

# Submission template

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## A New Zealand Income Insurance Scheme

This is the submission template for the discussion document, *A New Zealand Income Insurance Scheme*.

The Ministry of Business, Innovation and Employment (MBIE), on behalf of the Government, Business New Zealand and the New Zealand Council of Trade Unions, seeks your written submission on the matters raised in the discussion document by **5pm on 26 April 2022**.

## Your submission could be made public

The information provided in submissions will be used to inform policy development on the proposed income insurance scheme, including how it could be improved and how it could affect different groups. We may contact submitters directly if we require clarification of any matters in submissions.

The *Privacy Act 2020* applies to submissions and responses. Any personal information you supply to MBIE in making a submission will only be used for the purpose of assisting in the development of policy advice as part of this review. When businesses or organisations make a submission, we will consider that you have consented to the content being included in any summary of submissions unless you clearly state otherwise. If your submission contains any information that is confidential or that you do not want published, you can say this in your submission. Please clearly indicate in your cover letter or email with your submission if you do not wish your name, or any other personal information, to be included in any summary of submissions that may be published.

Submissions and responses may be subject to requests for information under the *Official Information Act 1982*. Please clearly indicate in your cover letter or email with your submission if you have any objection to the release of any information in your submission, and which parts you consider should be withheld, together with the reasons for withholding the information. Your views will be taken into account when responding to requests under the *Official Information Act 1982*. Any decision to withhold information requested under the *Official Information Act 1982* can be reviewed by the Ombudsman.

## How to make a submission

Please send your written submission on the options and questions in this consultation document by **5pm on 26 April 2022**. You can make your submission (preferably using this submission template) as follows:

1. Include your name, the name of your organisation (if applicable), and contact details. We may contact submitters directly if we require clarification of any matters in submissions.
2. Your submission may respond to any or all of the questions in the consultation paper. Where possible, please include information or evidence to support your views. We also encourage your input on any other relevant aspects of the income insurance scheme in the “Other comments” section.
3. Sending your submission:
  - a. Attach as a Microsoft Word document or searchable PDF and email to:

[incomeinsurance@mbie.govt.nz](mailto:incomeinsurance@mbie.govt.nz) (preferred), or

- b. Mail your submission to:

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

If you have any questions on the submissions process, please contact [incomeinsurance@mbie.govt.nz](mailto:incomeinsurance@mbie.govt.nz).

# Submission on A New Zealand Income Insurance Scheme

## Your name and organisation

Name	Privacy of t
Organisation (if applicable)	
Contact details	Privacy of natural persons

## 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?*

I agree with expanding ACC to provide similar rehabilitation and loss of income support for disabilities caused by health conditions.

However, I do not believe the proposed scheme for job loss due to displacement is the best approach to achieve the desired aims. And it will likely result in wasteful amounts of bureaucracy. Restrictions around cover will create high levels of inequity of outcomes and seems to benefit the urban middle class (who will find jobs within six months) more than the low skilled and rural populations that will have less job stability and will suffer greater economically from the scenarios the scheme aims to protect against.

A simpler scheme would be the suggestion to increase minimum Kiwisaver contributions and allow 10% withdrawal under hardship if experience job loss. Similar to Singapore's approach to the welfare state. This would encourage personal saving responsibility and give employees the flexibility to manage the income drop or invest in training/relocation to find a new job. Providing cover to about 70% of the population at no cost to government.

Existing job seeker benefits can be increased (during first six months) to target the remaining population on low incomes or early in their career (for whom their Kiwisaver balance is insufficient).

This would also align with Kiwisaver purpose of topping up incomes during retirement to enable people to retain similar lifestyle as when they were working.

### 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?*

No.

As it only covers 'complete job loss' it will not cover people who have had hours reduced or cut to zero hours, for example, when a business is forced to temporarily close due to government lockdowns or damaged premises.

Some employers may try to exploit the scheme by offering longer contracts to entice workers only to terminate the contract early once the seasonal work has ended (since the redundancy cost is now passed onto the scheme). For example, a ski field worker may work six months for \$50k, then during off-season earns \$30k from another job in hospitality. Under the proposed scheme, the ski field can offer a one-year contract, but make them redundant at the end of the season (after six months) so the employee gets \$40k from the scheme during the off-season without needing to work. And can be rehired by the ski field next year.

7

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

No.

To encourage the employee to exit quietly, the employer will be pressured to pretend it is a redundancy to help the employee to make a claim. And these bad employees will become a risk to other employers since the misconduct will be kept secret.

8

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

No.

If a person is in a toxic workplace, they should be allowed to resign and still get support while they find a better employer.

Some people may choose to resign or take unpaid leave while recovering from illness or to look after sick relatives, but would not be covered if resignation is excluded. So, the scheme forces employers to make people redundant (to help them make a claim) but then cannot rehire for the same role without looking like they are manipulating the system.

#### 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?*

No.

As it only covers 'complete job loss' it will not cover people who have had hours reduced or cut to zero hours, for example, when a business is forced to temporarily close due to government lockdowns or damaged premises.

However, a Kiwisaver hardship withdraw completely removes the complexity, as each person can choose if and how much they want to withdraw as they are only taking money from their future selves.

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?*

Yes.

It helps reduce the administrative cost. But if get no benefit they should also be exempt from the levies that fund it.

### 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?*

No

Self-employed contactors should be free to opt out. They are free to choose how much work to take on. For example, when a real estate agent wants a holiday, they can just take on no new listings a month and claim a complete loss of income to get a scheme funded holiday.

Elected roles like MPs (and their advisors) and Company Directors should be exempt as they should not have an expectation they will always be re-elected.

12

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

No

Should be based on actual past income on which scheme levies were paid. Otherwise, it creates inequality based on a claimant's lobbying ability and money will be wasted on disputes.

13

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

No

Same issues as Q12

### Limits on subsequent claims

26

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

Pro-rata the benefit based on a formula like (years contributed)/(Age-18) so reflects working lifetime contributions.

## 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?*

No.

If an insurance scheme anyone paying premiums should be covered.

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?*

No.

If not covered, they should not be contributing. If desire is to levy all workers it should be funded via general taxation.

## 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?*

Yes, for medical claims. As that would align with injury claims under ACC.

For example, if a person loses a leg in a car accident or from an infection, they should get equal cover.

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)?*

Yes, for the insurable cover as that would provide a sufficient income. And those requiring more cover are free to get private insurance to top it up.

But funding it through general taxation on all income would be more equitable.

### 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?*

No

If they have received alternative compensation, that should also be taken into effect. For example, a redundancy package, employment dispute settlement, bonuses, share schemes etc. Should also be protections around shareholder employees who could structure their income to evade the levies.

Also, you will end up with exploitation like the wage subsidy, whereby a business goes into hibernation, staff get the entitlement for the six months while using their free time as a social media influencer or renovating a house for capital gain (so getting non-wage income).

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

Yes, for medical claims it should be treated individually.

But need some protections needed around self-employed and family businesses where income splitting could manipulate the system.

#### 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?*

No.

Should be some abatement for any income.

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

35 *Do you agree that insurance should be treated as income for assessing eligibility for income support such as main benefits and Working for Families tax credits and student support?*

Yes.

These benefits are to provide a minimum income, so if income from any source should abate these benefits.

#### 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?*

Yes, for health cost and rehabilitation claims. But not for income replacement.

For employment claims (they should opt out of pension benefits while working if prefer to participate in employment cover).

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?*

No – but income entitlement percentage should reduce to match how average employment incomes declines with age. For example, if the average 70-year old's income is only 20% of the general population (since most have stopped working) then a 70-year-old would only get 20% their prior income covered.

People should still save for retirement. So, the above scaling would encourage this.

#### 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?*

No.

Paid parental leave should be replaced by the insurance scheme as part of medical cover. And it could also include child-care benefits as part of return-to-work support.



## 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?*

Dependant on the circumstances.

## 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?*

No.

That limit benefits urban professionals the most, who will likely have a 'restraint of trade' or 'gardening leave' conditions forcing them to wait six months and new jobs are available once that period is over.

Rural workers and the low skilled have fewer opportunities and may take longer to find new work. Medical conditions like cancer can take months of treatment, so claimants may not have fully recovered before cover expires.

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

Longer for health claims, should cover the length of illness.

Kiwisaver hardship gives claimants the flexibility to take a lump sum or a lower amount over a longer period.

## 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?*

No

Living costs during training can be covered by student loans and allowances.

Other support programmes, can be implement special situations (eg, large employer closes in a small town). Rather than permitting case managers give discretionary extra benefits to 'favoured' claimants.

## 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?*



Yes, where possible.

But if business is ended suddenly, e.g., and earthquake, it may not be possible.

## Avoiding unnecessary redundancies

45 *Do you agree that employers should pay former workers for the initial period of unemployment for four weeks?*

No

Employer could refuse or be unable to pay, particularly if insolvent, adding extra stress to someone made redundant.

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?*

No – just creates extra delay. Scheme should pay all claims during bridging period and then seek to recover from employer.

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

Yes

## 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?*

No

Age related health conditions should have reduced cover as claimant approaches the age of superannuation.

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?*

Yes

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?*

No – first two week covered by employer as sick leave, if longer then covered by scheme.

Many illnesses can cause fatigue, restricting work to part time. So would be unfair if 40% reduction in hours gets no cover.

Cutting the hours further to meet the claim my require the employer to hire two extra part time workers, then it becomes preferable to terminate the sick employee and hire one full time replacement.

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?*

No

Cases should be peer reviewed to ensure consistency across claims.

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

If there are specific work requirements that are impacted by the employee's incapacity.

**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?*

Yes if full recovery reasonably likely.

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

No – if employer does not offer this, is likely a toxic workplace so should not be forcing people to return. Employer should make decision early so rehabilitation can focus on existing job or potential new jobs.

**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?*

No

Creates an incentive for the employer to create a toxic culture to encourage the sick employee to resign so the employer can avoid the bridging cost.

**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?*

Yes

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

No

Better for self esteem if in work, and can continue to look for better conditions. If wage in reasonable range for the persons skills and location then should be requirement to accept. And they could continue to receive income payment to top up the drop in income for a period.

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

Yes - If given warning first so they are fully aware of obligations.

Restraint of trade clauses could prevent them accepting an offer or starting their own business.

63

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

No – may need to travel for medical treatments or job opportunities overseas. And purpose of scheme is to maintain existing lifestyle.

## 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?*

Yes for the medical component, as will help ensure equality with injury claims.

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

Better split across specialist depts.

Income scheme better administered by IRD as has the income history so can process initial claims quickly.

Rehabilitation services could be out-sourced to private providers managed by ACC for medical needs.

MSD should also have involvement so not duplicating services between those on the scheme and those fallen though the coverage gaps and left on existing benefits.

### 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?*

Have an ombudsman service to independently handle complaints and disputes.

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

Iwi could provide rehabilitation services and case management.

## 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?*

No

Creates a regressive tax on the working poor and enables the rich to avoid by taking income via royalties and dividends.

Funding through general taxation would be a much fairer approach.

A levy on wages makes employees more expensive, which encourages investment in technology, which makes low skilled employees redundant. Increasing inequality.

### 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?*

No – employer levy just gets passed onto the employee via lower gross wages, so effectively all levies are paid by the employee. If employers are to pay it needs to come from company taxes.

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

Yes

Actuarial analysis would help governments see their future liabilities so they can adjust levies and coverage slowly giving people time to plan.

### 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?*

No

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

Just increase minimum Kiwisaver contributions so people can save for themselves. And fund the medical cover via general taxation.

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

Yes – seems a subjective measure.

### 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?*

No

It will become political football, defunded during boom times. And generates massive fees for the few chosen fund managers. At least with Kiwisaver, the management fees are spread around a few companies so can compare performance.

A fund buying assets will increase investment prices, further increasing inequality between the asset owning rich and the working poor.

92

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

Save as you go if personalised accounts, pays as you go if government controlled.

### 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?*

No.

If cover is set by government, then benefits should be stable for voters to decide on proposed policies. Material changes to levies and entitlements should go through a legislative process.

People need to know what the cover will be so they can purchase extra insurance if needed.

94

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

Yes

Exacerbates recessions if levies increased to cover higher unemployment periods. If save-as-you-go then manager has to sell assets to pay new benefits during recessions when asset prices are likely to be low, and investing surplus levies when economy is doing well and asset prices are high.

## Other comments

Such dramatic changes to the welfare state should not be rushed through parliament. There should be a Commission to independently review the plan and establish some political consensus.

Otherwise, it just becomes a waste of money being set up only to scrapped with a change in government, or having to restructure the scheme as people suffer the unintended consequences or fall through the gaps.

As mentioned in Q1, a few tweaks to Kiwisaver contribution levels and hardship criteria, would solve the vast majority of the problems this proposed scheme is trying to resolve. By forcing people to save for themselves in-case they lose their job mid to late career. And at negligible cost to the government.

This would give time to establish a Commission to look at including sickness and disability cover under ACC, so that the public has detailed information as to the costs and cover it could provide. Then the government of the day can implement it if there is public support.

The bigger challenge is for those outside the scope of the proposed scheme, such as those unemployed for over six months or on short term casual contracts. I would suggest a review of other benefits should be done at the same time to ensure holes are not left in the welfare safety net.

Another risk of the proposed scheme is that it shifts redundancy cost from business, making redundancy the preferred option for employers, reducing job security. For example:

- a) Instead of looking at moving an employee to a new role as needs change, they will now make them redundant and recruit for the new role.
- b) An employee wanting unpaid leave for a few months, will now be made redundant (so income covered by the scheme) and then hope to be rehired.
- c) Contracts will be kept under six months or not renewed to avoid the bridging cost.
- d) Redundancy and relocation benefits will be removed/reduced in employment contracts.

Bad employers will create toxic environments or reduce hours to encourage resignation and avoid the bridging cost. And the income difference between someone getting scheme benefits and job seeker support will lead to more employment disputes about whether an employee was made redundant or quit.