

22nd April 2022

Submission to the Ministry of Business, Innovation and Employment

Response to the New Zealand Income Insurance Scheme Discussion Document

Thank you for the opportunity to provide a submission on behalf of Alpha Personnel Recruitment Limited regards the proposed New Zealand Income Insurance Scheme discussion document.

We are a long standing and major staffing company in New Zealand with temporary staff being a large part of our workforce, and representing a major source of our annual revenues. We are also members of the Recruitment and Consulting Services Association (RCSA).

Our Submission

Addressing the Overlap of Proposed and Current Social Insurance Support.

Income Insurance is a form of social insurance and is already in place in New Zealand through both public and private schemes. We aren't aware of the size of the private market and there is no information in the discussion document to assist. We are aware of a small number of individuals who pay for this personally and we have one staff member that our Directors pay the insurance for. Publicly, New Zealand has a partially-means tested social insurance in the event that someone becomes unemployed which is Job Seeker support. This is a mature insurance product currently funded by existing taxes. Many of the issues relating to how people come onto and move off Job Seeker have been honed based on the experience of MSD. As an example, there is a variable stand-down period which recognises that employees have different circumstances including the level of outstanding leave they have been paid in their final pay.

We see overlaps in the intentions of the proposed Income Insurance and Job Seeker support. Specifically, Job Seeker is established as a weekly payment to help people until they find work and is paid to those who have no work (ie unemployed for any reason) or can't work for health reasons. This is a very similar audience and rationale to the proposed Income Insurance.

The major differences appear to be:

- Job Seeker does not require a person to have been in previous work in order to claim Job Seeker support, although if their employment terminated from their own actions, there is (potentially) a longer standdown. Income Insurance will require the person to have an eligibility period, which is related to them paying the levy for a minimum of six months over the previous eighteen months, and it's not clear what happens to someone whose own actions contributed to them leaving their employment.
- Job Seeker requires that the person be trying to find "suitable" work. Income Insurance, when established, will provide support until the person can find a "good" job.

- Job Seeker provides a table of payments which is based on the circumstances of the person, not a capped proportion of their previous employment remuneration level as is proposed with Income Insurance.
- Job Seeker is wholly funded from the broader tax take including PAYE. All employees currently pay towards Job Seeker and there is no specific social insurance levy. Income Insurance will establish a specific social insurance levy.
- Job Seeker is administered by the Ministry of Social Development rather than the Accident Compensation Commission and draws its funds from the consolidated account not from a specific levy account.

In our view there is sufficient overlap to question why a separate scheme needs to be in place for those who have no work. It's unclear where Job Seeker fits into the new environment. We believe that there is value in reviewing the operation of Job Seeker to establish a level of payment based on the previous employment level of the person, using the existing table of payments as a baseline for those who haven't been working.

Addressing Job Displacement between the Well and the Unwell

There is, in our view, a fundamental difference between someone who's role has been made redundant through no fault of their own, and someone who has suffered a non-accident health incident which has made it difficult, if not impossible, for them to continue to work in the role that they currently have.

In the first instance a vibrant job market is the best opportunity for the person to find another role that is a "good" match with what they have previously been doing.

In the second this may be a worthwhile goal but for a significant proportion of people who suffer an extreme mental health event such a return to work is difficult or unlikely.

It would be extremely disappointing if the final shape of the Income Insurance Scheme didn't address this fundamental difference.

Some of the ways that this could happen are:

- Make it clear that they are not the same instead of proposing that "*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*". There is a paucity of information in the document that allows a differentiated review between these two scenarios. As an example, specific information detailing the difference on the impact of wages scarring on the redundant versus those who have suffered a non accident medical incident. Our experience suggests that there is a difference, it is substantial, and less easy for those with non accident medical impairment to erase over time from their incident(s).
- A reduction in the 6 months period for redundancy support to a shorter period with the option of a review to extend out to the six months. This would potentially reduce the moral hazard involved in such situations when the market is buoyant, as it is currently, but allow for extended periods of support where a whole market is down. We understand

that there are times when there are regional (eg Christchurch 2011) or sector (Travel/Hospitality 2020 - 2022) disparities in the market and these require more targeted interventions. Sometimes roles disappear and markets move on. It is good to see an acknowledgement of retraining for roles, however it is noticeable that there is no recognition that sometimes people will be required to step down a level to fill roles that do exist, rather than wait for roles that may never return.

- Providing a stepped support function for those who are mentally unwell over their first year based on ongoing assessment of their return to full work capability. The document acknowledges that this is a desired outcome but is short on how the employer would be supported to allow it, or what would happen if the change is likely to be ongoing. We were happy to provide 6 weeks support to one of our staff who had a reasonably severe episode involving hospitalisation on the basis that there was an expectation they would return to something resembling a full role, with some differences to remove key stress areas. We believe most employers would look at this for their permanent staff depending on an assessment of the impact of the incident on the person. A stepped approach would also bring non accident medical events more into line with accidents which currently have up front and ongoing assessment included that determines whether and how a time limited, ongoing and or upfront one off payment should be made. ACC may not have all the skills needed to adequately assess these cases currently but the processes are largely in place.
- Leave non-medical health incident cases with ACC but provide single case management for redundant workers through the work engagement teams at MSD. Our experience, albeit limited, with MSD case managers showed that they can step up when needed, have an understanding of the labour market that ACC or third party providers would struggle to match, and information on people that is not currently, and probably would never be, relevant to other parties, including ACC. This may mean changes in the way the levy is collected.

Addressing Ongoing, Fixed Term and Casual Employment

We provide services in all the above and believe that there is little common ground between them that would allow a singular approach. The differences extend to:

- The expectations that the parties have to the length, conditions and reasonable termination of employment.
- How people are remunerated for their effort.
- Who employs them and who they are doing the work for
- The pattern of work

The document recognises all the above employment relationships exist (although we understand that there is currently no legal definition of a “casual” employment relationship), however we didn’t see a differentiation in approach based on these. The issue of the variability of the costs for the Scheme for employers, when someone works for a lesser period than an ongoing employee, is not addressed. The cost impost difference can be substantial, due to the proposed four week employer initial payment on top of the employer levy and disproportionate to the impact on the person.

Some of the ways these differences could be addressed include:

- Diminution of support of certain roles from the Scheme based on role length and expectation. As examples:
 - A person in a fulltime ongoing job has a reasonable expectation that they will remain in that role until they decide they've a better option and choose to move on. A sudden redundancy can be devastating for someone like this and they may struggle to move forward, as much because they are not mentally prepared, as there being a lack of suitable options for them. They are likely to need support for a period and the Scheme as proposed would be both beneficial and welcomed for such people.
 - Fixed term employees know they have an end date and it is common for them to ring an organisation like ours to ask what else we have well before their end date comes up. They are already mentally prepared and require less support in a buoyant market, potentially at less than the 80% level and for a shorter period. It would be tough to expect an employer to front for four weeks on an early termination of a fixed term employment and we believe this should be for a lesser period.
 - Temporary staff can be employed in an organisation for days, weeks, months or in rare cases more than a year. If they are employed by a staffing agency their expectation is that the staffing agency has future roles available, and if they don't, that another agency probably does, especially when the market is as candidate constrained as the current market. Reducing the standdown period for these staff so that they can move straight onto Job Seeker support (although keeping the concept of payment in arrears).
- Using notice periods as the mechanism for the employer's initial payment to the employee in a redundancy situation would be beneficial and these are already in place in many if not most existing agreements. Notice periods are legally enforceable and provide the employer with the discretion to ask the employee to work the notice period or not. We submit that employers and employees continue to be able to agree notice periods but with default minimums such as:
 - Permanent Role or FTC 12 months or longer 4 weeks (then Income Insurance support in the event of redundancy)
 - FTC (less than a year but more than six months) 2 weeks (then Income Insurance support in the event of redundancy)
 - Temporary Assignment (longer than 3 months) 5 working days (then Income Insurance support in the event no other assignments are available).

In the event that a longer notice period is negotiated (eg 10 working days for a temporary assignment), then this contractually becomes the employers obligation where a temporary assignment is ending before it's offered, and accepted, end date.

- Provide Income Insurance to people who are self employed but recognise that is often their choice and that as their own employer they are responsible for both the employer and employee component of the levy. There is a group of self employed contractors who are typically hired in low rate roles, some of which would only just make the minimum wage after on-costs, and we believe that this group requires protection beyond that of someone in a role earning \$100 per hour.

Addressing the Levy Rate

From the OECD statistics it appears that there is an average of 26% of tax collected specifically for social insurance across the OECD (see link below).

<https://www.oecd.org/ctp/tax-policy/revenue-statistics-new-zealand.pdf>

New Zealand currently has no specific social insurance levy. From the same document however the data shows that we make up for this in the percentage of tax currently raised from individuals and corporations. As a result, our total tax take is only just below the OECD average. The OECD recognises that specific social insurance levy's (eg the proposed 2.78% of gross payment, and the employer paid initial period payment) are an additional tax, just not going into the consolidated fund. The effect of this is to increase the tax take.

There is no discussion within the document that we can see which details the anticipated total tax take after establishment of the scheme, and the subsequent positioning of New Zealand within the OECD table, or why this additional tax is better kept in a specific fund rather than drawn from the consolidated fund.

In practice, for us as a staffing provider with a fluctuating workforce that at times exceeds 1,000 temporary staff members, any additional levy would have to be recovered from our clients. As the majority of those staff work for Public Sector organisations this would impact on the on-costs component of any temporary staffing assignment and we would expect that the All of Government Recruitment Services contract would be updated accordingly. We would also anticipate that any employee that can, which is most who are working in the Public Sector, will insist that the employee component would also be paid for from the client in an increase in the base rate to the employee.

Addressing the Initial Employer Payment

We believe that the initial employer payment as contemplated is deeply inequitable if it remains as a four week payment irrespective of the type of role or the expectations for end of employment. We also believe it is possible to produce the desired support through a notice period in the event of a redundancy situation. The document makes the point that not every organisation has a redundancy clause. We believe that most, although accept that not all, employment agreements have a notice period. It would not be unreasonable to require every ongoing or fixed term employment contract to have such a notice period unless the duration is very short (ie less than 3 months). The document also posits that even if a redundancy clause exists there would be no redundancy paid if the business fails. However, the same situation will arise if there are no funds left to pay the employee(s) once the Scheme is in place. We assume that the burden of payment in that case will fall on the Scheme.

Many of our temporary assignments are short however it would not be unusual for a temporary staff member to have a series of assignments, which are individual periods of employment, of more than six months cumulative over an eighteen month period. They will then be eligible for support from Income Insurance as we understand it. There are many legitimate reasons why assignments finish before their anticipated end date. It would be difficult, if not impossible for us to apply a "non-completion" levy to a temporary assignment. We do however insist on a notice period for any assignment over four weeks duration,

typically 5 days. This means most staff do end up working out their notice period if the assignment is coming to a premature end and our consultants have the opportunity to provide additional work in another assignment.

Moving to a graduated initial support provided by the employer does potentially impose an earlier cost on the Scheme, and we recognise that, but suggest that these costs are mitigated by the fact that the Scheme itself would only provide this support for the same period to anyone using the Scheme.

It is our view that using notice as the primary mechanism is a more efficient way of managing the initial period of a redundancy situation, allows the employer the option of having the person work out the notice period, and provides a rationale for different levels of initial employer support which is more equitable than the current proposal. This clearly would not work for someone who has had a non-medical health incident and is another reason these should not be dealt with similar to redundancy situations.

Addressing the Treaty of Waitangi

It is not clear in the document why “It is crucial that the way the scheme is governed, delivered and evaluated, tangibly applies kōwhiri. 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.”

There can be no question that the Scheme must have good Governance (*kōwhiri*) but this of itself does not mean co-governance. We ask what does “ensure Māori have real authority” mean? The word ensure has a strong and absolute meaning and it would, we assume, fall on the New Zealand Government to execute if it made it into legislation.

The document indicates that Governance will be tripartite and Māori. We see that the sentiment behind partnership with Māori interests is genuine, and agree that the voice of Māori should be an important contributor to the design of the Scheme. Our understanding is that the recent pandemic shutdown had a disproportionate effect on the work opportunities of Māori individually and in some cases across whole communities so clearly targeted support is needed when these events happen. However, it is our view that much of this is a function of the concentration of employment in sectors badly impacted by Covid 19 like Tourism and Hospitality, and there was need to support all participants in these sectors.

The Scheme is, we understand, intended to be broad and inclusive (as stated) but focussed on people who are in work then are unable to maintain their income because they no longer have work or are incapacitated. It is not clear to us how any of the opening statement relates to this and we would welcome more specific proposals that show what the statement means in practice.

We also have considerable doubt that the above statement can actually be legislated in any way that is broadly inclusive, other perhaps than the stated intent to legally change the tripartite relationship between the Minister, ACC and MBIE to include a fourth party that represents Māori interests.

Addressing the Moral Hazard

By its own admission the working group were unable to definitively show that people who have been made redundant will be able to more proactively search for new work that matches their skills. The definition of a “good” job is that this matches, to a large extent, the job, conditions and pay rates of the job that the person has just left.

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.

It is possible that international evidence is mixed, but we believe New Zealand’s experience is that there is a definite moral hazard to these social insurance payments and there does need to be considerable thought, process design and case management expertise involved to manage this risk. Much of this is already in place in MSD and most of it is there because experience has shown it is needed.

Also, our experience as a staffing company is that support for “good” workers and even some “not so good” workers, is generally available through the market, unless the whole market is tanking, in which case the intrinsic concept behind the Scheme of being able to find a “good” job is only going to be achieved by some. In such a market others will need to take what they can, which might be a “not so good” job.

In Summary

We submit that a universal Income Insurance Scheme as contemplated is unlikely to be fit for purpose, will increase the tax take in New Zealand, imposes disproportionate costs on employers with short term assignments, and will struggle to be inclusive in the wider meaning of the term.

We believe that there are options to be explored to enhance the functioning of the Scheme and look forward to the next release of information relating to how the Scheme as proposed will function.

Privacy of natural persons

Colin Mathieson
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