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22 April 2022

Social Unemployment Insurance Tripartite Working Group  
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### **A NEW ZEALAND INCOME INSURANCE SCHEME**

This submission is made on behalf of AIA New Zealand Limited and its related entities (together "**AIA NZ**"). It relates to the Ministry of Business, Innovation and Employment's February 2022 discussion document on the proposed New Zealand Income Insurance Scheme (the "**Scheme**").

#### **About AIA NZ**

AIA NZ is a member of the AIA Group ("**AIA**"), which comprises the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific and is listed on the Main Board of The Stock Exchange of Hong Kong. It is a market leader in the Asia-Pacific region (excluding Japan) based on life insurance premiums and holds leading positions across the majority of its markets.

Established in New Zealand in 1981, AIA acquired Sovereign Assurance Company Limited in 2018. At the time Sovereign was New Zealand's largest life insurer, having been in business in New Zealand for over 30 years. Sovereign formally amalgamated under the AIA brand in August 2019, and we have been protecting New Zealanders and helping them to lead Healthier, Longer, Better Lives ever since.

AIA NZ offers a range of life and health insurance products that meet the needs of over 450,000 New Zealanders. AIA NZ is committed to an operating philosophy of *Doing the Right Thing, in the Right Way, with the Right People*.

AIA NZ is also a prominent member of the Financial Services Council ("**FSC**").

#### **Key submission points**

The key points of our submission are as follows:

##### ***Health conditions and disabilities (illness)***

AIA NZ supports the establishment of an income insurance scheme for loss of work due to health conditions or disabilities. In our view, this would be a logical addition and would reduce the current disparity between the treatment of those suffering injury as compared to those unable to work due to

health conditions or disabilities. It is consistent with our goal to see more New Zealanders protected should the unexpected happen, helping them to lead Healthier, Longer, Better Lives.

Coverage for health conditions and disabilities also supports gender equality. For example, men (and particularly younger men) are more likely to be unable to work due to accidental injury which is covered by ACC, whilst women are more likely to be unable to work due to illness which is not currently covered. ACC's own analysis confirms this and that even where their claims are accepted, they receive less compensation than men<sup>1</sup>.

However, while the Scheme will provide a large number of New Zealanders with a basic level of disability cover, this may not be sufficient for many people given that, in our experience, a reasonable proportion of illness-related and disability claims extend beyond six months. Therefore, whilst the proposed coverage is a step towards gender equality, the significantly shorter benefit period under the Scheme compared to that provided by ACC to accident claimants means that some inequality remains.

We also have concerns about the proposed structure of the cover and propose alternative models, which we believe will provide New Zealanders with greater flexibility and adequacy of cover.

Finally, our response highlights some important points of implementation to manage interactions with New Zealand's existing \$540 million income protection market.

### ***Displacement***

AIA NZ acknowledges MBIE's objectives in establishing a displacement scheme. However, for the reasons outlined below AIA does not support the current proposal to establish an income insurance scheme for displacement. Cover for displacement should be treated separately from cover for sickness, disability, or accidental injury. In our view, the costs and unintended consequences associated with this aspect of the proposal are understated and could outweigh the benefits. In particular:

- There is moral hazard risk associated with a generous socialised insurance scheme that arises from employers transferring displacement costs to an external Scheme. This is expected to lead to higher financial costs than might be assumed by analysing historical redundancy data. Employer behaviour may be influenced by the existence of the Scheme resulting in an increase in the number of redundancies New Zealand experiences. For example, employers may leverage the Scheme to avoid going through a more costly performance management process. It is also possible that employers may privately agree to offer redundancies to older staff to ease their transition into retirement or to recruit fixed-term contractors as permanent employees to provide a redundancy benefit at the end of the term.

- Strict processes and controls will be needed to prevent misuse of the Scheme, and these will come with their own costs. Our expectation is that the costs associated with displacement will be higher than expected.
- Employers will no longer have any incentive to provide redundancy entitlements which are more than those required by the scheme, including additional payments and transitional support (such as career guidance and job-seeking assistance) or unlimited redundancy accruals.
- There are significant complexities in determining the scope of cover that would be provided for displacement. A narrow setting (for example, that excludes the self-employed or seasonal workers) could still result in a large proportion of New Zealanders without any form of cover for displacement. However, a wider setting covering a number of different displacement scenarios could have a significant impact on the overall cost of the Scheme and encourage misuse.

Displacement would be better progressed and more sustainably funded as a review of minimum redundancy terms under employment laws and/or addressing potential gaps in the current unemployment benefit scheme. This approach would address many of the moral hazard risks noted above by transferring redundancy costs back to the individual employer.

AIA NZ's view is that, particularly given the ambitious timeframe for implementation, the focus of the Scheme should be on resolving the inherent inequity in treatment between those who lose work due to health and disability and those who lose work due to accidental injury.

We consider that displacement and illness schemes are sufficiently distinct in their purpose, design, and implementation to be separated and individually considered.

### ***Timing of the Scheme***

In AIA NZ's view, now is not the time to introduce the Scheme. New Zealanders and New Zealand businesses are facing very significant financial and other pressures as a result of the Covid-19 pandemic and record high levels of inflation. Recent changes in legislation have also required businesses to make adjustments to parental leave, sick leave, and to account for the increase in the minimum wage.

The proposed timeframe (with legislation to be introduced this year and the Scheme potentially operating in 2023) is highly compressed. In our view, this will not leave enough time for legislation to be carefully considered, and for the significant range of implementation issues to be properly worked through. A Scheme of this scope will require significant development of IT and payroll systems and changes to processes at ACC and Inland Revenue.

The illness component of the Scheme will affect New Zealanders who already hold private income protection insurance. The full implication of these changes needs to be carefully managed to minimise these impacts and we have concerns about the capacity of the industry (including insurers, reinsurers, and advisers) to manage the transition within the proposed timeframe. This would require:

- A review of the design and pricing of existing income protection policies to take account of interactions with the Scheme;
- Meetings between customers and their advisers to review the suitability of their existing policies in light of payments under the Scheme; and
- Processing policy change requests and responding to customer queries.

AIA NZ strongly believes the timeframes should be expanded to allow for a more careful consideration of all issues and to achieve a smooth transition for customers and the insurance industry. In addition, given the significance of the Scheme for all New Zealanders we would like to see a bipartisan approach to development and implementation. Recognising the significant implementation and transition costs, New Zealanders need to have confidence that the Scheme is sustainable long-term.

### **Cost**

The discussion document does not provide sufficient information to enable us to accurately assess the likely cost of the scheme, or the financial implications of the various design features. AIA NZ's high level assessment (based in part on our own actuarial experience) is that the estimated long term cost of running the Scheme and the cost of claims appear to have been underestimated.

- As we noted earlier, moral hazard risks associated with a generous displacement Scheme is likely to lead to higher financial costs than might be assumed by analysing historical redundancy data.
- Like all life insurers, AIA NZ is seeing an increasing prevalence of mental health claims which are typically more challenging to manage, and consequently, more expensive. We expect that the Scheme would see a similar trend which could result in large costs to run the Scheme, particularly since the Scheme allows for multiple claims for the same illness.
- Costs of operating the Scheme are likely to be significant, particularly in the currently tight employment market.

AIA NZ's assessment is that these matters have not been sufficiently factored into the cost calculations and that, as a result, the proposed levies may be inadequate.

We recommend further refinement of the Scheme's cost calculations through engagement with the private insurance sector to understand the claims experience and expenses associated with managing health and disability claims.

### ***A public/private partnership model – illness insurance***

At first glance, there are obvious synergies between the Scheme and the Accident Compensation scheme and there are likely to be benefits in building on existing systems, processes, and infrastructure. However, we do not consider that ACC has the organisational capability and capacity to manage such a Scheme, particularly given the accelerated implementation timeframe and the current tight labour market.

As the Scheme is implemented, New Zealand will likely experience a transitional skills shortage, particularly for case managers and mental health professionals. While the Scheme will create additional funding to meet the challenges presented by mental ill health, it will place additional pressure on an already under-resourced sector until more capacity can be added. We consider that without the required organisational capability and capacity, there is a risk of either the Scheme not delivering on its social mandate or the costs of the Scheme significantly exceeding the estimates provided.

We note that the recent annual review of ACC (as heard by the Education and Workforce Committee on 9 March 2022) identified several themes within ACC including rehabilitation and 'return-to-work' rates being under target for most of 2020-21 (possibly due to Covid-19), low levels of satisfaction with ACC's new claims system, and a lack of access to treatment options (something also experienced by AIA NZ).

Our view is that the private insurance sector already has the necessary organisational capability to manage the Scheme and we believe that there is an opportunity for a public/private partnership model similar to the KiwiSaver model. A similar model operates successfully in Australia, where superannuation funds provide a default level of income protection cover to working Australians. As the private sector already has the operational experience, resources, and skills to manage the complexities associated with illness claims the chosen provider(s) could be operational within a relatively short timeframe. This approach could also provide New Zealanders with greater flexibility to tailor their insurance cover – for example, to voluntarily increase their benefit payment period beyond six months. Cost effectiveness under this model could be achieved through open market tenders.

Any concerns about the priorities of the private sector conflicting with the social mandate of the Scheme should be resolved through the introduction of the Financial Markets (Conduct of Institutions) Amendment Bill which will ensure that claimants are treated fairly and provide for the oversight of insurer conduct by the FMA.

## **Other comments**

### *Effect on private income protection policies*

At present, most private income protection insurance policies provide customers with cover in circumstances where they would, if the Scheme is introduced as proposed, also be entitled to claim under the Scheme.

Depending on the specific policy terms, an income protection policy may not be able to offset payment from the Scheme against insurance benefits and may not be able to alter policy terms to introduce such an offset provision. In such cases, claimants may be entitled to receive two payments for the same disability (one from the insurer and one from the Scheme) leading to claim payments potentially exceeding pre-disability income. This potential for enrichment creates financial disincentives of return to work and will lead to higher claim payments for both insurers and the Scheme.

Therefore, an abatement setting is needed to take into account benefits paid under private insurance to ensure that a claimant does not earn more in total than they would have while at work.

To address this issue, the enabling legislation will need to include a global offset provision that would allow any insurer paying an income protection or redundancy benefit to offset the income paid under the Scheme. That entitlement would need to override individual policy provisions and should also allow insurers to unilaterally amend policies where necessary to introduce the offset into the contractual terms.

A statutory offset would flow through to product pricing, as insurers would have certainty that the base level of cover provided by the Scheme would be excluded from cover.

It is also important to recognise the significant amount of work that would need to be undertaken by private insurers and advisers to recalibrate existing private insurance products and engage with existing customers to ensure that adjusted cover continues to meet their needs. AIA NZ considers this will require a significantly longer implementation and transitional period than appears to be contemplated by the discussion document.

### *Relationship with existing group insurance schemes – illness insurance*

One point not addressed in the discussion paper relates to the significant number of New Zealand employers who already offer income protection insurance to their employees. In many cases, the cover provided through these employer-based schemes is more generous than the proposed Scheme terms.

AIA NZ's strongly held view is that employers should be exempt from the need to make levy contributions where they provide access to an income protection scheme with comparable (or better) coverage than the Scheme, for employees who take out that cover, and that those employees should also be exempt from employee levies.

Opt-out for employees with their own cover

Related to the above point, AIA NZ suggests that further consideration should be given to an ability for employees to opt out of the Scheme where they already have private insurance cover with comparable (or better) coverage than the Scheme. AIA NZ's understanding is that this is a feature of a number of comparable overseas schemes. In this case, the employer levy could be paid directly to the private insurer to support insurance premiums, or as an increase in take-home pay.

We recognise that this option would add complexity and could result in a disproportionate reduction in the overall levy take as private income protection insurance is typically held by those on higher incomes.

Our full submission is **attached**, and follows the format outlined by MBIE. In addition to our own submission, we contributed to and support the FSC submission on this discussion document.

We would be pleased to discuss any questions you have on this submission, and we would welcome the opportunity to collaborate or consult further with MBIE as it considers the next steps.

Yours sincerely

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persons

Kristy Redfern  
**General Counsel and Company Secretary**  
**AIA New Zealand Limited**

# Submission on A New Zealand Income Insurance Scheme

## Your name and organisation

Name	Kristina Kilner (Head of Regulatory Affairs)
Organisation (if applicable)	AIA New Zealand Limited
Contact details	Privacy of natural

## Responses to consultation document questions

**Chapter 4 – How a new income insurance scheme could achieve our objectives (Pg 30-48)**

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?*

**AIA NZ supports the Scheme covering health conditions or disabilities**

AIA NZ supports the establishment of an income insurance scheme for loss of work due to health conditions or disabilities. In our view, this would be a logical addition and would remove the current disparity between the treatment of those suffering injuries as compared to those unable to work due to health conditions or disabilities.

The proposed cover for health conditions or disabilities is consistent with our goal to see more New Zealanders protected should the unexpected happen, helping them to lead Healthier, Longer, Better Lives. However, while the Scheme will provide a large number of New Zealanders with a basic cover, the level of cover offered by the Scheme may not be sufficient for many given that, in our experience, a reasonable proportion of health and disability claims extend beyond six months. Currently around 95% of income protection policies sold in the retail market are for a term exceeding 2 years. There is a risk that New Zealanders will have an over-reliance on the Scheme and not consider their individual insurance needs.

Coverage for health conditions or disabilities will support equality. ACC’s own analysis shows that women are less likely to make ACC claims and more likely to be declined when they do. If their claims are accepted, they also receive less compensation than men<sup>2</sup>. Our data shows that women are more likely to be unable to work due to health conditions or disabilities (particularly auto-immune conditions). By contrast, men (and particularly younger men) are more likely to be unable to work due to accidental injury which is already covered by ACC.

**AIA NZ considers displacement cover should be provided outside the Scheme**

<sup>2</sup> <https://www.stuff.co.nz/national/health/300337952/acc-biased-against-women-mori-and-pasifika-agencys-own-analysis-shows>



AIA NZ does not support the establishment of an income insurance scheme for displacement. Cover for displacement does not naturally fit with cover for sickness, disability, or accidental injury.

In our view, the costs and unintended consequences associated with this aspect of the proposal are understated and could outweigh the benefits. In particular, anecdotally we understand many employers use redundancy to move employees on due to poor performance rather than going through a (sometimes lengthy and fraught) performance management process, and the displacement benefits provided by the Scheme mean there will be a significant additional benefit for an employee in being displaced rather than terminated for poor performance.

Our expectation is that without strict processes and controls to prevent misuse (which would themselves come with cost) this would result in the costs associated with displacement being much higher than expected. In addition, employers will no longer have any incentive to provide redundancy entitlements which are more than those required by the Scheme (at present, some employers will provide redundancy support on top of contractual entitlements, including additional payments and transitional support such as career guidance and job-seeking assistance). Finally, we consider there is a risk that employers may restructure employment arrangements, perhaps moving to a greater use of casual workers with irregular hours or self-employed people (depending on whether these are covered by the Scheme), to avoid the need to pay levies.

There are also significant complexities in determining the scope of cover that would be provided for displacement. A narrow setting (for example, that excludes the self-employed or seasonal workers) could still result in a large proportion of New Zealanders without any form of cover for displacement. However, a wider setting covering a number of different displacement scenarios could have a significant impact on the overall cost of the Scheme and encourage misuse.

AIA NZ's view is that, particularly given the ambitious timeframe for implementation, the focus of the Scheme should be on resolving the inherent inequity in the treatment of loss of work due to health and disability and suggest that displacement would be better progressed separately as a review of employment laws and/or unemployment benefits.

### **Timing**

In AIA NZ's view, now is not the time to introduce the Scheme. New Zealanders and New Zealand businesses are facing significant financial and other pressures as a result of the Covid-19 pandemic and record high levels of inflation. In addition, our currently low unemployment rate reduces the immediate need for the Scheme, at least insofar as it relates to displacement.

As a more specific matter, the proposed timeframe (with legislation to be introduced this year and the Scheme potentially operating in 2023) is highly compressed. In our view, it will not leave enough time for legislation to be carefully considered, and for the significant range of implementation issues to be properly worked through. This is a particular issue given the impact of the Scheme on private insurers and New Zealanders who already have private insurance (which we discuss in more detail in the 'Other comments' section of this response). A Scheme of this scope will also require the development of significant IT systems, payroll systems and changes to processes at ACC and Inland Revenue. This needs to be factored into the timeframe.

AIA NZ strongly believes the timeframes should be expanded to allow for a more careful consideration of all issues. In addition, given the significance of the Scheme for all New Zealanders we would like to see a bi-partisan approach to development and implementation. This is needed to ensure the Scheme is sustainable.

### Cost

The discussion document does not provide sufficient information to enable us to accurately assess the likely cost of the scheme, or the financial implications of the various design features. AIA NZ's high-level assessment (based in part on our own actuarial experience) is that the estimated long term cost of running the Scheme and the cost of claims appear likely to have been underestimated. Like all insurers, AIA NZ is seeing an increasing prevalence of mental health claims which are typically more challenging to manage, and consequently, more expensive. We expect that the Scheme would see a similar trend which could result in large cost increases to run the Scheme. Costs will also increase if the Scheme takes an intensive approach to medical or vocational rehabilitation. Further, because of the universal nature of the Scheme it will cover individuals who would be unable to obtain private insurance without exclusions or loadings (or at all) due to their risk profile. AIA NZ's actuarial experience shows that this small number of claimants could be responsible for a substantial proportion of claims costs.

AIA NZ's assessment is that these matters have not been sufficiently factored into the cost calculations and that, as a result, the proposed levies may be inadequate. This will likely result in substantial increases in the levies when they are reviewed. It also means that comparisons undertaken to the cost of private insurance are inaccurate.

We recommend further refinement of the Scheme's cost calculations through engagement with the private insurance sector to understand the claims experience and expenses associated with managing health and disability claims.

## Chapter 5 – Honouring Te Tiriti o Waitangi (Pg 49-51)

### Kawanatanga – Good governance and partnership

2 *How can we ensure the proposed income insurance scheme honours Te Tiriti o Waitangi?*

AIA NZ agrees that the Scheme, if established, must honour Te Tiriti o Waitangi.

We have no particular views on how this can be achieved. However, we do note that a social non-underwritten insurance scheme will typically achieve better results for disadvantaged groups because disadvantaged groups typically have a higher proportion of non-standard underwriting assessments (i.e. people who are unable to obtain insurance cover on standard terms, or without additional premium loadings).

3 *What are the opportunities for partnership and Māori representation in the proposed income insurance scheme's governance and operations?*

AIA NZ does not have any views on this question.

4 *How can we ensure equity of access, participation, and outcomes for Māori in the proposed income insurance scheme?*

AIA NZ does not have any views on this question.

5 *How can we reflect and embed te ao Māori in the proposed income insurance scheme's design?*

AIA NZ agrees that te ao Māori should be reflected in the Scheme's design. However, we have no particular views on how this can be achieved.

## Chapter 6 – Coverage for displaced workers (Pg 53-72)

### 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?*

AIA NZ generally agrees with this definition, provided it is clear that the concept of involuntary loss of work also covers those who accept voluntary redundancy. Voluntary redundancy is a useful option when a business is undergoing a restructure, and should not be treated differently by the Scheme. Both voluntary and involuntary redundancies constitute 'displacement' and are both 'no fault' scenarios.

In practice, we expect that an employer's ability to transfer displacement costs to an external Scheme will lead some employers / employees to game available benefits. For example, employers may prefer to use redundancy to terminate underperforming employees, rather than going through a more costly performance management process. Employers may also privately agree to offer redundancies to older staff to ease their transition into retirement or to recruit fixed-term contractors as permanent employees to provide a redundancy benefit at the end of the term. Distinguishing between genuine and non-genuine claims (however these are ultimately defined) is unlikely to be operationally feasible and MBIE should expect that claims costs will exceed estimates based on analysis of historic redundancy rates.

In our view, displacement would be better progressed and more sustainably funded as a review of minimum redundancy terms under employment laws. This approach would address many of the moral hazard risks noted above by transferring redundancy costs back to the individual employer.

7 *Do you agree with excluding poor performance and gross misconduct as reasons for claiming insurance?*

AIA NZ agrees that poor performance and gross misconduct should be excluded; however, it is unlikely that this can be achieved in practice.

In practice, employers sometimes choose to disestablish roles as an 'easier', faster, or more cost-effective solution than working through a performance management process, which typically takes longer and has a greater risk of a personal grievance being raised by an employee.

8 *Do you agree with excluding resignation as a reason for claiming insurance?*

AIA NZ agrees that resignation should be excluded; however, we note our earlier concerns regarding the potential for misuse.

### 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?*

AIA NZ does not have a view on this question.

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?*

AIA NZ does not have a view on this question.

### 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?*

As a general proposition AIA NZ agrees that any cover available to employed workers should also be available to non-standard workers, where practical. Excluding non-standard workers would create gaps in the Scheme that would not appear to align with the policy reasons for establishing the Scheme.

12 *Do you agree that income insurance should cover the 'loss of reasonably anticipated income'?*

AIA NZ agrees that, if coverage is to be provided to this group, it should cover the 'loss of reasonably anticipated income'. However, it will be important to ensure there are very clear parameters around how 'reasonably anticipated income' is calculated.

13 *Do you agree that income insurance entitlements should be based on an 'established pattern of work'?*

AIA NZ agrees that, if coverage is to be provided to this group, it should be based on an 'established pattern of work'. However, it will be important to ensure there are very clear parameters around how an 'established pattern of work' is determined.

### 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?*

As a general proposition AIA NZ agrees that cover should be available to fixed-term and seasonal employees if they are displaced before the end of an employment agreement. Excluding these workers would create gaps in the Scheme that would not appear to align with the policy reasons for establishing the Scheme.

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?*

Fixed-term and seasonal employment is by its very nature fluid and does not involve a firm agreement of ongoing work. Any extension of cover to these scenarios would need to be very carefully considered to ensure it was only available in genuine situations and not in circumstances of poor performance.

#### 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?*

AIA NZ does not have any views on this question.

17 *How would these design choices work in practice? What risks can you see with the approach to establishing a regular pattern of work?*

AIA NZ does not have any views on this question.

#### Coverage for self-employed workers

18 *What risks do you see with covering, or not covering, people in self-employment?*

Excluding the self-employed would leave a significant gap in the Scheme and would also be inconsistent with the current ACC regime. As a general proposition, therefore, AIA NZ considers that the Scheme should extend to people in self-employment at least for sickness and disability claims. However, we recognise the practical challenges in doing so, and this would have to be carefully considered in its implementation.

We consider that displacement cover for self-employed people or those employed by a related party would be too complex and costly to implement.

19 *Are there some groups of self-employed who should and should not be covered?*

As a general proposition AIA NZ considers all groups of self-employed should be covered for health and disability claims. Excluding self-employed workers does not reflect the future of work in New Zealand. As noted in question 18 above, there will be difficulties in providing cover for self-employed people.

20 *How can we practically distinguish between contractors who resemble employees, and those with a high degree of independence?*

AIA NZ does not have any views on this question but notes the question itself highlights the complexities in providing displacement cover.

21 *Because a self-employed person cannot technically be made redundant, what types of events would be appropriate 'triggers' for insurance payments?*

AIA NZ does not have any views on this question but notes the question itself highlights the complexities in providing displacement cover.

22 *How do you think the levy should be collected from self-employed workers?*

We suggest that the levy should be collected from self-employed workers in the same way that ACC levies are currently collected.

#### 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?*

AIA NZ agrees this is appropriate. To ensure equality for all participants the minimum contribution period should not exclude periods when a participant is on other leave under their employment agreement, such as paid or unpaid parental leave.

#### Limits on subsequent claims

24 *Do you agree limits should be placed on the number of claims people can make?*

AIA NZ agrees that limits should be placed on the number of claims people can make in order to minimise the risk of unintended consequences. However, to achieve the Scheme's purpose the limit will need to be set at a level that ensures those who genuinely need to access the Scheme are able to do so. One option might be to allow multiple claims relating to health conditions or disabilities for different causes when a limit might otherwise apply.

In addition, clarity will be needed on how recurrent or related disabilities would be treated. Those with ongoing serious disability may be off work a number of times due to their condition.

25 *Do you agree with limiting claims to a total of six months within an 18-month period?*

AIA NZ agrees this would be an appropriate limit. However, it may be necessary to provide a degree of discretion to allow multiple claims relating to health conditions or disabilities for different causes when a limit might otherwise apply.

26 *Could the risks associated with a low contribution history be managed in other ways?*

Given the intended design of the Scheme (being a social insurance scheme with universal coverage) AIA NZ believes it would be difficult to address the risks associated with a low contribution history in other ways. To a degree, this highlights our concern (see our response to question 1) that the likely costs of the Scheme have been underestimated.

#### 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?*

AIA NZ does not have any views on this question.

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?*

AIA NZ does not have any views on this question.

## Chapter 7 – Entitlements for displaced workers (Pg 73-95)

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

29 *Do you agree with a replacement rate set at 80 percent?*

AIA NZ does not have any views on this question.

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)?*

AIA NZ does not have any views on this question.

### 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?*

AIA NZ generally agrees with this position. However, it will be important to carefully consider how 'personal exertion income' is determined. In AIA NZ's experience as an insurer, the distinction can become blurred.

We note that this position may increase the likelihood of longer term claims from those with large income streams from non-personal exertion activities, who would not have the same incentive to return to work. This could ultimately affect the cost of the Scheme.

32 *Do you agree that income insurance should have individualised entitlement, meaning a partner's income would not affect the rate payable?*

AIA NZ agrees that any cover under the Scheme should have an individualised entitlement, such that entitlements should not be affected by a partner's income.

### 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?*

In general AIA NZ agrees that someone should be able to earn a small amount of income from paid employment before it affects their entitlements from the Scheme. However, the level of offset would need to be considered carefully to ensure there remains an incentive to return to work.

Abatement would also be required on any private income protection policies to ensure that illness benefits paid by insurers and the Scheme do not create financial disincentives of return to work.

34 *Do you agree that insurance should abate 'dollar for dollar' when earned income and insurance combined reach 100 percent of previous income?*

AIA NZ agrees that an abatement is necessary but does not have a view on the particular rate. The best solution may not be as simple as 'dollar for dollar' and, as noted in our response to

question 33 above, there is a need to consider offsets carefully to ensure there remains an incentive to return to work.

### 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?*

AIA NZ agrees 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. Payments from the Scheme should be treated as closely as possible to regular PAYE income to avoid unintended consequences and ensure there remains an incentive to return to work.

We note here though, that although payments from the Scheme should be treated as income, further insurance levies should not apply.

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?*

AIA NZ does not have any views on this question.

### 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?*

AIA NZ does not have any views on this question.

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?*

AIA NZ does not have any views on this question.

### 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?*

AIA NZ does not have any views on this question.

### 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?*



AIA NZ does not have any views on this question.

#### 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?*

AIA NZ agrees with a base insurance entitlement length of six months. In our view, this entitlement length strikes an appropriate balance between the goal of protecting all New Zealanders who are unable to work and the overall cost of the Scheme. Private income protection insurance will continue to be an option for those who want a longer level of cover.

As noted elsewhere in our submission (see in particular our response to question 1), we do not believe the Scheme should cover displacement. However, if it does then we consider a four-week bridging payment to be appropriate.

42 *Would you support a longer or shorter length of base insurance entitlement?*

AIA NZ supports the current proposal.

#### 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?*

AIA NZ considers there would be benefit in the Scheme allowing extensions to the base period of income insurance entitlements for training or vocational rehabilitation. However, this would need to be carefully managed to avoid misuse. In addition, it will be important to clearly articulate what 'training and rehabilitation' will look like, how will it be resourced, and how success will be measured.

#### 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?*

As noted elsewhere in our submission (see in particular our response to question 1), we do not believe the Scheme should cover displacement. However, if it does then we consider 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?*

As noted elsewhere in our submission (see in particular our response to question 1), we do not believe the Scheme should cover displacement. However, if it does then we consider a four-week bridging payment paid by employers to be appropriate.

We note the intention for the Scheme to cover bridging-payments where these are not forthcoming from the employer, such as in the case of insolvency. We do not have a strong

view on this, other than to note that recovering these funds from the employer or liquidator would add to cost.

46

*Should bridging payments be applied to all workers, including those not eligible for income insurance?*

AIA NZ considers that any bridging payments should only apply to those eligible to cover from the Scheme. Payments in other circumstances should continue to be governed by existing employment entitlements. As mentioned in our response to question 1, if there is a concern that current displacement settings are not appropriate, then this is an issue that would be better progressed separately as a review of employment laws and/or unemployment benefits.

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?*

AIA NZ believes this idea merits further consideration. To a degree it links to the question we raised in our response to question 45 regarding the entitlement of employees where their employer is unable to make the required bridging payment. However, we are concerned that this feature could add additional complexity (and therefore cost) to the Scheme.

48

*Do you consider that stronger integrity measures are necessary to manage the risk of spurious claims to the income insurance scheme?*

AIA NZ believes that integrity measures will be necessary, with employers required to provide at least a base level of evidence to prove the legitimacy of the redundancy situation. Anecdotally we understand non-genuine redundancies are quite common as a way of exiting a person who is not performing because it avoids what can become a time-consuming performance management process.

It is unclear how effectively these integrity measures would be established or enforced.

## Chapter 8 – Coverage and entitlements for loss of work due to health conditions or disabilities (Pg 96-112)

### 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?*

AIA NZ agrees that there should be no restrictions on the types of conditions covered by the scheme. We consider this to be a key feature of a universal social insurance scheme covering health conditions and disabilities.

### 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)?*

AIA NZ agrees 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?*

AIA NZ agrees that the Scheme should cover partial loss of earnings due to a health condition or disability reducing work capacity. However, we do note that this will add complexity (and therefore cost) to management of the Scheme.

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?*

AIA NZ agrees that a minimum reduction in capacity to work should be required. However, we do not have a strongly held view on the particular thresholds that should be met.

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?*

AIA NZ agrees that a claimant's health practitioner should be the main assessor of work capacity. However, this does present a moral hazard for health practitioners who are prepared to sign people off work, particularly given the short duration of the cover period. We suggest that clear expectations are set for such assessments and with provision for assessments to be critically reviewed, with the input of an independent medical opinion where necessary, to prevent misuse of the Scheme.

In addition, AIA NZ notes that medical opinions are inherently subjective and there can be a degree of unconscious bias. For example, there is a risk that certain conditions suffered predominantly by women (e.g. endometriosis, menopause) could be treated less seriously by some health practitioners. There is an opportunity to explore the measures that could be put in place to ensure the Scheme is as inclusive as possible and monitoring of assessment outcomes should be put in place to identify any biases in the assessment process.

As a more general point, we consider there will be a need for the Scheme to work collaboratively with private insurers in assessing matters that would be covered by both the Scheme and private insurance – for example, by relying on the same medical assessments. This will be important to avoid delays in handling claims and a poor customer experience. It should also help to reduce the overall costs in claims assessment and case management.

54 *Do you agree that, where appropriate, employers could provide supporting information to inform the claimant's work capacity assessment process?*

AIA NZ agrees that, where appropriate, employers could provide supporting information to inform the claimant's work capacity assessment process.

Employers will typically have a first-hand understanding of their employees' capacity to work and in many cases (particularly for physical ill-health) be well placed to help evaluate whether their employee has lost at least 50% of their work capacity.

**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)?*

AIA NZ does not have any views on this question.

56 *How could employers be supported to help workers with health conditions or disabilities to remain in or return to work?*

AIA NZ does not have any views on this question. However, to the extent that support or assistance is provided to employees, it should be exempt from tax (either PAYE or FBT). For example, there should be no tax imposed on an employer providing gym memberships, counselling and support services, and health and wellbeing initiatives.

**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?*

AIA NZ's view is that most employers will keep a job open and assist with vocational rehabilitation where it is reasonably possible to do so. However, we do not believe there should be an expectation (or statutory requirement) to do so. This would be a considerable ask for many smaller businesses, given the costs of assisting with rehabilitation in conjunction with the loss of productivity from losing an employee for up to six months, and the potential additional pressure imposed on other employees needing to 'cover' for the absent employee when the period of absence is unknown (unlike parental leave, which is typically for a known period allowing fixed term cover to be obtained).

58 *Should this be a statutory requirement placed on employers or an expectation?*

As noted in our response to question 57, we do not believe there should be an expectation (or statutory requirement) to keep a job open in these circumstances.

**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?*

AIA NZ agrees 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 (Pg 113-120)**

**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?*

AIA NZ agrees that claimants should be obligated to look for work or prepare to return to work while receiving insurance. However, for those off work due to health conditions or disability this requirement should only apply where they are well enough to do so.

61 *Do you agree that claimants would not be expected or required to accept offers of employment that provide lower wages or conditions?*

In general AIA NZ agrees that claimants should not be expected or required to accept offers of employment that provide materially lower wages or conditions. However, there is strong evidence that active employment supports recovery and wellbeing and we believe that every effort should be made to encourage claimants to return to suitable work.

In our experience, individuals suffering stress-related conditions or mental health issues (including drug and alcohol abuse) may choose to take a lesser role or may not be medically capable of completing the role they had prior to ceasing work. Introducing an expectation or requirement to accept offers may become difficult to manage.

However, consideration should be given to whether a claimant should be required to accept an offer of employment where the terms offered are not materially lower (for example, an overall loss of income including non-cash benefits of no more than 10%). In addition, there will need to be an exclusion for circumstances where a previous term of employment is not market standard or not able to be offered by a new employer (for example, an overly generous leave policy, or entitlements under a superannuation scheme that was limited to the former employer).

62 *Do you agree the insurer could waive obligations partially or fully where a claimant is unable to meet those obligations?*

AIA NZ agrees that the insurer should be able to waive obligations where necessary. It is important that a degree of flexibility is included to avoid inappropriate outcomes, particularly noting that claimants will often have a degree of vulnerability.

63 *Do you agree claimants should be obligated to remain in New Zealand to remain eligible for income insurance?*

AIA NZ agrees that claimants should be obligated to remain in New Zealand to remain eligible for payments from the Scheme.

64 *Do you think a period of time, such as 28 days, should be allowed for travel overseas, for example, to support ill family?*

AIA NZ agrees that some overseas travel should be allowed. However, clear rules will be needed to avoid abuse (and, in particular, that in the case of displacement the claimant can satisfy their obligation to look for work and prepare to return to work). In addition, enforcement rules will need to be clearly articulated and well understood.

#### 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?*

AIA NZ agrees that where appropriate claimants with health conditions or disabilities should be subject to obligations to participate in rehabilitative programmes and other support. We suggest these requirements should align with current practices for ACC.

66

*Should claimants with health conditions and disabilities be subject to obligations to search for work or undertaking training where they are able to?*

AIA NZ agrees that where appropriate claimants with health conditions or disabilities should be subject to obligations to search for work or undertake training. We suggest these requirements should align with current practices for ACC.

### 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?*

AIA NZ considers that financial penalties should be in place for people who do not meet their obligations. However, whether penalties are imposed would need to be considered carefully on a case-by-case basis, noting that claimants will often have a degree of vulnerability.

68

*Do you agree that payments could be fully suspended in cases of serious, intentional non-compliance with obligations?*

AIA NZ agrees that payments should 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?*

AIA NZ agrees that where claimants repeatedly fail to meet their obligations other consequences should be available. However, we expect these would typically be a last resort that would need to be considered carefully on a case-by-case basis.

## Chapter 10 – Delivering income insurance (Pg 121-134)

### Independent and effective delivery

70

*Do you think it is best for ACC to deliver the income insurance scheme alongside the accident compensation scheme?*

At first glance, there are obvious synergies between the Scheme and the accident compensation scheme and there are likely to be benefits in building on existing systems, processes, and infrastructure. However, we do not consider that ACC has the organisational capability and capacity to manage such a Scheme, particularly given the accelerated implementation timeframe and the current tight labour market. We consider that without the required organisational capability and capacity that there is a risk of either the Scheme not delivering on its social mandate or the costs of the Scheme significantly exceeding the estimates provided.

As the Scheme is implemented, New Zealand will likely experience a transitional skills shortage, particularly for case managers and mental health professionals. While the Scheme will create additional funding to meet the challenges presented by mental ill health, it will place additional pressure on an already under-resourced sector until more capacity can be

added. We consider that without the required organisational capability and capacity, there is a risk of either the Scheme not delivering on its social mandate or the costs of the Scheme significantly exceeding the estimates provided.

We note that the recent annual review of ACC (as heard by the Education and Workforce Committee on 9 March 2022) identified several themes within ACC including rehabilitation and 'return-to-work' rates being under target for most of 2020-21 (possibly due to Covid-19), low levels of satisfaction with ACC's new claims system, and a lack of access to treatment options (something also experienced by AIA NZ).

Our view is that the private insurance sector already has the necessary organisational capability, to manage the Scheme and we believe that there is an opportunity for a public/private partnership model similar to the KiwiSaver model. A similar model operates successfully in Australia, where superannuation funds provide a default level of income protection cover to working Australians. As the private sector already has the operational experience, resources, and skills to manage the complexities associated with illness claims the chosen provider(s) could be operational within a relatively short time frame. This approach could also provide New Zealanders with greater flexibility to tailor their insurance cover – for example, to voluntarily increase their benefit payment period beyond six months. Cost effectiveness under this model could be achieved through open market tenders.

Nevertheless, we stress that even under a private / public model, existing mental health support services are currently stretched, and it is unclear whether sufficient additional resourcing can be added within the proposed timeframe.

71

*Would the income insurance scheme be better delivered by a government department or a new entity?*

AIA NZ does not believe that a government department or a new entity should deliver the Scheme.

#### 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?*

AIA NZ does not have any views on this question.

73

*How could Māori perspectives best be incorporated to ensure the income insurance scheme is delivered equitably and with aspiration?*

AIA NZ does not have any views on this question.

#### Displaced workers: Getting back to good jobs

74

*What practical support should be available to insurance claimants to return to work?*

AIA NZ does not have any views on this question.

75

*Who should provide that return-to-work support?*

AIA NZ does not have any views on this question.

76 *What type of claimants would need an employment case manager, and who could self-manage?*

AIA NZ does not have any views on this question.

77 *What do you think a 'return-to-work plan' should include?*

AIA NZ does not have any views on this question.

### 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?*

AIA NZ does not have a particular view on this question, other than to highlight the importance of supporting claimants to return to work in a way that is sensitive to the nature of their condition or disability. In AIA NZ's experience, this can be a particular challenge for mental health conditions (which can often also become a secondary claim / consequence of physical conditions).

As the Scheme is implemented, New Zealand will likely experience a transitional skills shortage, particularly for case managers and mental health professionals. While the Scheme will create additional funding to meet the challenges presented by mental ill health, it will place additional pressure on an already under-resourced sector until more capacity can be added. We consider that without the required organisational capability and capacity, there is a risk of either the Scheme not delivering on its social mandate or the costs of the Scheme significantly exceeding the estimates provided.

79 *Who should provide that support to return to work?*

AIA NZ does not have any views on this question.

80 *What type of claimants would need a case manager, and who could self-manage?*

While AIA NZ does not have a strong view on this question, we suggest that in many cases self-management may be appropriate. However, there is likely to be a role for case managers for more vulnerable claimants and more complicated claims. We consider this is more likely to be the case for health and disability claimants than for those claiming for displacement.

### Dispute resolution

81 *Do you agree with the proposed four-step dispute resolution process for the scheme?*

AIA NZ does not have any views on this question, other than to note the importance of effective independent dispute resolution.

82 *Are there specific aspects to the scheme's dispute resolution you think should be considered?*

AIA NZ does not have any views on this question.

### 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?*

AIA NZ agrees 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?*

AIA NZ agrees with the proposal to develop information sharing agreements and sharing arrangements with employers, other agencies and service providers.

#### Chapter 11 – Funding income insurance (Pg 135-144)

##### 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?*

AIA NZ does not have any views on this question, other than to highlight our concerns mentioned elsewhere about the Scheme's cost and timing (see our response to question 1) and our comment about ensuring payments from the Scheme are not subject to further levies (see our response to question 35).

If the income insurance scheme is funded from compulsory levies, it will need to be clear what income is and isn't subject to the compulsory levies.

##### 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?*

AIA NZ does not have any views on this question, other than to highlight our concerns mentioned elsewhere about the Scheme's cost and timing (see our response to question 1) that levies should not apply to employers who already provide employees with private income protection insurance.

87 *Do you agree that levies for health conditions and disabilities and for redundancy should be set separately?*

AIA NZ does not have any views on this question, other than to highlight our concerns mentioned elsewhere about the Scheme's cost and timing (see our response to question 1).

Our comments provided in the 'Other comments' section regarding the need for a carve-out for employers offering income protection insurance to their employees (and for employees who take up cover) also apply here.

##### 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?*

AIA NZ agrees that the levy should be a flat rate on income below the cap.

89 *Do you have any other suggestions for how the employee levy should be structured?*

AIA NZ does not have any other suggestions for structuring the employee levy.

90 *Do you agree that experience rating would not be an appropriate design setting for the employer levy?*

AIA NZ believes that there should be an adjustment to levies for employers that take proactive steps to reduce work-related illness (for example, mental health). In our opinion, this would be a powerful lever to draw employers' attention to these issues.

### 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?*

AIA NZ agrees that an independent fund with a stable levy-setting system should be established to finance the income insurance scheme. The system needs to set levies well in advance to allow rates to be incorporated into payroll software and budgets.

Funding for ACC to administer the Scheme should be set at a level that requires it to operate efficiently in the same way as a commercially focussed business.

92 *Do you favour a Pay As You Go or Save As You Go funding approach?*

While not a strongly held view, AIA NZ supports a largely Pay As You Go model with a small reserve fund to reflect the cyclical nature of the economy, as proposed in the discussion document.

### 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?*

AIA NZ does not 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. If the Scheme is to be established, in our view its terms and features should be set with a long-term horizon in mind and without any expectation that entitlements and eligibility may vary.

94 *Does such flexibility create risks that require additional mitigations?*

Flexibility would create a range of risks, including potential funding issues and uncertainty. A sense that Scheme entitlements might vary would also discourage New Zealanders from taking responsibility for their own needs, above the basic level of cover provided by the Scheme. For these reasons, AIA NZ does not agree that there should be flexibility to vary entitlements and eligibility.

## Other comments

### **Need for statutory offset of payments from the Scheme and insurance payments**

At present, most private income protection insurance policies provide customers with cover in circumstances where they would, if the Scheme is introduced as proposed, also be entitled to claim under the Scheme.

Depending on the specific policy terms, an income protection policy may not be able to offset payments from the Scheme against insurance benefits, and may not be able to alter the policy terms to introduce such an offset. In these cases, claimants may be entitled to receive two payments for the same disability (one from the insurer and one from the Scheme) leading to claim payments potentially exceeding pre-disability income. This potential for enrichment creates financial disincentives for return to work and will lead to higher claim payments for both insurers and the Scheme.

To address this issue, the enabling legislation will need to include a global offset provision that would allow any insurer paying an income protection or redundancy benefit to offset the income paid under the Scheme. That entitlement would need to override individual policy provisions, and should also allow insurers to unilaterally amend policies where necessary to introduce the offset into the contractual terms.

A statutory offset would flow through to product pricing, as insurers would have certainty that the base level of cover provided by the Scheme would be excluded from cover.

### **Interaction with private insurance**

It is also important to recognise the significant amount of work that would need to be undertaken by private insurers and advisers to recalibrate existing private insurance products and engage with existing customers to ensure that adjusted cover continues to meet their needs.

For example, some income protection policies have waiting periods of 26 weeks or longer. Customers will need to ascertain how the Scheme (which does not intend to apply a waiting period) interacts with their policy and assess the risk of gaps in cover.

We also expect that during the transition, there will be increased consumer demand for advice to understand the impact of the Scheme on their existing insurance cover. This is likely to create significant additional work for advisers to manage within a short implementation window.

AIA NZ considers this will require a significantly longer implementation and transitional period than appears to be contemplated by the discussion document.

### **Relationship with existing group insurance schemes**

One point not addressed in the discussion paper relates to the significant number of New Zealand employers who already offer income protection insurance to their employees. In many cases, the cover provided through these employer-based schemes is more generous than the proposed Scheme terms.

AIA NZ's strongly held view is that employers should be exempt from the need to make levy contributions where they provide access to an income protection scheme with comparable (or better) coverage than the Scheme, for employees who take out that cover, and that those employees should also be exempt from employee levies.

### **Opt-out for employees with their own cover**

Related to the above point, AIA NZ suggests that further consideration should be given to an ability for employees to opt out of the Scheme where they already have private insurance cover with comparable (or better) coverage than the Scheme. AIA NZ's understanding is that this is a feature of a number of comparable overseas schemes. In this case, the employer levy could be paid directly to the private insurer to support insurance premiums, or as an increase in take-home pay.

We recognise that this option would add complexity, and could result in a disproportionate reduction in the overall levy take as private income protection insurance is typically held by those on higher incomes.