

Submission template

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 (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.

Submission on A New Zealand Income Insurance Scheme

Your name and organisation

Name	James Prestidge
Organisation (if applicable)	
Contact details	Privacy of natural

Responses to consultation document questions

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

The Forum considers the benefits of income insurance for job loss due to displacement or health conditions would outweigh its costs.

1

Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?

I do not agree that the proposed Income Insurance Scheme is the appropriate response to the outlined issue. The proposed scheme is massively expensive, with a forecast annual cost of \$3.54 billion. This is equivalent to 132% of the total defence spending up to June 2021 or 68% of total spending on Law & Order. This is all funded by a flat levy across all levels of employment, in effect the same as increasing all of the personal tax rates by 2.77 points.

The proposed scheme is very unfair on low income employees, e.g. someone earning \$50,000pa is potentially paying \$1,385 towards the lost income of someone who was earning \$130,000 pa

The high cost is due to the broad application and relative generosity. A lower cost and fairer outcome could be achieved by:

- Targeting support to the 20 – 29 year old age group, which is the age where the persons are more likely to have significant debts and have more difficulty finding a replacement job due to short work history.
- Older employees (50+) have had sufficient time to build up their own savings and build skills to secure another job. It is not the responsibility of the other working population to carry their costs if they out of work. Means tested minimum benefit may need to be extended to help those worst affected, and also making KiwiSaver compulsory could provide a safety net for older employees.
- Subsidise wages to help young people into work and reduce their time searching for work. By sharing the employment cost, rather than just paying a benefit, the person will improve their self-esteem and skills. The best way for an employee to improve their wages is to prove their value to their employer and be promoted, rather than expect to be offered a high initial salary.

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?*

Apply equally to Maori and Pakeha

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?*

Yes

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

If limited to younger age groups, and if the scheme focuses on getting people back into the workforce; Yes. No for people 35+

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

Yes, although it is likely some resignations will be described as involuntary to help the employee claim the benefit.

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?*

Overall the cost of the scheme is too expensive. The application needs to be narrower and more targeted. Should be for a total job loss, or maybe a job that made up at least 80% of total wages.

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, but that threshold should be more like 70 or 80% of total earnings.

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

12

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

No

13

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

Yes, although this can become a grey area. If someone loses temporary work, they should be given the help to get into full-time work as the priority.

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?

Not for contracts that run for less than 6 months in total. It is unlikely that fixed-term employees in those situations would be terminated because the job is closed

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?

-

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?

If they meet other criteria and can prove they were terminated.

17

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

There is potential for artificial contract work arrangements to entitle a friend or family to the benefit. Narrowing the scope of the scheme to younger people and putting a strong emphasis on helping people back into work would help prevent abuse.

Coverage for self-employed workers

18

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

Having no insurance is a risk of being self-employed. The contract rate should reflect this.

19

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

None should be covered. This should be clear to the person when agreeing to be a contractor rather than an employee.

20

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

IRD has comprehensive guidance on this.

21

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

N/A

22

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

N/A

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?

No, this could be reduced to 3 months.

Limits on subsequent claims

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

Yes.

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

Yes.

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

Yes, the contribution history for persons up to 30 should be just 3 months, the contribution history for persons aged between 30 and 40 maybe 6 or 12 months.

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

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)?*

This is probably too high, could reduce to \$100k. Higher income employees should have their own financial savings / equity.

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

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

34

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

No, particularly for a young person, the fund should commit to paying out the support, although maybe this just applies for a shorter period of time like 3 months, and the either goes to the employer to help them get the person set up in a role, or else to the employee to help with training etc. There should be some overlap, rather than disadvantaging someone for getting back into work sooner.

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

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?

Yes

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?

No, the scheme should not apply to persons at retirement age.

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?

The scheme should not apply to these people.

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?

Should be one or the other.

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?*

Should receive income insurance only to top up ACC if that isn't covering 80% of their ordinary wages.

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 four-week bridging payment is not necessary and too onerous on the employer

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

The default length should be shorter.

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?*

Need to see how it fits in with other schemes already available.

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, or garden leave.

Avoiding unnecessary redundancies

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

No this is would be a major deterrent for an employer to take on a new employee.

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

No

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?*

Should not charge a bridging payment.

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

Limit the application of the scheme and provide closer support for those people who are claiming to get back into work. This should act as a deterrent in itself.

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?*

Increasing the medical benefit would be more appropriate than an insurance scheme. Often someone with a medical condition would want to keep some of their work but maybe reduce hours, and the insurance scheme might create an incentive for someone to be made redundant rather than remaining connected to the employer.

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)?*

Not sure what this means

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?*

Would be to top up income to a threshold rather than a fixed 50% reduction in capacity to work. Also could be for younger age groups particularly.

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?*

This would be very hard to quantify. For example, my Dad had cancer and could only work a few hours / day, but in that time could create a lot of value due to his experience. A younger person doing more physical work is a lot more severely impacted by a disability.

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)?*

The current ACC system works well, which includes helping get employees back to work. The challenge with it is that ACC doesn't apply to health issues like cancer. Suggest the same approach is taken as is used for other ACC claims.

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

Yes

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?*

This is very difficult to prescribe. If the employer is helped in making provisions for the employee normally they would try to keep the job open.

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

Expectation

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?*

Yes

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?*

Definitely. As much as possible should be done to help them return to work.

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

Depends on the length of time they have been off work.

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?*

Yes

64

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

Should be a shorter period e.g. 10 days. Payments start again when they return.

Specific obligations for claimants with a health condition or disability

65

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

Yes

66

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

Depending on health recommendations

Consequences for non-compliance

67

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

Cancelling of payments

68

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

Yes

69

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

Maybe

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?*

Probably

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

Probably not

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?*

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

Displaced workers: Getting back to good jobs

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

Allow them to earn while receiving the insurance payment.

Provide a job portal / database of open opportunities

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

Employers may offer to be involved and help provide jobs if there are the right incentives. Employees of the scheme should co-ordinate.

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

All claimants should have a case manager, provide the scheme only applies to younger people.

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

Health condition and disability claimants: Getting back to good jobs

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

Similar to ACC

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

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

Information collection and sharing

84 *Do you agree with the proposal to develop information sharing agreements and sharing arrangements with employers, other agencies and service providers?*

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?*

Should be general taxation. This is clearer and more accountable.

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?*

It makes little difference, ultimately the employer will regard it as a cost of employing that person. All coming from the employees' wages would be easier to administer, but wages would need to increase to cover it.

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

-

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?*

This is unfair on lower income employees. Should be part of the individual income tax, and may need to increase personal tax rates to cover it.

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

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

Yes

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?*

Agree with an independent fund to administer the scheme. Levies should be set by government.

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

PAYE

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?*

Should be considered separately.

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

Other comments

Happy to speak to my submission if necessary.