claims. This is discussed in the next section. As noted, the initial indicative levy for this scheme is 2.77 percent including GST. This means a levy of 1.39 percent for employers and 1.39 percent for employees. Of the total levy, displacement makes up 1.42 percent, and health conditions and disability make up 1.36 percent. These may not add up exactly because of rounding.

In addition, those employers who make employees redundant would also bear the cost of bridging payments.

Most funding would come from compulsory levy payments on income

Issues and options

Governments can raise revenue in different ways. General taxation is most appropriate where funding is needed to pay for policies with broad public benefit, or where it is not important to have a direct link between those who pay and those who benefit. Social security transfers (benefits), for example, are funded by general taxation.

Most international schemes rely on levies to meet their costs. Levies are a good payment model for social insurance because the revenue is needed for a reasonably defined group of people (working people) and a link exists between the amount paid and the product or service that is received.

Charging a levy creates a pool of funding for the income insurance scheme. This approach spreads the risk of income loss amongst the working population. By sharing this risk, people who lose their jobs are supported by those who are still in work. Furthermore, people are able to protect themselves at a lower cost because individuals have less need to build up a rainy-day fund for such events.

Choices can be made on what the levy applies to. In general, income insurance levies should apply to the income that is protected by the insurance.

Choices can also be made on who contributes to costs. In private insurance markets, people who do not see themselves as high risk often choose not to buy insurance because they do not see themselves benefitting from it. This means riskier individuals may buy insurance, increasing the premiums insurance companies charge. This results, in people being unable to insure themselves at an affordable rate against the risk of income loss due to redundancy or health conditions and disability. Social insurance schemes, such as New Zealand's accident compensation scheme, generally overcome this problem through mandatory coverage and contributions.

Preferred option and rationale

Following international best practice, the Forum proposes to raise the scheme's costs from compulsory levies on employers and employees.

All forms of income insured by the scheme (for example, wages and salary) would be subject to the levy.

Your views

85. Do you agree the income insurance scheme should be funded from compulsory levies on the income that is insured, rather than from general taxation?

Levy payments would be shared by employers and workers

Issues and options

In New Zealand, the accident compensation scheme, administered by the Accident Compensation Corporation (ACC) charges a compulsory levy. Because the new income insurance scheme will likely levy largely the same income base as ACC, the Forum has considered how ACC levy design elements would function in the proposed new scheme.

These design elements include:

- the split of the levy between employers and employees
- the rate at which the employee levy is charged
- the employer levy being subject to experience rating.

Under the ACC model, funding is split between an employee (Earner's Levy) and an employer (Work Levy). Funding for the insurance scheme is proposed to follow a similar model, with an employee–employer levy split. By creating a shared ownership of the scheme, employees and their employers are recognising they both benefit from insuring for the risk of income loss.

Preferred option and rationale

The Forum proposes a 50:50 split of the rate between employees and employers (subject to the application of GST) because it is simple and clearly shows this is a scheme where both the employer and employee are expected to contribute to – and benefit from –an income insurance scheme.

In the same way, the Forum recommends creating further transparency and flexibility by charging separate levies for the redundancy and health and disability portions of the scheme.

Your views

86. Do you agree that levy contributions should be equally split between the employee and employer?
87. Do you agree that levies for health conditions and disabilities and for redundancy should be set separately?

Both the employee and employer would be charged at a flat rate

Issues and options

Employee levy

When purchasing insurance, people expect that what they pay reflects the potential support they would receive. In the context of income insurance, it would be expected that the employee levy would apply only to the income that is being insured. With the maximum payment being capped at 80 percent of $130,911, this principle suggests a similar maximum leviable income of $130,911.

This is in line with the maximum leviable income that ACC has in place. ACC then charges an earner levy, which is a flat levy on all income below this maximum. The Forum has considered whether the income insurance employee levy should also operate under a flat percentage system or if suitable alternatives are available.

Income insurance would replace some support from the existing benefit system for a short time. This means, although both low-income and higher-income workers will contribute the same flat portion of their income (the flat rate levy), the additional help provided to a low-income worker above current transfer payments will be proportionally smaller. This interaction with the current welfare system may make the system somewhat regressive. Some international insurance systems do not face this issue because their welfare systems are also funded from social security contributions, rather than the two being funded separately.

This could be addressed by a levy-free threshold with a set limit, so any income earned below this amount is not subject to the levy. The higher the threshold is set, the higher the subsequent levy rate will need to be to cover the costs of the scheme.

A $23,000 per year levy-free threshold ensures that someone who would be eligible for Job Seeker Support if they were made unemployed, and has an average risk of unemployment, would not be contributing more than they would expect to receive from the scheme. However, estimates suggest that a threshold of this size would increase the employee levy rate by 70 percent to 80 percent. This will place a greater burden on middle income households and also benefit those who would not have been eligible for Job Seeker Support but would be for income insurance.

Employer levy

Having an employer levy allows the levy to be adjusted based on the employer's layoff history. This is called experience rating. Under the accident compensation scheme, the Work Levy is calculated based on the claims history of the business because those more prone to accidents impose more costs on the scheme.

Experience rating for an income insurance scheme is based on the number of workers a business has laid off over a certain time. The more workers a business has laid off, the higher their future levy rate, because they are generating a greater cost to the scheme.

Experience rating can make a scheme more robust against gaming, because it can deter employers from laying off workers during downturns and rehiring them when business picks up again. Experience ratings can also disincentivise employers and employees colluding to make it appear that departing employees are eligible for social insurance payments when they actually are not.

However, experience rating presents disadvantages. Experience rating may mean employers are less likely to hire workers if they perceive a risk of future redundancy and the higher levies this could cause. Restructuring will become more expensive, which can be a problem when it might be the only way for a firm to survive. Further, recovery may be slower after an economic downturn because rehiring will be more expensive if firms had to let workers go to survive. It may also be difficult to recoup costs following the closure of a business that results in many workers being displaced.

Employers may misreport claims or contest employees' claims, to stop the claim increasing their levy. This can create a more adversarial relationship and may even discourage ex-workers from applying for income insurance.

Preferred option and rationale

The Forum proposes charging a flat percentage on income below $130,911.

Given the distributional issues associated with a levy-free threshold, along with the increased cost pressures it imposes on the levy, the Forum recommends the employee levy maintain the same simple design as the accident compensation scheme Earner Levy.

The Forum proposes that the income insurance scheme does not use experience rating for calculating the employer levy. While experience rating can reduce the risk of gaming the scheme, the Forum does not believe this justifies the potential costs of hiring and restructuring disincentives, delays in economic recovery, and compliance and administration costs. We consider the bridging payment recommended in chapter 7 would be a more effective measure.

If it is later found that experience rating is desirable, the existence of a separate employer levy means a future policy adjustment is possible.

Your views

88. Do you agree that employees should be levied at a flat rate on income below $130,911?
89. Do you have any other suggestions for how the employee levy should be structured?
90. Do you agree that experience rating would not be an appropriate design setting for the employer levy?

Levies would adjust smoothly over time, with independent fund management

Issues and options

The number and duration of claims will spike during recessions and fall during periods of economic growth. As a result, the scheme's revenue requirements will also fluctuate, so levies may need to be adjusted from time to time. This is the case with the accident compensation scheme. We intend to review the levies after the scheme has operated for two years.

All cost estimates presented here – and resulting levies – are annual figures, but they are based on a 10-year average (using July 2018 income data) to include a range of economic conditions, including economic ups and downs and significant economic shocks, such as resulted from the Canterbury earthquakes.

It is best that levies are kept stable to provide people with certainty. Stable contributions based on a transparent evaluation of future displacement risks will be perceived as more credible by people across New Zealand, helping to ensure the long-term sustainability of the scheme.

We note that the initial levy presented in this document is our best estimate of what the scheme will cost. Several factors mean this estimate may not reflect the scheme's true cost. It will be important to revisit the levy rate after the scheme has been running for some time and sufficient data is available to show whether the initial levy is too high or too low.

Two approaches can be used to manage funds and levies: a pay as you go (PAYGO) approach or a save as you go approach (SAYGO):

- PAYGO approaches mean collecting enough revenue (levies) in the current year to pay that year's costs, with little financial buffer for changing costs. This means the fund manager may need to increase or decrease levies depending on the situation (for example, levies may need to increase in a recession). In some situations, the Government may need to provide support when the fund has a shortfall, which could be repaid from future levies.
- SAYGO, or pre-funded, approaches mean collecting a greater amount of revenue to pay for any future cost increases from, for example, a recession. This means the fund manager is better placed for rapid increases in claims. However, a SAYGO approach results in an 'intergenerational transfer', where current workers are paying into the fund for the benefit of future workers. International experience shows these funds tend to be fairly small and, as a result, this intergenerational transfer will be modest. If there are concerns such a transfer is unfair, pre-funding can be undertaken over a long period (7 to 10 years) to spread the burden of levy contributions.

Clear separation from government can communicate that the sole purpose of contributions is to fund social insurance payments and that the scheme will not rely on general taxation. The Government should act as a lender-of-last-resort in the case of extreme and unforeseeable events (such as a natural disaster or global pandemic).

Preferred option and rationale

Due to the cyclical and intergenerational issues associated with setting the levy rate, the Forum recommends the establishment of a small reserve fund. This has the advantage offered by a SAYGO approach of allowing some financial buffer, to account for the cyclical nature of the economy, while being a largely PAYGO approach to minimise concerns around intergenerational transfer. The Government will be separate from the fund. However, under exceptional circumstances, it may act as a lender-of-last-resort. It may also decide to extend the entitlements of the scheme in response to exceptional events (such as the current COVID-19 pandemic) when it would be expected to fund the changes.

Your views

91. Do you agree that an independent fund with a stable levy-setting system should be established to finance the income insurance scheme?
92. Do you favour a Pay As You Go or Save As You Go funding approach?

Building in scheme adaptability, while protecting levy sustainability

Issues and options

The COVID-19 pandemic and other recent crises (the Global Financial Crisis and Asian Financial Crisis), have shown both the unpredictability of economic crises and the value of counteractive measures for protecting jobs.

New Zealand (like many other OECD countries) took unprecedented actions in response to the shock of COVID-19. For instance, New Zealand was able to establish wage subsidies in a short time.

Most other developed countries, however, were advantaged in already having social insurance infrastructure available to automatically deliver generous, widely available income support and economic stimulus to reduce the COVID-19 crisis from escalating. Many countries also instituted temporary or permanent extensions to their schemes, for example, introducing cover for partial income loss, extending eligibility to self-employed people, and increasing the generosity and length of their schemes to ensure support for workers and the economy (for example, Canada, Denmark, Germany, the United States). These extensions were typically funded by the Government rather than from levies, so as not to overburden the schemes.

Introducing an income insurance scheme for New Zealand will help build resilience through the business cycle, but there may be times when the economic shock is so significant that additional stimulus may be needed (for example, the COVID-19 pandemic and Canterbury earthquakes).

Preferred option and rationale

The Forum proposes that the scheme's insurance legislation provide the flexibility to vary entitlements and eligibility in times of crisis. This could include extended entitlements (for example, to a reduction of hours or for an extended time).

The Forum also proposes that, in defined crisis conditions, governments could use the social insurance administrative capability to deliver a wage subsidy (or similar relief) to keep employees connected to their employers and reduce the risk of becoming displaced. In such cases, the Forum expects that additional costs would be met by the Crown.

Your views

93. Do you agree that legislation for the income insurance scheme should provide the flexibility to vary entitlements and eligibility in times of crisis, over and above the proposed income insurance scheme?
94. Does such flexibility create risks that require additional mitigations?

Consultation questions

This discussion document poses questions where the Forum seeks your views.

A compiled list of these questions is given below.

Chapter 4 – How a new income insurance scheme could achieve our objectives

The Forum considers the benefits of income insurance for job loss due to displacement or health conditions would outweigh its costs.

1. Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?

Chapter 5 – Honouring Te Tiriti o Waitangi

Kāwanatanga – Good governance and partnership

2. How can we ensure the proposed income insurance scheme honours Te Tiriti o Waitangi?
3. What are the opportunities for partnership and Māori representation in the scheme's governance and operations?
4. How can we ensure equity of access, participation, and outcomes for Māori in the proposed new scheme?
5. How can we reflect and embed Te Ao Māori in the scheme's design?

Chapter 6 – Coverage for displaced workers

Displacement and standard employment (full- and part-time permanent employees)

6. Do you agree with defining displacement as the involuntary loss of work due to the disestablishment of a job?
7. Do you agree with excluding poor performance and gross misconduct as reasons for claiming insurance?
8. Do you agree with excluding resignation as a reason for claiming insurance?

Coverage provided for complete job loss only

9. Do you agree that income insurance should cover only the complete loss of a job, and cover situations where a person loses only one of several jobs that they hold?
10. Do you agree that insurance would be payable only where income loss was greater than a minimum threshold, such as a 20 percent loss of total earnings, counting income from all of their jobs?

Displacement and non-standard employment – a principle-based approach

11. Do you agree that it is important to provide income insurance coverage to non-standard workers, where practical?
12. Do you agree that income insurance should cover the 'loss of reasonably anticipated income'?
13. Do you agree that income insurance entitlements should be based on an 'established pattern of work'?

Coverage provided for fixed-term and seasonal employees

14. Do you agree that income insurance should cover fixed-term and seasonal employees if they are displaced before the end of an employment agreement, with the duration of the payment running to the scheduled end of the employment agreement, or the maximum insurance entitlement duration, whichever is shorter?

15. Do you agree that income insurance should cover fixed-term and seasonal employees, where their employment agreements are not renewed, and they can show a regular pattern of work and reasonable expectation of future income?

Coverage provided for casual employees

16. Do you agree that income insurance should cover casual employees who can show a regular pattern of work with an employer and a reasonable expectation of future income?
17. How would these design choices work in practice? What risks can you see with the approach to establishing a regular pattern of work?

Coverage for self-employed workers

18. What risks do you see with covering, or not covering, people in self-employment?
19. Are there some groups of self-employed who should and should not be covered?
20. How can we practically distinguish between contractors who resemble employees, and those with a high degree of independence?
21. Because a self-employed person cannot technically be made redundant, what types of events would be appropriate 'triggers' for insurance payments?
22. How do you think the levy should be collected from self-employed workers?

A modest minimum contribution period

23. Do you agree with the proposed minimum contribution period of six months over a period of 18 months preceding the claim?

Limits on subsequent claims

24. Do you agree limits should be placed on the number claims people can make?
25. Do you agree with limiting claims to a total of six months within an 18-month period?
26. Could the risks associated with a low contribution history be managed in other ways?

Coverage for New Zealand citizens and residents

27. Do you agree with limiting coverage of the proposed income insurance scheme to New Zealand citizens and residents?
28. To ensure New Zealand workers are not disadvantaged by lower cost international workers, do you agree that working holiday makers, international students and temporary work visa holders – and their employers – should contribute to the proposed income insurance scheme's costs?

Chapter 7 – Entitlements for displaced workers

Income caps and income replacement rates that match the accident compensation scheme

29. Do you agree with a replacement rate set at 80 percent?
30. Do you agree with a cap on insurable (and leviable) income set at the same rate as the accident compensation scheme (currently $130,911)?

Only personal exertion income would abate (reduce) insurance entitlements

31. Do you agree that only the insurance claimant's personal exertion income should affect their insurance entitlements?
32. Do you agree that income insurance should have individualised entitlement, meaning a partner's income would not affect the rate payable?

Abatement rates would ensure a claimant is not financially better off as a result of their loss of work

33. Do you agree that someone should be able to earn some income from paid employment before it affects their entitlements to income insurance?

34. Do you agree that insurance should abate ‘dollar for dollar’ when earned income and insurance combined reach 100 percent of previous income?

Insurance would generally be treated as income, to determine eligibility for welfare and student support

35. Do you agree that insurance should be treated as income for assessing eligibility for income support such as main benefits and Working for Families tax credits and student support?
36. Given the purpose of the In-Work Tax Credit and Minimum Family Tax Credit in encouraging people into employment and helping with in-work costs, do you agree that income insurance claimants would not be eligible for these tax credits?

Insurance claimants could also receive New Zealand Superannuation or the Veteran’s Pension

37. Do you agree that income insurance claimants could also receive New Zealand Superannuation or the Veteran’s Pension?
38. Do you think a limit should be placed on the amount of time someone can receive New Zealand Superannuation or the Veteran’s pension and insurance?

Where eligible, insurance claimants could choose whether to access Paid Parental Leave or income insurance and may receive both sequentially

39. Do you agree that income insurance and Paid Parental Leave could be accessed sequentially but not at the same time?

Insurance claimants could also receive ACC weekly compensation where it covers a different income loss

40. Do you agree that claimants should be able receive both ACC weekly compensation and income insurance at the same time for differing income loss subject to independently meeting the eligibility criteria for both?

A sufficient base entitlement period

41. Do you agree with a base insurance entitlement length of six months, plus a four-week bridging payment paid by the employer?
42. Would you support a longer or shorter length of base insurance entitlement?

Extending the maximum period in specified circumstances

43. Do you think the scheme should allow extensions to the base period of income insurance entitlements for training or vocational rehabilitation?

Enhancing the income insurance scheme with notice periods

44. Do you agree that employers should give at least four weeks’ notice to employees, and the insurer, before redundancy takes effect?

Avoiding unnecessary redundancies

45. Do you agree that employers should pay former workers for the initial period of unemployment for four weeks?
46. Should bridging payments be applied to all workers, including those not eligible for income insurance?
47. Should the income insurance scheme finance bridging payments in circumstances where the payments are not forthcoming from employers, and refund employers for bridging payments if workers find work within this period?
48. Do you consider that stronger integrity measures are necessary to manage the risk of spurious claims to the income insurance scheme?

Chapter 8 – Coverage and entitlements for loss of work due to health conditions or disabilities

No restrictions on the types of conditions covered by the income insurance scheme

49. Do you agree there should be no restrictions on the types of conditions covered by the scheme?

No restrictions on the working arrangements covered by the scheme

50. Do you agree that all work arrangements should be covered (assuming other eligibility criteria are met)?

Coverage for loss of at least 50 percent of capacity to work, for at least four weeks

51. Should the scheme cover partial loss of earnings due to a health condition or disability reducing work capacity?
52. If partial loss is to be covered, do you agree claimants should have at least a 50 percent reduction of capacity to work caused by a health condition or disability and that reduction is expected to last for at least four working weeks?

Claimants' medical practitioners would assess work capacity, with final eligibility assessed by the scheme administrator

53. Do you agree that the claimants' health practitioner should be main the assessor of work capacity?
54. Do you agree that, where appropriate, employers could provide supporting information to inform the claimant's work capacity assessment process?

Employers would remain responsible for taking reasonable steps to support an employee to continue working

55. Are the current requirements on employers to make workplace changes sufficient to allow health condition and disability claimants to return to their regular employment (or alternative work)?
56. How could employers be supported to help workers with health conditions or disabilities to remain in or return to work?

Employers would be expected to make reasonable efforts to keep a job open where a return to work within six months is likely

57. Where an employee must stop work entirely because of a health condition or disability, do you think employers should be expected to keep a job open and help with vocational rehabilitation where a reasonable prognosis is made of return to work within six months?
58. Should this be a statutory requirement placed on employers or an expectation?

The scheme would generally meet the full cost of income replacement once a claim is accepted

59. Do you agree that employers should only pay a bridging payment to employees leaving work because of a health condition or disability when the employment is terminated by the employer?

Chapter 9 – Insurance claimants' obligations

Reasonable obligations for people receiving income insurance payments

60. Do you agree claimants should be obligated to look for work or prepare to return to work while receiving insurance?
61. Do you agree that claimants would not be expected or required to accept offers of employment that provide lower wages or conditions?

62. Do you agree the insurer could waive obligations partially or fully where a claimant is unable to meet those obligations?
63. Do you agree claimants should be obligated to remain in New Zealand to remain eligible for income insurance?
64. Do you think a period of time, such as 28 days, should be allowed for travel overseas, for example, to support ill family?

Specific obligations for claimants with a health condition or disability

65. Should claimants with health conditions or disabilities be subject to obligations to participate in rehabilitative programmes and other support, where appropriate?
66. Should claimants with health conditions and disabilities be subject to obligations to search for work or undertaking training where they are able to?

Consequences for non-compliance

67. Do you think financial penalties should be in place for people who do not meet their obligations while receiving insurance payments?
68. Do you agree that payments could be fully suspended in cases of serious, intentional non-compliance with obligations?
69. Do you think any other consequences should be in place for people repeatedly not meeting their obligations, such as permanent suspension of entitlements?

Chapter 10 – Delivering income insurance

Independent and effective delivery

70. Do you think it is best for ACC to deliver the income insurance scheme alongside the accident compensation scheme?
71. Would the income insurance scheme be better delivered by a government department or a new entity?

Accountable and effective governance

72. How could employer and worker perspectives best be incorporated to strengthen the income insurance scheme's delivery for New Zealanders?
73. How could Māori perspectives best be incorporated to ensure the income insurance scheme is delivered equitably and with aspiration?

Displaced workers: Getting back to good jobs

74. What practical support should be available to insurance claimants to return to work?
75. Who should provide that return-to-work support?
76. What type of claimants would need an employment case manager, and who could self-manage?
77. What do you think a 'return-to-work plan' should include?

Health condition and disability claimants: Getting back to good jobs

78. What practical support should be available to income insurance claimants with a health condition or disability to return to work?
79. Who should provide that support to return to work?
80. What type of claimants would need a case manager, and who could self-manage?

Dispute resolution

81. Do you agree with the proposed four-step dispute resolution process for the scheme?
82. Are there specific aspects to the scheme's dispute resolution you think should be considered?

Scheme integrity and enforcement

83. Do you agree with the proposal to establish an effective offences and penalties framework to protect the scheme's integrity?

Information collection and sharing

84. Do you agree with the proposal to develop information sharing agreements and sharing arrangements with employers, other agencies and service providers?

Most funding would come from compulsory levy payments on income

85. Do you agree the income insurance scheme should be funded from compulsory levies on the income that is insured, rather than from general taxation?

Levy payments would be shared by employers and workers

86. Do you agree that levy contributions should be equally split between the employee and employer?
87. Do you agree that levies for health conditions and disabilities and for redundancy should be set separately?

Both the employee and employer would be charged at a flat rate

88. Do you agree that employees should be levied at a flat rate on income below $130,911?
89. Do you have any other suggestions for how the employee levy should be structured?
90. Do you agree that experience rating would not be an appropriate design setting for the employer levy?

Levies would adjust smoothly over time, with independent fund management

91. Do you agree that an independent fund with a stable levy-setting system should be established to finance the income insurance scheme?
92. Do you favour a Pay As You Go or Save As You Go funding approach?

Building in scheme adaptability, while protecting levy sustainability

93. Do you agree that the legislation for the income insurance scheme should provide the flexibility to vary entitlements and eligibility in times of crisis, over and above the proposed income insurance scheme?
94. Does such flexibility create risks that require additional mitigations?

Terms used in this document

Parties to working relationships

Employee: a person who works (part time or full time) according to an employment agreement (which is not always a written agreement) in return for salary or wages. All employees have minimum employment rights under New Zealand law (for example, to be paid at least the minimum wage, rest and meal breaks, various types of leave) and are protected against unfair treatment. Employees have duties of good faith.

Employee arrangements

Permanent employee (full or part time): has the full set of employment rights and responsibilities.

Fixed-term employee (full or part time): is a temporary employee whose employment ends on a specified date or when a particular event occurs.

Casual employee: is not defined in employment legislation but is usually used to refer to a situation where the employee has no guaranteed hours of work, no regular pattern of work and no ongoing expectation of employment.

Labour hire and temping: labour hire (typically blue-collar) and temping (typically white-collar) are terms applied to provision of outsourced skilled and unskilled or semi-skilled workers hired for short- or long-term positions. It is also known by other names such as supplementary staffing, labour supply.

Seasonal employee: works in fixed-term employment where the employment agreement says that the work will finish at the end of the season. In some situations, seasonal employment can become a rolling fixed-term employment where the employee is re-hired at the start of every season.

Employer: a person or firm that controls and directs an employee according to an employment agreement (which is not always a written agreement) and pays salary or wages in compensation.

Firm: used in this document to mean an individual, business or organisation that engages workers (including employees and contractors).

Self-employed arrangements

Freelancer: an individual who is self-employed and not necessarily committed to a particular employer long term.

Sole trader: Sole traders are people who start in business or contracting on their own, without registering as a company. Many small business owners, contractors and self-employed people begin as sole traders.

Platform worker: an individual who uses an app or a website to match themselves with customers to provide a service in return for remuneration.

Contractor: those engaged by firms to perform services under a contract. This may include ‘independent contractors’ and ‘dependent contractors’.

Worker: a person who does work. This includes employees and contractors, but in the context of this document, the term ‘worker’ excludes volunteers.

Technical terms

Active Labour Market Programmes (ALMPs): programmes and policies that actively help people into employment, increase their productivity and earnings, and improve the functioning of labour markets.

Automatic stabilisers: changes in revenue (such as taxes) and spending (such as transfer payments) that stabilise incomes, consumption, and business spending over the troughs and peaks of the business cycle without any policy intervention required.

Biopsychosocial rehabilitation: a process that addresses the medical, psychological and social aspects of illness and recovery.

Business New Zealand: an organisation that advocates on behalf of New Zealand business, composed of the Employers and Manufacturers Association, Business Central, Canterbury Employers' Chamber of Commerce and Otago–Southland Employers' Association.

Future of Work Tripartite Forum: a partnership established in August 2018 between the Government, New Zealand Council of Trade Unions and Business New Zealand that aims to support New Zealand businesses and workers to respond to a rapidly changing world of work.

Gaming: using the rules and procedures meant to protect a system to instead manipulate it for a desired outcome.

Health conditions and disability (HCD): for the purpose of this document, a health condition or disability is a mental or physical condition that can limit person's ability to continue their usual level of paid work.

Household Labour Force Survey (HLFS): a survey conducted by Stats NZ of around 15,000 households every three months to produce New Zealand's official measure of employment.

Income smoothing: levelling out fluctuations in income over a person's lifetime, by taking some income when they're employed to smooth out the trough when they're unemployed.

Income support: Information on income support referred to in this document can be found on the Work and Income website: https://www.workandincome.govt.nz/products/a-z-benefits/index.html)

- Job Seeker Support
- Working for Families
- Accommodation Supplement
- Disability Allowance
- Childcare Subsidy
- Paid Parental Leave
- Student Allowance
- Student Loan
- NZ Superannuation
- Veteran's Pension

Levy: a compulsory charge imposed by a government organisation to fund the cost of running a scheme, for example the accident compensation scheme.

Macroeconomic stabilisation: a condition in which a complex framework for monetary and fiscal institutions and policies is established to reduce volatility and encourage welfare-enhancing growth.

Moral hazard: an economic term for when a person or group has an incentive to increase its exposure to risk because it does not bear the full costs of that risk. An example of moral hazard is where people are able to change their behaviour to qualify for an insurance pay out that it was not intended they receive.

Musculoskeletal conditions: comprise over 150 conditions that affect the locomotor system of individuals (muscles, ligaments, tendons and bones) typically characterised by pain and limitations in mobility, dexterity and overall functioning, reducing people's ability to work.

Multiple job holder: an individual who has more than one part-time job.

New Zealand Council of Trade Unions *Te Kauae Kaimahi* (NZCTU): an organisation that advocates for working people and their families, comprises 27 democratic trade unions, with around 320,000 members.

New Zealand Productivity Commission: an independent Crown entity that provides advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a range of communities of interest and population groups in New Zealand society.

Personal exertion earnings: income that is earned, derived or received by a person by way of payment for their active labour, for example, wages, salary or income from self-employed work.

Replacement rate (general definition): percentage of an individual's employment income that is replaced.

Redundancy or displacement: Displacement is the involuntary loss of work, due to the disestablishment of a job. Displacement excludes job loss due to poor performance, gross misconduct or resignation. Displacement could arise from restructuring (where a firm's workforce needs to change) or where a firm stops operating. Displacement is a technical term used by economists. Redundancy is often used with the same meaning as displacement.

Social licence: refers to the perceptions of stakeholders that a project, company or industry is socially acceptable or legitimate.

Statutory declaration: a written document that must be completed in front of an authorised witness that confirms something is true.

Vocational rehabilitation: a process that enables a person with mental or physical disabilities to overcome barriers accessing, maintaining or returning to employment

Wage scarring: the reduction in wages or other conditions that people who lose work can experience when they return to employment.

Government bodies

Accident Compensation Corporation (ACC): a Crown entity in New Zealand that administers the country's no-fault accidental injury compensation scheme, commonly referred to as the ACC scheme.

Hīkina Whakatutuki/Ministry of Business, Innovation and Employment (MBIE): a public service department in New Zealand that advises the Government on policies relating to New Zealand's economic productivity and business growth.

Te Mana Ārai o Aotearoa/New Zealand Customs Service: a public service department in New Zealand that provides border control and protects the community from potential risks arising from international trade and travel, as well as collecting duties and taxes on imports to the country.

Te Manatū Waka/Ministry of Transport: a public service department in New Zealand that advises the Government on transport policy.

Te Manatū Whakahiato Ora/Ministry of Social Development (MSD): a public service department in New Zealand that advises on social policy and provides social services.

Te Puni Kōkiri/Ministry of Māori Development: a public service department in New Zealand that advises the Government on Māori wellbeing and development.

Te Tai Ōhanga/The Treasury: a public service department in New Zealand that advises the Government on economic policy, helps with the performance of New Zealand's economy and manages financial resources.

Te Tari Taake/Inland Revenue: a public service department in New Zealand that advises the Government on tax policy, collects taxes, and collects and disburses payments for some social support programmes.

Te Tari Taiwhenua/Department of Internal affairs: a public service department in New Zealand charged with issuing passports; administering applications for citizenship and lottery grants; enforcing censorship and gambling laws; registering births, deaths, marriages and civil unions; supplying support services to Ministers; and advising the Government on a range of relevant policies and issues.

Legislation and regulations

Accident Compensation Act 2001: guides the law around injury prevention, rehabilitation of injured workers and entitlements following injuries, both in general and at work. Workplace injuries also fall under this Act.

Commerce Act 1986: a New Zealand statute prohibiting conduct that restrictions competition and gives the Commerce Commission powers of enforcement.

Common law: unwritten law that has developed from legal precedents established by courts. This is distinct from statutory law and legislation. Common law clarifies the meaning of legislation and sometimes creates law where no legislation is in place.

Employment Relations Act 2000: a New Zealand statute that sets out the duties and obligations of employers and employees. The Employment Relations Act does not cover independent contractors.

Holidays Act 2003: sets out the minimum entitlements to holidays and leave, and payment for them, that employers are obliged to provide to their employees.

Legislation: laws that have been made by the Government, commonly in the form of Acts of Parliament.

New Zealand Bill of Rights Act: a New Zealand statute that sets out the rights and fundamental freedoms of anyone subject to New Zealand law.

Non-legislative: does not relate to making or changing laws.

Operational changes: changes to government structures, processes, procedures or guidelines. These may change how a law is implemented or enforced but do not change the law.

Statutory rights: legal rights, set out in Acts or other legislation that are designed to protect people.

Annex 1: The New Zealand workforce in the context of an income insurance scheme

Workers

While most people are in permanent full-time work, this is not evenly distributed:

- Men are more likely to be in permanent full-time work than women, and Māori and Pacific peoples are somewhat under-represented in this type of work.
- Part-time work arrangements are disproportionately more common for women and younger workers.
- Māori and Pacific workers, younger workers and women are generally over-represented in non-permanent forms of employment, including casual, temporary, fixed term and seasonal working arrangements. Māori men make up nearly one-third of seasonal workers.
- Women and younger people are more likely than other groups to hold multiple jobs.

This means insurance settings for non-standard employment will disproportionately affect these groups.

In general, most non-standard work appears to be lower paid on average (excluding some fixed-term work). This means options that charge levies on total payroll and to all employees, but do not provide coverage, are likely to further disadvantage more vulnerable workers, who would be contributing to a scheme they could not access while they remain in that type of work.

Self-employed people

Self-employed workers are more likely to be male, older and New Zealand European. Two-thirds of self-employed people earn less than the median wage (around $1,000), and almost half (44.6 percent) earn less than $500 per week. This category includes a large number of vulnerable workers, so decisions about coverage will affect this group more than others.

Employers

New Zealand has 558,000 business entities and 152,000 of them employ at least one person.

New Zealand has 6,000 entities that employ 50 or more people, and these firms employ 58 percent of employees.

New Zealand has 136,000 small to medium sized enterprises than employ from 1 to 19 people (24 percent of all enterprises).

Annex 2: Further information on displacement

While the number and profile of workers displaced for economic reasons varies from year to year, depending on the nature of economic shocks faced, since 2007, data suggests that:

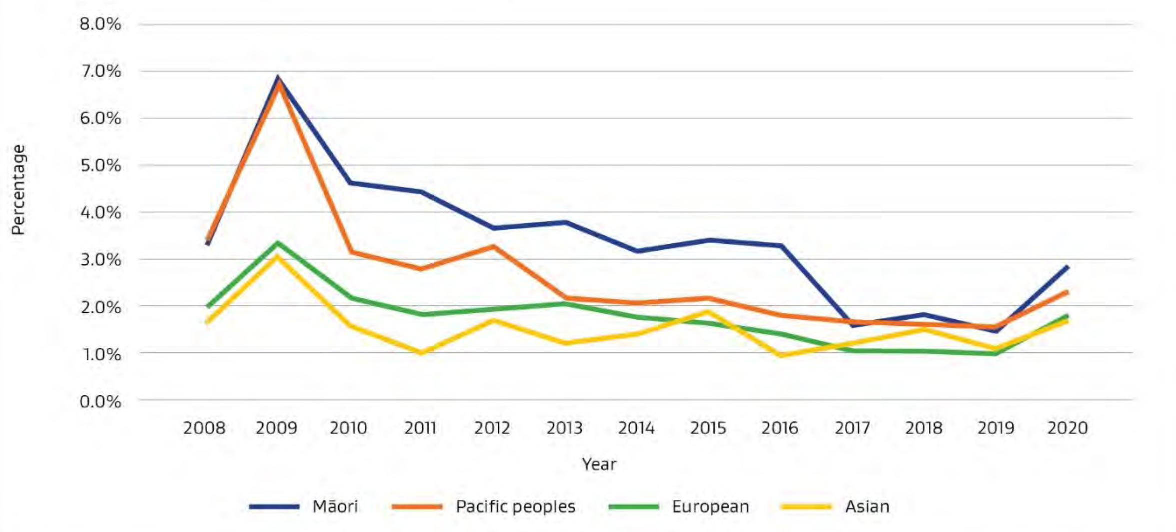
- Māori are disproportionately likely to face displacement
- young people (15 to 24 years) make up a significant proportion of people displaced
- people who are displaced tend to have been on lower incomes. The median earnings from their previous job was just about the equivalent of the full-time minimum adult wage. Average earnings were around 10 percent lower than average earnings from all wage and salary jobs
- re-employment is reasonably fast for a significant proportion, with about 33 percent unemployed for less than three months and a further 25 percent for between three and six months
- most people who are displaced are in couple households, and are less likely to be eligible for benefit payments.

The types of workers affected by displacement vary depending on the nature of economic shocks

Economic downturns affect different industries, which leads to differences in the profile of workers most affected. For example, men were more affected by the Global Financial Crisis, which had a significant effect on the manufacturing and construction sectors that remain more heavily male-dominated. However, the COVID-19 response (while still playing out) has affected administrative and support services; professional, scientific and technical services; and retail trade, in addition to manufacturing and construction. So it has had a more significant impact for women workers than other economic shocks.

Figure 4 shows the trend by ethnicity, which indicates Māori have tended to be affected by displacement at higher rates than Pacific peoples or Asian people, and are disproportionately likely to be made redundant relative to their share of employment (an average of 21 percent of those displaced were Māori compared with 13 percent of those employed). Māori men are affected in higher numbers than Māori women.

Figure 4: Percentage of average numbers of people employed who were made redundant, laid off, or business closed, by ethnicity

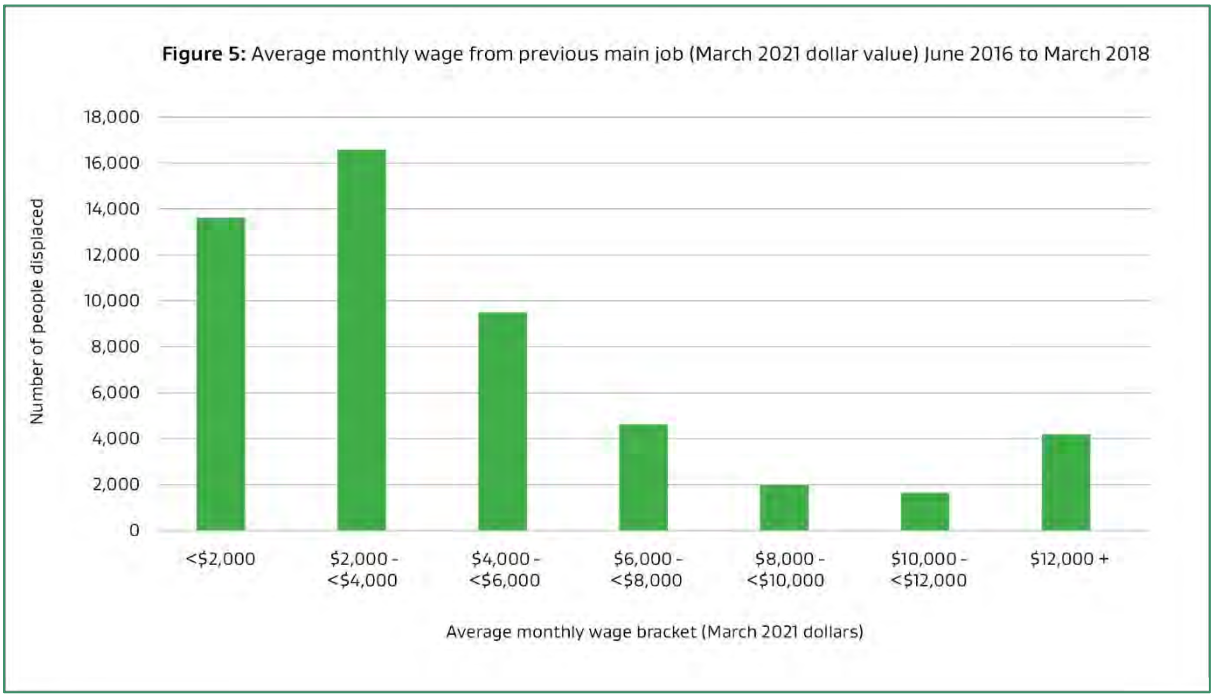


Source: Ministry of Business, Innovation and Employment

People who are displaced tend to be on lower incomes, with data showing that the median monthly earnings from the previous job (in March 2021 dollars) was about $3,400 (just above the adult minimum wage). However, the average income for those displaced was $4,800 per month, which is close to the average income observed across all jobs. Figure 5 shows the distribution: just over a quarter (27 percent) were previously earning below $2,000 a month, and a further 32 percent were earning between $2,000 and $4,000 a month.

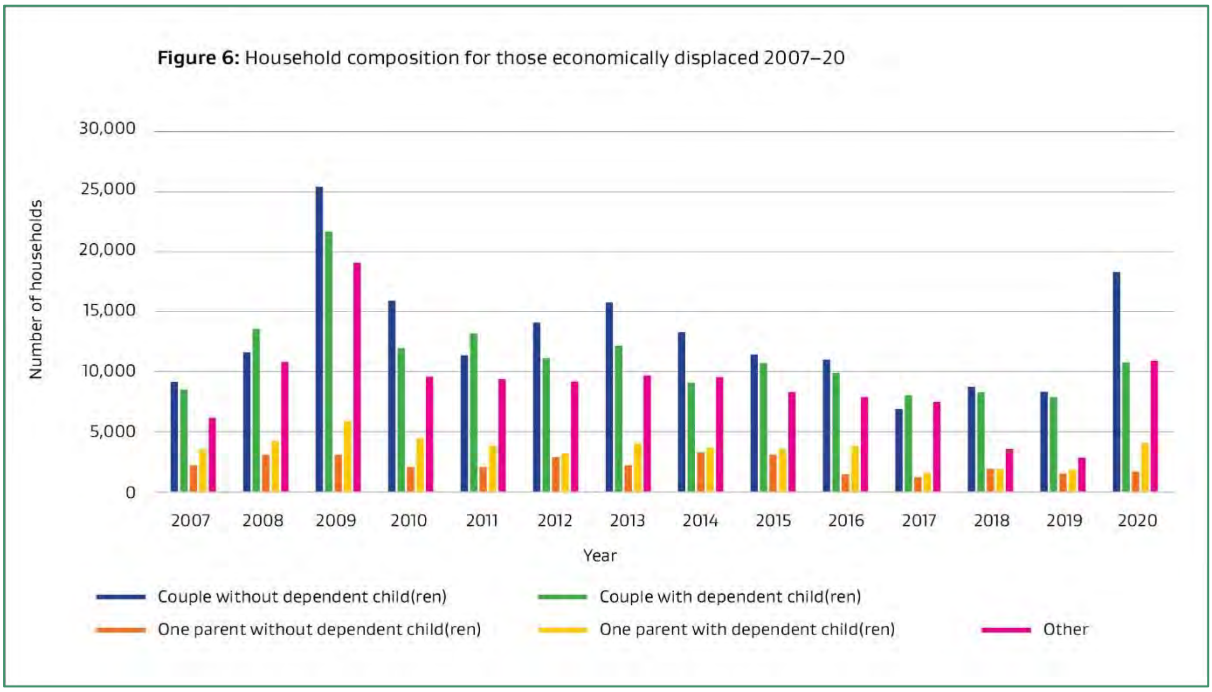
While data on the length of time someone spends unemployed is incomplete,[30] what is available shows that about a third (33 percent) were out of employment for less than three months, and a further 25 percent for between three and six months. Longer spells were also common, with 27 percent not employed for more than 12 months (including those still not employed). We have taken this into account when considering what maximum entitlement duration we should recommend for the scheme.

[30] The data available doesn't include many people who found a new job within a month or two.



Source: Ministry of Business, Innovation and Employment

Most people who are displaced are in couple households, so are less likely to be eligible for benefit payments. Figure 6 shows consistently over time that most people who are displaced live in couple households (with or without children). If a person has an earning partner, they are less likely to be eligible for benefit payments.



Annex 3: Further information on loss of work due to health conditions and disability

Many people find their ability to earn an income partially or entirely reduces, either temporarily or permanently, due to a health condition or disability.

In the early 1970s, when the accident compensation scheme was established, considerable concern was expressed about the high number of workplace injuries. Nonetheless, the founders of the scheme intended that it be extended to cover other health conditions and disability. Today in New Zealand, the burden from work-related acute injuries is far outweighed by the burden on workers and their families from work-related ill health. It is estimated that 750 to 900 people die from work-related diseases each year, with 5,000 to 6,000 hospitalisations each year due to work-related health conditions. Musculoskeletal disorders account for the largest burden of harm, followed by mental ill health, cancers and respiratory diseases.

There is overlap with redundancy. While people can leave work due to a health condition or disability, unemployment itself can undermine health and wellbeing. Displaced workers are at risk of experiencing substantially worse mental health and becoming discouraged in their job searching. Unemployment may also lead to worse physical health and an increased risk of mortality, especially amongst men.

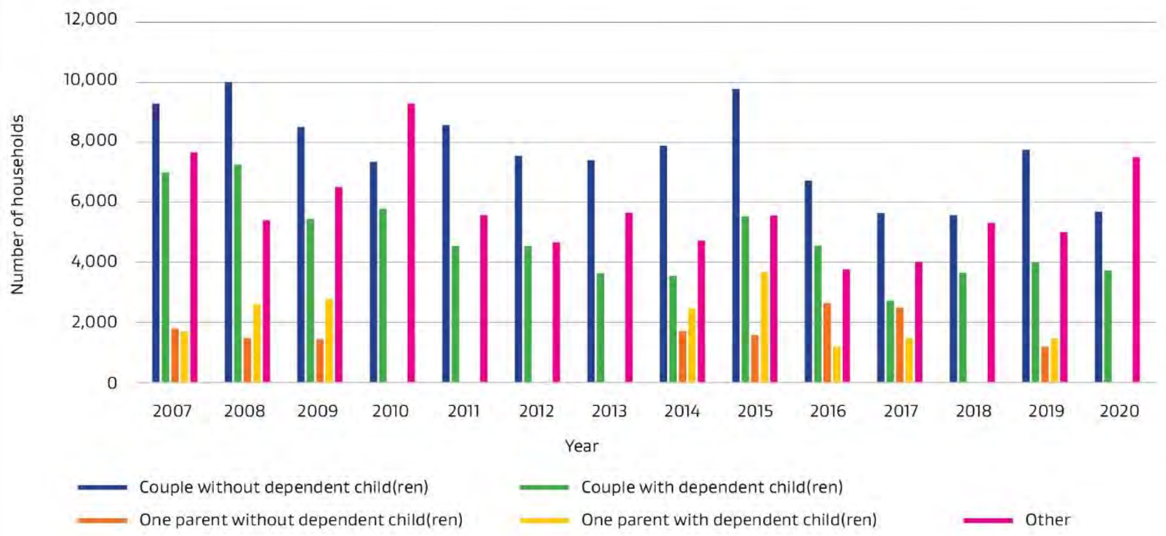
Household Labour Force Survey (HLFS) data shows that, in 2020, 17,300 people had recently left work because of a health condition, injury or disability.[31] This is likely to be an underestimate. HLFS data shows that those who leave work with a health condition or disability:

- are more likely to be older workers. Workers aged 55 to 64 years and 65 years and older make up a greater proportion of people displaced due to health conditions or disabilities (compared with displacement). This is consistent with other jurisdictions. However, in the past decade an increase has occurred in younger workers, especially those aged 15 to 24 years and those aged 35 to 44 years. In other jurisdictions and within the welfare system, high prevalence of mental health conditions occurs amongst younger health and disability claimants
- are most likely to be Pākehā, but Māori are disproportionately more likely to leave work for this reason
- are likely to have been on low incomes before leaving work. HLFS data shows that the median monthly earnings from the previous job for this group was about $2,300 in March 2021 dollars. This is below the full-time adult minimum wage, suggesting a higher proportion were in less than full-time work (due to small numbers, it is difficult to ascertain previous employment type for most in this category). New Zealand does not collect data on how many people reduce their hours of work but do not lose their jobs due to a health condition or disability
- are most likely to be in couple households, both with and without dependent children. This means they are less likely to be able to access benefits, if their partner is earning (see figure 7).

[31] Note this only includes those fully exiting employment. It does not include those who reduce their hours of employment or take extended leave from work but stay employed.

HLFS data shows that the number of people who are displaced from work due to a health condition, disability or injury are less affected by the economic cycle. However, within the welfare system, numbers receiving a Jobseeker Support benefit for a health condition and disability (JS-HCD) typically increase in economic downturns. The spread across industries similarly reflects overall employment in those sectors.

Figure 7: Household composition for those displaced due to health condition, injury or disability, 2007–20



Source: Ministry of Business, Innovation and Employment

Workers unable to work because of an injury may be eligible for earnings-related compensation from the Accident Compensation Corporation (ACC). This group would not need income insurance. Workers unable to work due to a health condition, disability or injury and not eligible for accident compensation scheme earnings-related payments may be eligible for a main benefit from the Ministry of Social Development (MSD). Those who take up a health and disability benefit after leaving work are a subset of all of those receiving a health and disability benefit.[32] Around 22,000 to 30,000 people per year people are granted JS-HCD after stopping employment at some point in the previous six months.[33]

[32] People may transfer from other main benefits or not have been in work when they took up a health and disability benefit. As at end of June 2021, 79,470 people were receiving a Jobseeker Support benefit for a health condition and disability (JS-HCD) and 97,404 people were receiving a Supported Living Payment. Refer to Ministry of Social Development, *Benefit Fact Sheets, Snapshot – June 2021 Quarter*. benefit-fact-sheets-snapshot-june-2021.pdf (msd.govt.nz)

[33] This does not allow for people who stopped earning more than six months before starting JS-HCD. This excludes people who stop employment because of a health condition or disability but are not eligible for a benefit, for example, partner earnings above the threshold. This number includes people who lost their job, took up Jobseeker Support, developed a health condition or disability and transferred to JS-HCD.

As with other jurisdictions, mental health conditions are common amongst health and disability benefit recipients. For example, 37 percent of Supported Living Payment recipients and half of JS-HCD recipients had mental health conditions listed as their primary incapacities. This is likely to be an underestimate of the proportion of people receiving health and disability benefits with mental health conditions, because MSD often only reports on the primary incapacities listed on medical certificates.

The prevalence of these conditions is also common in the wider New Zealand population:

- In 2020, 20.2 percent of people aged 15-plus years (808,000 people) had a mood or anxiety disorder.[34] Prevalence has been increasing over time. It was 12.7 percent in 2006/07 and 16.3 percent in 2011/12. Prevalence is highest amongst those aged 45 to 54 years. Prevalence is higher for women, those in more deprived areas and disabled adults.
- In 2020, 19.6 percent, or an estimated 785,000 people aged 15-plus years, reported experiencing chronic pain.[35] Prevalence generally increases with age. Prevalence is higher for Māori, women, people living in more deprived areas and disabled adults.

Returning to work after leaving with a health condition or disability can be difficult.

- The HLFS data shows that those leaving work due to a health condition or disability tend to have slower returns to work compared with redundancy. The HLFS data found that the greatest number of people had spent 12 months or more between spells of employment.
- Within the welfare system, those who receive health and disability benefits have fewer exits into employment compared with other working age benefit recipients.[ci] Longer benefit spells generally correlate with lower exit rates and less sustainable exits. The population receiving health and disability benefits is diverse. For example, while 49 percent of JS-HCD recipients remain on the benefit for more than two years, others only receive JS-HCD for a short time before exiting the benefit. However, repeat spells on JS-HCD or another main benefit are common.

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[34] People were defined as having a mood and/or anxiety disorder if they had ever been told by a doctor that they have depression, bipolar and/or anxiety disorder. This definition is likely to underestimate the true number of people with mood or anxiety disorders, because some people may not be aware they have a mood or anxiety disorder. In addition, not all of the respondents who have ever had depression, bipolar and/or anxiety disorder would meet the criteria for depression, bipolar and/or anxiety disorder at the time they were surveyed.

[35] This is defined as pain that is present almost every day, but the intensity of the pain may vary, and has lasted, or is expected to last, more than six months. This includes chronic pain that is reduced by treatment.

Annex 4: Evidence required for displacement schemes

Evidence will be required to ensure workers meet eligibility criteria while keeping the income insurance scheme easy to implement for individuals and businesses.

The scheme will require evidence in order to maintain a high level of administrative integrity and prevent fraud. At the same time, it is important the scheme is simple to administer and as easy as possible for workers and businesses to navigate.

The list of the main evidence required below seeks to strike an appropriate balance between integrity and ease of use. This scheme administrator could obtain this evidence from range of sources, such as Inland Revenue.

Employment type	Evidence required from employee	Evidence required from employer
Permanent full time and part time (including multiple job holders)	Completed application form, with a declaration that they have suffered a redundancy event For multiple job holders, proof of at least a 20% reduction in income (pay slips)	Notification of the redundancy event or confirmation from the liquidator in the event of insolvency
Fixed term and seasonal	Completed application form, with a declaration that they have suffered a redundancy event A contract or agreement that shows the termination has occurred earlier than the expected end date Proof of pattern of work in the form of income history (pay slips)	Notification of the redundancy event or confirmation from the liquidator in the event of insolvency Declaration that an event has prevented the worker from being employed when they normally would have Declaration about the length of time the worker would have been employed for, if not for the event
Casual workers	Completed application form, with a declaration that they have suffered a redundancy event Proof of pattern of work in the form of income history (pay slips)	Confirmation that an event has prevented the casual worker from being employed when they normally would have Confirmation about the length of time the worker would have been employed for, if not for the event

Employment type	Evidence required from employee	Evidence required from employer
Contractors	Completed application form, with a declaration that they have suffered a redundancy event causing at least a 20% reduction in income Declaration that the loss of contract is no fault of their own (eg, due to performance) Proof of eligibility under the contractor category (eg, no more than five counterparties in a given year) Proof of loss of income (eg, signed contract for services)	N/A

Annex 5: International social insurance schemes for displacement, health conditions and disabilities

International Comparisons –displacement

Country	Type of scheme / contributions	Entry criteria: Working arrangements covered	Entry criteria: Triggers	Entry criteria: Partial loss?	Payment conditions: Replacement rate, cap, floor	Payment conditions: Duration	Payment conditions: Qualifying period	Payment conditions: Waiting period	Obligations and sanctions: Claimant Obligations	Obligations and sanctions: Sanctions
Austria	Mandatory for employees: (3% employee 3% employer). Voluntary for self-employed.	All paid employees employment, trainees, family members working in the enterprise of a self-employed person, freelancers.	Involuntary & voluntary job loss.	Limited	Basic: 55% of lost earnings on monthly income up to €4,980. Supplements available	20 – 52 weeks (length of insurance record & age)	Initially: insurance record of 52 weeks in the last 24 months. Under 25s, 26 weeks within the last 12 months.	None for involuntary job loss 4 weeks for voluntary job loss	Obligated to participate in reintegration and training measures; and take suitable jobs. Job search reporting requirements.	6 weeks benefit suspension, 8 weeks suspension for repeated refusals. Refunds sought in fraud cases.
Canada	1.66% payroll deduction (employee), 2.32% (employer)	All employees (excludes self-employed)	Involuntary job loss; production decline	✓	55% of lost earnings up to a cap of $573 per week CND	14- 45 weeks (work history & regional UE rate)	420 - 700 hours of insurable employment based on the local unemployment rate (pre-COVID)	Worked without pay for 7 consecutive days in past 52 weeks	Actively search for and accept offers of suitable employment. Complete bi-weekly reports. Keep a detailed record as proof of job search. Attend meetings with employment service Usually required to remain in Canada. Provide accurate information related to payments.	Financial penalties for leaving the country without permission or providing inaccurate information and may affect future eligibility.
Denmark	Voluntary (covers 77% of labour force) Employees pay, average of 8%, (also covers early retirement).	Employees, self-employed workers, recent vocational school grads	Involuntary job loss	✓	90% up to a cap of 2,473 euro/month	24 months	Must be members of unemployment fund	-	Provide relevant information to PES, to participate in activation after being unemployed 6+ months. For people under 30 or over 50 years old, it is after 13 weeks. Cash payments available for shorter-term internships, job assessments, skills upgrades.	Payments can be suspended for not cooperating with PES. Fraud can lead to suspension and may affect future eligibility.
Finland	State funded Basic unemployment allowance (BUA) Voluntary for Earnings-related unemployment allowance (EUA) Mixed levies (up to 1.7% of payroll and 1.25% of wages).	BUA: Employees and self-employed persons aged 17 to 64; EUA: as above & who are members of an unemployment fund	involuntarily unemployed – full job loss	✗	BUA : €33.66 per day EUA: The amount of the BUA + 45% of the difference between the daily wage and the basic allowance. If the monthly wage is more than 95 times the BUA (€3,197.70) the amount is 20% of the excess	BUA: 400 days max EUA: 500 days max	Employees: 26 weeks employment during the last 28 months and at least 18 hours of work each week; Self-employed persons: at least 15 months of entrepreneurship in the last 48 months.	5 working days	Provide relevant information to PES, participate in training and labour market programmes; attend planning appointments; take suitable jobs. Additional cash assistance available for participating in training and labour market programmes.	60 day suspension for refusing a job or training 15 day suspension for failing to attend appointments or make or update a job search plan 4.65% payment cut for 65 days for not meeting activity requirements.

International comparisons – displacement continued

Country	Type of scheme / contributions	Entry criteria			Payment conditions				Obligations and sanctions	
		Working arrangements covered	Triggers	Partial loss?	Replacement rate, cap, floor	Duration	Qualifying period	Waiting period	Claimant Obligations	Sanctions
Germany	Compulsory for employees; Voluntary for self-employed. 1.5% employer, 1.5% employee.	Most employees Excludes those in irregular employment	Involuntary & voluntary job loss	✓ Limited	60% (67% for workers with children) up to a cap of 2,805 euro/month	6-24 months (age, work history) 6 months partial payments	Claimant must have been compulsorily insured for at least 12 months during the last 30 months.	Voluntary job loss only	Provide relevant information to PES, to take a reasonable job, participate in a labour market integration measure; make sufficient effort to find work, attend PES appointments.	Benefit may be suspended for a period of up to 12 weeks if any of the insurance conditions are violated without good reason.
Netherlands	Mandatory 2.94% for permanent employees 7.94% for fixed term	All employees (excludes self-employed)	Involuntary unemployed Loss of at least 5 hours or half of the working hours per week	✓	75% of the last daily wage up to a cap 70% RR after 2 months	3 – 24 months (work history)	Minimum of 26 weeks contribution out of 36 weeks.	-	Provide relevant information to PES , undertake job search & apply for jobs; to take a reasonable job, cooperate with PES.	Entire or partial loss of benefit or a fine for failure to apply for jobs, take up a suitable job offer or cooperate with PES.
Norway	Employer levy varies by municipality, average 13%. Employees: 8.2% of gross wages. Self-employed: 11% of personal professional income 8.2 % of income from fishing, childminding	Employees and freelancers who contribute to UI Excludes self-employed except fishers	Loss of income of at least 50% due to voluntary or involuntary unemployment	✓	Benefit rate per day of 0.24% of the income basis, which normally gives a compensation level of 62.4%.	104 weeks	Claimant must have had an income from work of at least 1.5 the Basic Amount i.e. €13,740 in the preceding 12 months, or at least 3 times the Basic Amount, i.e. €27,481 during the 36 preceding months	3 days for involuntarily unemployed 12 weeks if voluntarily unemployed or at fault	Provide relevant information to PES, undertake job search, participate in labour market programmes, accept suitable jobs. Special training allowance and assistance to participate in labour market programmes.	12 week suspension for refusal to take a job, participate in ALMPs. 6 months suspension for repeat failure. 4 weeks for refusing to meet without good reason, longer for repeat failures.
Sweden	Mandatory basic insurance (BUI) and voluntary Earnings-related insurance (EUI) system. 2.64% employer payroll deduction for both systems	All workers including self-employed.	Involuntary job loss. Covers voluntary job loss, but sanctions if caused by the person.	×	EUI: 80% of former wage for 200 days capped at 616 euro/week, then RR falls to 70%. BUI - €35 per day	42 weeks (450 days for claimants with dependent children under 18)	BUI: at least 6 months and 80 hours of work a month in last 12 months EUI - at least 480 hours for 6 months with at least 50 hours of work a month in the last 12 months. Member of UI scheme for 12 months.	6 days	Provide relevant information, undertake job search, participate in labour market programmes, accept suitable jobs.	10 day suspension for not searching for work; up to 45 days for wilful extension of UI. Repeated misconduct leads to complete loss of UI until requalification. Expulsion from UI scheme for fraud.
Switzerland	SUI for employees, financed by contributions and taxes, with earnings-related benefits (flat-rate benefits for specific insured persons).	All employees, as well as first-time jobseekers	Total and partial unemployment	✓	80% of the insured salary. 70% for some (e.g. those without dependent children under 25)	3-16 months (contributions, age)	12 months of contributions, within 2 years preceding unemployment	5 days None for low income / children 10-20 days for higher earners	Provide relevant information, undertake job search, participate in labour market programmes, accept suitable jobs.	Suspension of UI entitlement for between 1-60 days depending on seriousness of infringement.
UK	Mandatory 13.8% (employers), 12% (employees) but funds ALL social insurance	Employees	Involuntary and voluntary job loss		Flat £73.10 per week (25 or older) £57.90 (under 25) £116.80 for those claiming as a couple.	6 months.				

International sickness benefit/insurance comparisons

Country	Eligibility criteria: Mental health inclusion?	Incapacity threshold	Incapacity duration	Assessment Model	Payment conditions: Unpaid waiting period	Employer funded sick pay before insurance	Replacement rate	Duration	Contribution history	Obligations and support services: Claimant Obligations	RTW services
Austria	✓	>25%	>6 weeks	• Doctor certification • Insurance provider doctor in some circumstances	✓	6-12 weeks	50-75% Partial payments	26 weeks 52 weeks	< 6 months in past 12 months > 6 month in past 12 months	• RTW planning / rehabilitation • Written reintegration agreement with employer for partial benefit	Jobs are protected Advice on part-time reintegration
Canada	✓	>40% earnings loss	NA	• Doctor certification (or approved medical practitioner)	✓ 1 week	-	55%	15 weeks	600 hours in last 52 weeks	• Fortnightly reporting to confirm ongoing eligibility	×
Denmark	✓	>4 hours a week	NA	• Doctor certification	×	30 days	80% Partial payments	22 weeks over 9 months	240 hours over 6 months	• Formal interview with employer about RTW at 4 weeks. • Co-operate in RTW follow-up activities with case manager	Jobs are not protected Case management, training Flexi job support (5 years) Vocational rehabilitation
Finland	✓	>40% earnings loss	NA	• Doctor certification • Further specialist assessment at 60, 90 & 150 days	× (in most cases)	Minimum of 9 days, but often 1 month	70% Partial payments	12 months	3 months	• Participate in assessments • Have agreement with employer if working part-time	Info on workplace adjustments Job matching Vocational rehabilitation
France	✓			• Doctor certification	✓ 3 days	Varies depending on duration	50% Partial payments	12 months per 3 years	600 hours in last 52 weeks		Rehab and reintegration services Some job protection
Germany	✓			• Doctor certification	×	6 weeks	70% Partial payments	78 weeks over 3 years	4 continuous weeks	• Gradual reintegration	Jobs are not protected Occupational integration for long-term illness (employer pays)
Netherlands	✓	>35% earnings loss		• Doctor certification	✓ 2 days	2 years	70% Partial payments	104 weeks*	×	• Attend appointments • Co-operate in assessments and RTW process	Jobs are not protected Case management, job matching, training, contracted reintegration agencies
Norway	✓	>20% earnings loss		• Doctor certification (various types of sick notes)	×	16 days	100% to 80% Partial payments	52 weeks	4 weeks	• Employer/employees must cooperate on solutions • RTW plan and rehab	Jobs are protected Vocational rehabilitation

International sickness benefit/insurance comparisons continued

Country	Eligibility criteria: Mental health inclusion?	Eligibility criteria: Incapacity threshold	Eligibility criteria: Incapacity duration	Assessment Model	Payment conditions: Unpaid waiting period	Payment conditions: Employer funded sick pay before insurance	Payment conditions: Replacement rate	Payment conditions: Duration	Payment conditions: Contribution history	Obligations and support services: Claimant Obligations	Obligations and support services: RTW services
Sweden	✓	>25%		• Doctor certification	✗	14 days	80% to 75% Partial payments	No time limit	6 months	• Employer has to develop RTW plan if illness will last >60 days	Jobs are protected Employment services Rebab
Switzerland	✓	50%		• Doctor certification	3 days	3 weeks minimum	Voluntary scheme, varies by agreement			• Employer and employee participate in RTW assessments & processes	Jobs are protected while ill
UK	✓			• Health professional contracted by delivery agency	✓ 3 days	Up to 28 weeks statutory sick pay (flat rate, £94.25 per week)	~20% (flat rate, 74.70 a week) Partial payments	No limit	1 year of employment + 1 year of contributions	• Partial work if possible	Work and health programme
US	✓	Severe	1 year or terminal	• Doctor certification • Social Security Administration decides	✗ but long processing times	-	Varies No partial payments Means tested	Unlimited	Have enough 'work credits'		Some vocational rehab services, varies by state
Australia	✓	Able to work 8+ hours a week	NA	• Doctor certification		10 days	Flat rate Partial payments Means tested	12 months	✗	• RTW planning	Jobs are not protected Information on education & employment support Disability Employment services

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