

# Submission on A New Zealand Income Insurance Scheme

## Your name and organisation

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## 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?*

NZ should introduce a loss of income scheme for to displacement or ill health but the current scheme proposals are fundamentally flawed and unambitious.

### 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?*

At present the scheme disadvantages lower income workers, which are disproportionately Māori and Pacifica because it imposes a flat tax on incomes which is inherently regressive. Māori people are more likely to earn less and receive proportionately more of their total income from wages (compared to other sources of income) which means the scheme will decrease their incomes by more as a proportion of total income while paying them out less.

The scheme also does not properly cover people in more precarious, part time or irregular hours work which Māori make up a large amount of compared to their proportion of the population.

If a scheme like this is implemented it is critically important that the funding be either from central government funds or the levy be progressively increased with increasing wages. Pushing forward with the proposed flat levy is a regressive tax which disproportionately impacts those on lower wages.

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

4

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

5

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

## 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, the definition is insufficiently broad.

7

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

No, poor performance and constructive dismissal should be included in the scheme as it is often used by employers as a way to decrease headcount avoiding costs associated with redundancy.

8

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

No. Resignation should be included in the scheme but limited to a greater extent than claiming for redundancy/sickness. Perhaps once every 3-4 years rather than the 18 month limit for redundancy/sickness.

### 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, many more people than ever are on irregular hours work or working as 'contractors' where the employer has the capacity to set hours and work and can simply reduce that. Cover for losing one of multiple jobs is very important and needs to be included.

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?*

This should only be implemented on people who make over a threshold. There should be minimum earnings e.g. fulltime minimum wage which ignore the 20% loss requirement.

## 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?*

Yes this is critically important and will be one of the most difficult parts of the scheme to get right. There is a massive proliferation of casual workers and contractors in recent years for the modern tech-based economy outside of the traditional 'contracting' or 'temp' style roles and these people deserve coverage too.

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

Yes.

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

Yes.

## 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?*

Yes.

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?*

Yes.

## 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?*

Yes.

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

## Coverage for self-employed workers

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

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

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

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

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

Paid completely by employer – as with all the levy.

## A modest minimum contribution period

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

## Limits on subsequent claims

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

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

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

## Coverage for New Zealand citizens and residents

27 *Do you agree with limiting coverage of the proposed income insurance scheme to New Zealand citizens and residents?*

Yes.

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?*

Yes.

## 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 this is roughly appropriate.

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)?*

The cap is appropriate.

### Only personal exertion income would abate (reduce) insurance entitlements

31 *Do you agree that only the insurance claimant’s personal exertion income should affect their insurance entitlements?*

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

Yes.

### 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?*

Yes, this is very important to allow a transition back 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?*

No, this would disincentivise people to take up work. There should be a much lower abatement especially for those on lower incomes.

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

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*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

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?*

No, if the insurance counts as income for WFF and student support is should count as working for the above.

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

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*Do you agree that income insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension?*

Yes.

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?*

Same as limits for everyone else.

#### **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 they should be able to be simultaneously accessible. PPL is already a very small capped amount.

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?*

No the schemes should be either/or.

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?*

The period should be able to be easily extended. Statistics show that 15-20% of people made redundant are still seriously impacted two years later.

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

See above

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?*

Yes.

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?*

The 4 week period is insufficient. It needs to be a minimum of 8 weeks and we need much more stringent requirements on making employees redundant.



## Avoiding unnecessary redundancies

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

Yes, and it should be at 100% of previous salary instead of 80%.

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

Yes.

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?*

Yes, however the employer should not receive money back if the person finds other employment.

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

## Chapter 8 – Coverage and entitlements for loss of work due to health conditions or disabilities (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?*

Yes.

### 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)?*

Yes.

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, this should be in line with the 20% reduction in wages.

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?*

Yes.

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

Yes.

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)?*

No, there is no enforcement of them and no capacity to force employers to actually implement changes so many do not bother.

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

It should be a legal requirement with significant penalties if they are found to be in breach.

**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.

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

Statutory requirement, otherwise it may as well not exist.

**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, employers should be required to pay a bridging payment for termination of any sort not just redundancy.

**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?*

No. The scheme is paid for by employees. They should be assisted to return to work but not forced.

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

There should be no requirement to force or coerce the employee to accept any offer.

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

Yes.

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

Reasonable periods of travel should be allowed.

64

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

Yes, 8 weeks plus. 28 days is far too short.

#### Specific obligations for claimants with a health condition or disability

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*Should claimants with health conditions or disabilities be subject to obligations to participate in rehabilitative programmes and other support, where appropriate?*

No, this should be supportive not coercive.

66

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

No, this should be supportive not coercive.

#### Consequences for non-compliance

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*Do you think financial penalties should be in place for people who do not meet their obligations while receiving insurance payments?*

No, this should be supportive not coercive.

68

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

No, this should be supportive not coercive.

69

*Do you think any other consequences should be in place for people repeatedly not meeting their obligations, such as permanent suspension of entitlements?*

No, this should be supportive not coercive.

## 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?*

No. ACC is not well managed or run and has a very hostile culture to claimants focused on cost containment. The outcomes of ACC in its current form disadvantage Māori people and to bring this under ACC should only happen if there is root and branch reform of ACC.

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

Yes. There are obvious parallels with the work of ACC but placing ACC in its current form in charge would simply cement the current issues with ACC and amplify them to this new work.

### 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?*

Employer perspectives should be largely disregarded. The focus should be on employees.

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

By consulting with appropriate Maori groups.

### Displaced workers: Getting back to good jobs

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

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

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

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

## Health condition and disability claimants: Getting back to good jobs

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*What practical support should be available to income insurance claimants with a health condition or disability to return to work?*

79

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

80

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

## Dispute resolution

81

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

82

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

## Scheme integrity and enforcement

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*Do you agree with the proposal to establish an effective offences and penalties framework to protect the scheme's integrity?*

No.

## 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?*

Yes

## 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. General taxation or paid entirely by employers is the appropriate income source.

At present the scheme disadvantages lower income workers because it imposes a flat tax on incomes which is inherently regressive. The scheme will decrease their incomes by more as a proportion of total income while paying them out less.

If a scheme like this is implemented it is critically important that the funding be either from central government funds or the levy be progressively increased with increasing wages. Pushing forward with the proposed flat levy is a regressive tax which disproportionately impacts those on lower wages.

### 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, the cost should fall entirely on the employer.

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

No.

### 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, the cost should be progressively increased for larger incomes without a cap.

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

The employer should be responsible in entirety for the levy.

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

### Levies would adjust smoothly over time, with independent fund management

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*Do you agree that an independent fund with a stable levy-setting system should be established to finance the income insurance scheme?*

Yes

92

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

PAYG

### 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. The scheme should be backstopped by central gov funds to cover costs in times of crisis.

94

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

## Other comments

The scheme is a good step in the right direction but suffers from a lack of ambition and a focus on making employees pay for their own redundancies and ill health. It is also set up to impose a regressive flat tax on employees which disadvantages those on lower incomes.

It is also crucial that strong redundancy law reforms be implemented as Aotearoa's are currently very poor and advantage employers massively. This scheme will likely interfere with any future efforts to reform these laws so the reforms must happen simultaneously.

There is also a very important consideration that the scheme remain within the government's control and have strong restrictions (as much as possible) on future dilutions of benefits due to changes in political control.