

A New Zealand Income Insurance Scheme

Submission to the Social Unemployment Insurance Tripartite Working Group

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better decisions

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Introduction - who is FrankAdvice and why are we submitting

FrankAdvice is a people-focused, policy advisory consultancy based in Wellington, providing strategic direction to help organisations make better decisions through quality consultancy and lifting capability. Our team has worked extensively across the New Zealand government, most recently with the Department of Internal Affairs, the Ministry of Health, the Ministry of Education, Te Puni Kōkiri and the Independent Children's Monitor. We also work with non-government organisations and have recently worked with the Breast Cancer Foundation, New Zealand Sports Collective and Hui E!

We are submitting on the proposal for a New Zealand Income Insurance Scheme because it seeks to lift the wellbeing of New Zealanders and takes a collective approach to supporting each other in times of difficulty. These concepts are central to our work and our values at **FrankAdvice**. We therefore provide the following commentary to contribute to the consultation process and enable the implementation of this scheme in a manner which will best meet the objectives and outcomes identified by the Tripartite.

FrankAdvice supports the policy intent of the Income Insurance Scheme

We agree that the identified gap is accurate. People who are made redundant or cannot continue to work at the same rate or at all as a result of a health condition or disability are not well supported in Aotearoa New Zealand. As well as making us an outlier in terms of international comparison, it also means that people are left with uncertainty and financial insecurity during already stressful and difficult times in their lives.

We support a scheme that will mitigate that financial difficulty and provide support to re-enter employment at the right skill level for the individual or retrain for employment in a different industry.

We particularly support the intent of the scheme to have wide coverage for different employment types and 'all' health conditions and disability, and that it is based on individualised assessment.

Additionally, we appreciate the need to respond to the changing economy and encourage people to go into new fields of work with as little disruption to their lives and that of their whānau as possible. We consider that the scheme will also enable greater responsiveness to worker displacement and new job opportunities that global trends both known and unknown are likely to create. This is particularly important given the changes to New Zealand's industry mix likely to be brought about by climate change.¹

¹ Future of Work Tripartite Forum, Future of Work Strategic Assessment (2019)

While we support the scheme’s intent, we nonetheless have concerns that the proposal may disproportionately burden already disadvantaged workers through the universal levy funding model and reliance on good employer behaviour. We also note that the health conditions and disability dimension of the scheme is not as fleshed out as the displaced worker dimension, therefore additional consideration is needed to ensure the scheme can deliver to its core outcomes of a more productive, sustainable and inclusive economy.

To mitigate these concerns, we offer the following considerations/recommendations:

Further consideration should be given to entrenched income inequity in New Zealand

- A sliding levy should be further considered to mitigate the disproportionate burden that a fixed levy will place on lower income workers, women, Māori, and Pacific workers.
- The scheme should ensure greater financial support for low-income earners than existing welfare support.

Additional discussion on the health conditions and disability dimension is needed

- We urge the Forum to listen to Disabled people when further developing the settings for the health conditions and disability part of the scheme.
- Additional clarification of policy settings and rationale for the health condition or disability aspect of the scheme is required
 - including how the scheme will sit alongside ACC and its existing operational policies.

The interaction between this scheme and other systems requires further exploration and clear policy reasoning

- We recommend further exploration of the interaction between this scheme and other government support initiatives.

Further consideration of eligibility is warranted

- Anyone who pays into the scheme should receive the benefit from it.
- Additional consideration of an “exceptional circumstances” exemption to the one six-month entitlement every 18 months.

Defining ‘involuntary loss of work’ where there are power imbalances

- The scheme should outline the opportunities for employees to seek recourse where they have been unfairly excluded from their entitlements under the scheme.
- There is an opportunity to monitor and intervene where poor employer behaviour is revealed.

Additional considerations

- If a person’s payments are suspended as a result of non-compliance, they must remain eligible for other benefits and no other consequences should be put in place.
- Consideration should be given to how people can be proactively offered the scheme’s benefits.

Further consideration should be given to entrenched income inequity in New Zealand

New Zealand has high rates of income inequity. The Forum acknowledges this through the inclusion of equity – “ensuring people are treated fairly and improving outcomes for the most disadvantaged” – as one of the core criteria used to test and develop a preferred approach. While we understand the balance that must be struck across all criteria identified, we strongly recommend that more weight be applied to this criterion given the impact the proposed scheme could have on low-income earners, women, Māori and Pacific workers.

The consultation document has proposed a fixed rate levy of 2.77 percent of salary and wages which will be split between firms and workers, with each paying 1.39 percent. This is based on the rationale that a higher initial levy will ensure sustainability in the early years, and less likely to increase sharply in the future (page 136). Given the compulsory nature of the intended levy, it is imperative that equity and distributional impacts of the levy on low-income workers are given strong consideration.

We do not support the current proposal of a fixed levy (consultation question 88). In particular, we find the stated rationale that those on lower incomes are more likely to experience economic displacement, therefore will access the scheme and its benefits more frequently and thereby offsetting the material effect of the levy, unconvincing.

A sliding levy should be further considered to mitigate the disproportionate burden that a fixed levy will place on lower income workers, women, Māori, and Pacific workers

The proposed fixed levy will have a disproportionate effect for low-income earners which challenges the equitable criteria of the selected approach. Under the current proposal, the document states (page 44) that for someone on less than \$500 a week they will contribute \$6.95 into the scheme. This equates to 2 litres of milk and two loaves of bread. For someone working full time on minimum wage it is \$11.20, or 2 litres of milk, two loaves of bread and a carton of eggs². For whānau who may already be struggling, this is significant, and consideration should go into mitigating this with a lower levy for low-income earners, and higher for high-income earners.

Under the proposal as it stands, low-income earners and their whānau will be harder hit, particularly due to the existing gender and ethnic pay gaps in Aotearoa. As the payments are based on a previous income, the scheme will predominantly benefit Pākehā men, given that women, Māori and Pacific peoples are overrepresented in insecure and part-time employment. We therefore recommend that further consideration should be given to a sliding levy, wherein higher income earners pay a higher percentage of their income into the scheme.

² Prices of items taken from the PaknSave (Wellington) website during the week of 18 April 2022

The scheme should ensure greater financial support for low-income earners than existing welfare support

Given the proposal is for a levy-based insurance scheme, workers should receive real benefit if and when they access the scheme. The discussion document does not explore whether and how much low-income earners would be better off financially, or not, receiving the Income Insurance payment than if they were on the existing Jobseeker Support benefit. It is likely that low-income earners will be in the position of highly subsidising a significant advantage to middle-income earners. This will particularly create greater disadvantage to women, Māori and Pacific workers, and part-time workers (who are more likely to be women).

The sliding scale levy proposed for consideration above could go some way to address this risk. However, we submit that the option discounted in the discussion document of having a levy-free threshold should be reconsidered because as it stands, the proposal does not adequately justify the disproportionate impact on low-income earners.

For low-income earners who access this scheme, the payment of up to 80 percent of their income would likely not be much higher than they could receive through welfare payments. As a result, low-income earners would be contributing more than they would expect to receive from the scheme. We therefore recommend there is additional consideration of a levy-free threshold and note that implementing a sliding-scale levy alongside, could prove a useful mitigation strategy to minimise the impact on middle-income earners (for example where individuals earning more than \$150,000 per year would contribute significantly more).

While we acknowledge that including both a sliding scale and a levy free threshold could increase the costs of the scheme, we recommend that these different options are explored in more depth by the Forum, given the equity concerns they pose.

Additional discussion on the health conditions and disability dimension is needed

Overall, we consider that the health and disability proposals in the consultation document are considerably less comprehensive and need more detail, compared to the level of analysis provided for worker displacement. There is considerable potential for unintended consequences and inequities for this part of the scheme, the risks of which are difficult to scrutinise based on the sparse detail in the proposal.

We are particularly concerned that the Forum's stated objective of 'support workers back to good jobs' is not sufficiently met by the current proposals for the health and disability part of the scheme.

We urge the Forum to listen to disabled people when further developing the settings for the health conditions and disability part of the scheme

The proposal places a series of obligations on people with health conditions and disabled people to continue to receive payments from the scheme, as outlined on pages 117 and 118. This includes following a rehabilitation and return-to-work plan, where appropriate. We consider that there is significant risk that unreasonable obligations and expectations could be placed on disabled people, in particular if those working with disabled claimants are not well trained and mentored in their roles. Disability advocates have long pointed to the dehumanising, stigmatising and inaccessible processes put in place for people with disabilities to receive welfare entitlements and other services, including inappropriate 'needs assessments'³. We are concerned that this has been inadequately considered in the proposal.

The proposed scheme should be analysed through the lens of the Enabling Good Lives approach adopted by the government⁴. We urge the Forum to work in collaboration with disabled people in the further design of the scheme, and through its implementation and monitoring.

Additional clarification of policy settings and rationale for the health condition or disability aspect of the scheme is required

We support the scheme's coverage for loss of work due to health and disability and consider this is an important gap in social support that needs to be filled. However, the discussion document did not provide clear policy rationale for a number of settings, some of which we have set out below.

1. The scheme proposes a seven-month payment time period for health and disability payments, the same as for the displacement scheme. We consider that there is no strong rationale for these time periods to be the same. We understand and acknowledge a trade-off is needed between cost and length of coverage; however, we recommend further consideration of the time limit for health and disability coverage. There are many conditions that may take longer to recover from, or the public health system cannot provide treatment within that time period. People should not be unfairly penalised, and the financial support stop, because the treatment they require cannot be delivered within the time scheme.

While an extended period of support is available for those displaced from employment to complete training or vocational-specific rehabilitation, similar provision is not made available for those under the health condition or disability part of the scheme who may be awaiting surgery or other non-vocational treatment/rehabilitation before they can resume work. There is no clear policy rationale for this difference.

2. As noted above, we are particularly concerned that the Forum's stated objective of 'support workers back to good jobs' is not sufficiently met, given the consultation

³ RNZ, Disability sector calls for separate ministry, support unshackled from health system (2020)

⁴ Disability System Transformation: establishing a Ministry for Disabled People and national implementation of the Enabling Good Lives approach – Cabinet Paper (2021)

document is silent on whether the scheme will cover health condition or disability treatment, or rehabilitation costs recommended by clinicians before a patient could return to paid work. If this scheme is going to rely on the existing public health system for treatment and rehabilitation, that should be made clear. If the scheme is going to cover some treatment or rehabilitation privately, this should also be made clear (including setting out potential limits to this) and included in the levy calculations.

3. The settings for the scheme do not appear to consider how coverage could work for chronic illnesses - such as endometriosis or, the immediately relevant, long-COVID. Many chronic illnesses can be sporadic or have short, or long-term, flare ups. The impact of this type of condition on paid work, and whether the scheme's settings (including the maximum claim period discussed above) should be amended in light of this, should be further considered.

How the scheme will sit alongside ACC and its existing operational policies

We note above, several areas where there is a lack of clarity about the policy settings for the health and disability side of the scheme, and areas of (potentially unwarranted) difference between the Income Insurance Scheme's coverage for loss of work due to health conditions or disability and ACC coverage for loss of work due to accidental injury. In particular, ACC's focus on getting people back to work (including paying for clinically indicated surgery and rehabilitation for covered injuries) does not seem to be matched by the proposals for the health and disability side of the social Income Insurance Scheme.

The ACC scheme has clear eligibility boundaries in place, and a high number of claims that are declined by ACC could fall into this scheme. We consider that clear operational policy clarifying the boundaries between injuries as a result of accidents and health conditions and disability when it comes to covering loss of earnings will be required.

Additionally, in reference to consultation question 70, we recommend a concurrent assessment process is put in place as part of implementation, so people do not have to apply to ACC for coverage, be declined, and then apply again for the income insurance scheme. This will enable the effective delivery of the scheme.

The interaction between this scheme and other systems requires further exploration and clear policy reasoning

We recommend further exploration of the interaction between this scheme and other government support initiatives. There should perhaps be more weight given to the 'coherence' criterion identified by the Forum in their development of this scheme, given the impacts this could have on people who are at their most vulnerable. To ensure the support system for those not in paid work operates as a system, and not a disjointed set of services that could become difficult to navigate, we have identified the following:

1. More examination of the interaction of this scheme with the wider welfare system with a particular focus on transitioning people from the scheme to other welfare support. It is important to identify how people will be supported as they step down from this scheme onto welfare support should they be unable, for any reason, to return to paid employment within the time limit of the scheme. This is particularly important to consider in instances where the inability of the public health system to provide required treatment is the main reason for people being unable to return to work.
2. The discussion document did not conclude and lacked detail about what support people would receive to return to employment and undertake training and rehabilitation, despite it being an obligation on claimants. The document suggests that ACC and MSD *may* enter an agreement for the provision of general and specialist case management services. However, it is unclear how these will be prioritised against other people who receive employment support services.
3. While the discussion states support for broader welfare system reform, there is no substantive discussion about the interaction between those reforms and this scheme. For example, within the proposed scheme, a person who has never had a job would be financially worse off than those who had managed to retain some form of stable employment. Conceptually, this differs from the ACC scheme which pays income compensation to those who have never been able to work due to injury. We suggest that there should be further discussion about the policy rationales to identify how this scheme will sit alongside welfare provision and provide equitable support to all who need it.

Further consideration of eligibility is warranted

Anyone who pays into the scheme should receive the benefit from it

In response to consultation question 28, we consider that people who hold temporary work visas should be eligible to claim from the scheme if they are paying into it. While we understand the reasoning for their exclusion as set out in the document (page 72), we think that a way to respond to the risk of disadvantaging New Zealand jobseekers would be to require employers of temporary workers to pay into the scheme but not the workers themselves. This option was not considered in the discussion document, and we consider it addresses the equity issue of people paying into an insurance scheme they cannot benefit from.

We recommend consideration of an “exceptional circumstances” exemption to the one six-months entitlement every 18 months

We understand that limiting the number of claims from the same claimant within a short period will limit the costs of the scheme and lower the overall levy cost. We support that the six-month entitlement can be spread across multiple claims instead of being in one block. However, in response to consultation question 43, we suggest that consideration should be given to an “exceptional circumstances” exemption wherein providing more than six months of entitlement within an 18-month period would meet the purposes and principles of the scheme. As well as going some way to addressing the point we raised earlier in this

submission about chronic health conditions, it would allow those with repeated disadvantage some greater relief – for example if someone is made redundant and subsequently within the 18 months becomes disabled.

We accept that clear and consistent discretion would need to be applied if such exemptions were allowed, and that it is likely a high threshold should be set.

Defining ‘involuntary loss of work’ where there are power imbalances

The scheme should outline the opportunities for employees to seek recourse where they have been unfairly excluded from their entitlements under the scheme

The scheme relies on the assumption that all employers will operate in good faith. However, as explored in MBIE’s 2021 bullying and harassment in the workplace Issues Paper, as many as one in five workers are affected by workplace bullying or harassment each year⁵. We are concerned that this scheme may drive or exacerbate existing poor employer behaviours. Staff may experience considerable pressure to resign, rather than be made redundant, so that their employer is not required to fund the scheme’s ‘bridging payment’, and the employee is ineligible for the scheme at all. Discussion is needed to explore how employer behaviour will be monitored, and what opportunities will be available for employees to seek recourse where they feel they were unfairly excluded from claiming this scheme.

There is an opportunity to monitor and intervene where poor employer behaviour is revealed

We also recommend that consideration is given to creating a monitoring system that responds to the poor employer behaviour that may be uncovered by the scheme. There is an opportunity for the scheme to analyse the data obtained and identify where there are industries/businesses who have high rates of employee claims or high rates of claims investigated. We recommend that a monitoring system for the scheme be put in place, as well as assurance that any poor employer behaviour uncovered or exacerbated as result of this scheme, will be appropriately responded to.

Additional considerations

We have a few remaining points to raise before concluding our submission, which we have detailed below.

4. We consider that it should be ensured that if a person’s payments are suspended as a result of non-compliance, they must remain eligible for other benefits and no other consequences should be put in place. This will ensure that the Forum’s equity criteria are met, and outcomes for the most disadvantaged are improved as a result of this scheme. This is particularly given the time limited nature of the scheme which means the risk of high cost as a result of non-compliance on a claimant’s part is low.

⁵ MBIE, Bullying and Harassment at Work Issues Paper: An In-depth Look (2021)

5. When planning implementation, consideration should be given to how people can be proactively offered the scheme's benefits, instead of relying on them applying to ensure the 'equity' criterion is met. There is an assumption of awareness and proactivity on the part of the displaced. The scheme assumes that all employers and employees will be aware of their rights and responsibilities and will engage proactively to ensure they are met. This is unlikely to be the case and we encourage thought of how the scheme could be proactively offered to ensure it meets the Forum's equity criteria.

Conclusion

As stated at the outset, we support the purpose of, and need for, an Income Insurance Scheme. We propose that additional work is undertaken to ensure that the criteria identified by the Forum (coverage, adequacy, equity, incentives, affordability, coherence) are weighted correctly in the development of the final Income Insurance Scheme. We believe that further thought on the aforementioned areas will aid in ensuring the scheme best meets the objectives outlined by the Tripartite and the needs of New Zealanders.