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Submission to the New Zealand Income Insurance Scheme Consultation

Introduction

1. The National Council of Women of New Zealand, Te Kaunihera Wahine o Aotearoa (NCWNZ) is an umbrella group representing over 200 organisations affiliated at either national level or to one of our 13 branches. In addition, about 450 people are individual members. Collectively our reach is over 450,000 with many of our membership organisations representing all genders. NCWNZ's vision is a gender equal New Zealand and research shows we will be better off socially and economically if we are gender equal. Through research, discussion, and action, NCWNZ in partnership with others, seeks to realise its vision of gender equality because it is a basic human right.
2. This submission has been prepared by the NCWNZ Economic Independence Action Hub after consultation with the membership of NCWNZ. It provides feedback on some of the questions asked in the paper A New Zealand Income Insurance Scheme: Our Proposals¹.

Question 1: After reading about different aspects of the proposed New Zealand Income Insurance scheme, what do you think overall?

3. Overall, there are many positive aspects and benefits from the scheme.
4. The proposed Income Insurance Scheme recognises that some people will inevitably face unexpected and profound employment shocks and seeks to respond to these. NCWNZ believes that the proposed scheme would provide a buffer and protection in the face of redundancy and/or sudden job loss, which is a major benefit of the scheme.
5. While people can purchase private income insurance to protect themselves against employment uncertainty, few can afford it. Individual employment agreements rarely include redundancy compensation, or if any is included it is minimal. Although collective agreements may provide protection, these cover less than 10% of the private sector.

¹ MBIE. 2022. A New Zealand Income Insurance Scheme: Our Proposals. A New Zealand Income Insurance Scheme: Summary booklet. <https://www.mbie.govt.nz/have-your-say/income-insurance/>

Even when there is a collective agreement, there is no guarantee of redundancy compensation should workers lose their jobs.

6. Given the short- and longer-term impacts of disruption to employment, for example from redundancy or longer-term illness, there is a need to protect workers and enable them to retrain or find other work. The proposed scheme appears to address this need which has been evident in New Zealand since Social Security payments, put in place by the Social Welfare Act 1938, were absorbed into PAYE in 1969.
7. The changing nature of work, including technology changes and the impact of climate changes, is likely to continue and increase in the foreseeable future. This may give rise to increasingly large-scale layoffs affecting everyone: women, men, children, families, communities, and regions. Recent history shows the reality of such incidences occurring. For example, closures of factories in the clothing and carpet industries in the decade from 2000-2010 were traumatic for individuals and devastating for communities, regions, and cities^{2,3}. A more recent example was the closure of Cadburys Factory in Dunedin in 2018 with hundreds of workers laid off⁴.
8. Such examples illustrate the potential need and benefit of being able to quickly put in place support systems, investigate new employment options, including re-training for people to manage and get new employment. These actions make a difference in people's lives and in communities, reducing the impact of job losses and the job scarring that can occur. While this support has happened in some places and industries, it is too piece-meal and not guaranteed. The proposed scheme enables the establishment of infrastructure and support which will be available to everyone, providing both a collective employment response and an individually supportive one.
9. Currently in the situation of sudden employment loss, sudden and unexpected needs may arise. A dramatic drop in income, lack of immediate support or access to acquire training and alternative employment are some of the consequential difficulties that can confront people. While the benefit system provides some income support, together with associated employment services, and skill development via training services are available, there are gaps in the timing and type of support available. Not only is the benefit system unable to respond to sudden needs, it is not available to many workers due to their partner's income. Women are especially affected by this, with a form of gender inequality being created. In addition, there can be a stigma associated with going on a benefit which may prevent people accessing necessary support.

² Tolerton J. 2010. Clothing and footwear manufacturing - From mass market to niche market. Te Ara - the Encyclopedia of New Zealand. <http://www.TeAra.govt.nz/en/clothing-and-footwear-manufacturing/page-3>

³ Stuff. (2009). Carpet Factories to Close. <https://www.stuff.co.nz/manawatu-standard/306077/CARPET-FACTORIES-TO-CLOSE>

⁴ McNeilly H. 2018. Death of a chocolate factory: No fairy tale ending for Cadbury workers. <https://www.stuff.co.nz/business/102393223/death-of-a-factory-the-rise-and-fall-of-dunedins-cadbury-factory>

10. If the scheme had been in place during the earlier stages of the COVID-19 pandemic, which had a greater impact on many women workers, for example those employed in tourism and hospitality, the outcomes for women may have been different. Such a scheme could have provided women with retraining opportunities, upskilling them and increasing their employment opportunities, rather than limiting their choices to “Shovel Ready” projects with the associated male-occupation focus.
11. We believe that, with the future in mind, a proactive approach for workers who are suddenly facing job closures and redundancy is necessary. Not only will technology development lead to businesses and sectors changing, but climate change is also likely to force significant changes resulting in sudden and unexpected closures of worksites and industries. Protection and new systems are required to support and train workers so that they can take advantage of new opportunities. The proposed scheme is proactive and will help address such needs.
12. There may also be an opportunity to improve employment opportunities for women by lifting skills and education through establishing the scheme. Women in low paid work without career progression or other opportunities who are heavily hit by redundancies and sudden employment loss may benefit from the scheme. Although the income replacement may not be as high for women as men, on average, due to long-standing structural differences in employment and income, the needs are no different in regard to supporting people to find alternative employment, training, and career opportunities.
13. The scheme is also necessary because of gender inequality within the benefit system. The development of the scheme does not prevent work going on with the benefit system to make sure that it is more equitable and supportive to women. This should – and must – be done too. The two responses can be done simultaneously.
14. Income insurance is also an equality equaliser by ensuring those with shorter term employment and in more precarious employment can access the support they need. This is particularly important for women in low-paid jobs where they’re facing redundancy.
15. Establishment of the scheme to address inconsistencies and gaps in current systems by requiring employers and workers to pay into a fund that would allow workers to receive 80% of their earnings, will give workers some security. The six-month payment will enable workers to retrain and upskill. Many workers will be better off under this scheme, including women, migrant workers, Pacifica, and Māori workers, as they will have access to a guaranteed income for seven months (including the one month notice period), something most don’t currently have due to the lack of redundancy compensation in their individual agreements. The scheme also addresses some of the anomalies in financial support for those who cannot engage in paid work due to illness and disability and those in similar circumstances due to accidents.

16. NCWNZ is pleased to note that, in addition, the scheme recognises various forms of paid work and is sensitive to the situation of women who are over-represented among those in part-time work and multiple paid positions. It appropriately attends to the need to top up to 80% of former earnings the loss of income from one job when someone is involved in multiple jobs. The scheme also addresses the situation of those in seasonal and fixed term positions, as well as part-time and full-time employees in continuous employment.
17. A strategy recognises that, due to changes in job availability, those made redundant might need to retrain or prepare for paid work in different fields, which is beneficial to affected workers. The possibility of extending the 80% of previous income provision to 12 months if people are in education or retraining is another positive feature. Many training programmes run for 9-12 months and sometimes it may take someone made redundant some months before they can find the appropriate programme for them. This provision will provide more than the unemployment benefit as they embark on retraining.
18. Another positive component of the proposed scheme is that it will be available for workers who are currently not employed under conditions that include a workplace or employer-based redundancy scheme. This particularly applies to workers who are not unionised and in components of the private sector where collective bargaining is not possible. These are some of the most vulnerable workers and those on lowest pay. Women, and especially Māori and Pacific women are overrepresented in these situations. This scheme will make it possible for them to access financial support when they are made redundant or experience illness or disabling conditions that affect their access to paid work. For such workers, current unemployment benefit systems are often insufficient to provide their households with the financial support they need.
19. There are a variety of issues relating to whether this should be a compulsory system. The negative consequence of an opt-in system is that those on the lowest incomes who have the greatest need for it may not opt-in because of reductions in weekly earned income. Those on the highest incomes may already have private income insurance and may therefore not consider that they have a need for this form of insurance. Further accessible information about issues relating to this scheme as a compulsory or voluntary form of income insurance would be useful. Since ACC is a compulsory scheme, our expectation is that the intention is that this will be a compulsory scheme. We support a compulsory system for employers and employees.
20. NCWNZ supports spreading the cost of this insurance across employers and employees. This will potentially enhance relationships between employer and workers as both parties are contributing by paying a levy, creating a sense of ownership as well as knowledge of entitlements. We think it is appropriate that the first four weeks of income support of up to 80% of earnings are to be met by the employer, as this has the potential to discourage redundancies if a business is still viable. It encourages employers

to explore solutions to challenges if an employee is experiencing illness or disability that affects work performance on a temporary or ongoing basis.

21. NCWNZ supports attention to Te Tiriti o Waitangi in the development and operation of this scheme. It is important that Māori be represented on any Board that may be involved in the governance of the scheme and also provide advice on its establishment. Representation of those of all genders among advisors and those with governance roles is vital.

22. There are, however, some costs, risks, and other issues that need to be considered:

- The scheme would add another cost to businesses which are already struggling due to the impact of COVID-19. The impact and timing of introduction would need to be carefully analysed and managed to mitigate this potential risk, which is more than the financial cost, given the psychological impact of COVID on many employers.
- These factors also need to be considered in relation to employee contributions, as the scheme would reduce disposable incomes and have a disproportionate negative affect on people with low incomes. An assessment of the effectiveness of the proposal by those on lower income by one of our member organisations indicates that the scheme will not benefit them greatly. Instead, giving direct assistance through further improvements to the welfare system may provide better outcomes for those people.
- There is also a risk that the scheme could introduce further complexity and create a two-tiered approach to welfare, as well as increasing inequalities rather than reducing them. A counter argument to this risk is that benefits are a government payment to help individuals who cannot work for whatever reason, while this scheme specifically supports workers who suddenly loose access to their employment due to redundancy or illness. Money paid in such situations is from a fund that they have contributed to, rather than a benefit from government. The scheme would need to be closely aligned with other benefits and existing schemes to ensure that a complicated two-tiered system is not created. Given these issues and complexities completion of the implementation of 'Welfare Overhaul' to modernise the welfare system⁵ would mitigate at least some of the issues identified in the Income Insurance Scheme proposals, such as the adequacy of income after job loss, entitlement for those whose partners who are earning, and asset thresholds for assistance.

23. Another concern that needs to be addressed is the performance of ACC, which is likely to administer the scheme. There is a lack of confidence in its ability to perform well,

⁵ Welfare Expert Advisory Group (WEAG). 2019. Whakamana Tāngata: restoring dignity to social security in New Zealand. <http://www.weag.govt.nz/assets/documents/WEAG-report/aed960c3ce/WEAG-Report.pdf>

based on the perception that its track record is uneven, and that organisational change has reportedly led to high staff turnover⁶.

Question 2: Do you think New Zealand needs the scheme, taking into account what employers and employees will need to pay?

24. As discussed in Question 1 there are gaps in our current employment and welfare system that need to be addressed in some way. We also note that such schemes are already in place in a number of countries worldwide.

25. This scheme is needed in Aotearoa New Zealand for a number of reasons:

- NCWNZ believes that such a scheme, if established, would recognise the responsibility and opportunities that employers and employees have to ensure employment security, build skills, sustain existing industries, and build new ones where and when needed. While many employers may feel a strong sense of responsibility to their workforce in situations of redundancy, job change and loss, they don't have the infrastructure and means to support their workforces to make changes and get new employment.
- Technological change and the impacts of global political and economic developments can prompt significant changes in certain sectors of the local economy and prompt redundancies, as previously mentioned. There has been a longstanding inequality in the forms of support needed for those who cannot work due to significant illness or disability and those whose employment is disrupted by accident. The scheme does at least, in part, address this difference. However, the timeframe for financial support in these circumstances is far more limited. Those receiving ACC can be on 80% of their previous income for as long as the disability that is the result of the accident disrupts their access to paid work.
- The implementation of this scheme may be useful in highlighting these differences in financial support for those with ongoing impairment as a result of illness as opposed to accident. In both these cases, those affected are not responsible for their limited access to paid work, and especially paid work at the levels of remuneration which they may have previously earned.
- It is only fair that both employers and workers pay into the fund as most employers want to ensure their workers are OK when they have to lay them off, and workers should contribute towards a scheme that gives some protection to their earning capacity. The inclusion of illness is a welcomed addition as it will also provide some security when someone is undergoing life-changing events. And it is only fair that the more you earn, the more you pay into the scheme.

⁶ Bradley A. 2021. Overwhelmed ACC staff 'dropping like flies' after changes.

<https://www.rnz.co.nz/news/national/448784/overwhelmed-acc-staff-dropping-like-flies-after-changes>

- At the same time, however, imposing additional costs on businesses and reducing pay for employees may create additional burdens for people in this current environment with prices and inflation increasing.

Question 3: What do you see as the strengths and weaknesses of the scheme?

Strengths

26. Vulnerable workers will have access to the scheme so that they will have some semblance of security.
27. The scheme creates legal clarity in situations of redundancy for employees and employers and/or job loss through long-term illness or disability.
28. The scheme could help individuals and/or their families not fall into debt through loss of income and causing hardship in the short term as they will receive 80% of their wages as against the prevailing unemployment benefit.
29. It will overcome some of the monetary replacement losses when people stop work through illness as they're not eligible for the higher level of payment that they would have received had they been on ACC. Enabling workers to access this scheme for returning work purposes if they leave work because of illness is greatly beneficial and enabling.
30. Both employee and employer pay into the scheme. This enacts the 'contributory principle', helping to achieve a social consensus on welfare support. If everyone is paying in and sees themselves as having a stake in the system, then it becomes more widely accepted⁷.
31. Once the levies under the scheme build up wage losses will be offset in time.
32. The proposed scheme applies to part time work, and to workers with multiple jobs, where each job is covered individually, noting that part time workers are much more likely to be women as are fixed term and casual workers.
33. The contribution requirement – proposed to be six months of contributions over an 18-month period before a claim can be made – allows statutory parental leave (paid or unpaid) to be counted towards the contribution, so that workers (mainly women) who take time off for parental purposes aren't uncovered for a period when they return to work. Also, it should be noted on this proposal that people on PPL would be covered for Income insurance.
34. All workers can access it, so there is a sense of security for individuals.
35. The Government, Business NZ, and NZ Council of Trade Unions developed the scheme

⁷ Boston J. 1993. Reshaping social policy in New Zealand. *Fiscal studies*, 14(3): 64-85.
<https://www.jstor.org/stable/24437313>

36. ACC has systems in place that will enable the scheme to be up and running relatively quickly.
37. The discussion document indicates that those accessing the benefits of this insurance scheme "*will not be required to accept non-suitable offers of employment that did not offer pre-displacement wages and conditions*". This is a positive commitment to redeployment that retains pre-displacement wages and conditions.

Weaknesses

38. Low-income earners may face increased hardship due to having to pay the levy.
39. As low-income earners will receive 80% of their salaries, this may put their wages below the minimum wage. Similarly part-time workers may experience financial hardship from receiving 80% of their salaries.
40. With women already being disadvantaged in employment and earnings, and Māori and Pasifika women being affected to an even greater extent, it may be difficult to deliver equitable outcomes with this scheme.
41. Businesses will have increased costs, which may be a greater burden for small businesses, including the direct cost of the levy and additional administrative costs.
42. The scheme will not support self-employed workers.
43. There may be a further administrative burden on ACC and Inland Revenue to accommodate the multiple different employment positions, such as intermittently employed musicians or consultants, to carry out the effective functioning of the scheme.
44. There may potentially be further value judgements/discrimination on people who lose their jobs. For the 'no personal fault' reasons a person qualifies for the Income Insurance scheme, for other reasons a person qualifies for the Job Seekers benefit.
45. The scheme does not cover situations where employers reduce hours, but do not make someone redundant. This is a potential response by employers to an employee experiencing illness or disability that affects their capacity to work full-time hours. In this situation, those whose illness or disability impacts on their hours of work will not experience the forms of income protection that people can access if they are impaired as a result of an accident. This perpetuates the unequal financial support of those whose access to paid work is disrupted by illness or disability compared to those with impairments as a result of accidental injury.
46. Similarly, the scheme may not provide financial support for people in some female dominated occupations such as teacher aides whose hours of work are often determined on a term-by-term basis, even when they have worked for a particular school on a long-term basis. Reductions in hours can lead to significant loss of income that will not be addressed by this income insurance scheme.

Question 4: In what ways do you think the scheme can be improved?

47. NCWNZ believes that there will need to be clarity about the boundaries and alignments between the social welfare system and the scheme. At the same time, improvements should be made to the social welfare system to ensure it better meets the needs of all. Work also needs to be done to making clearer laws regarding redundancy repayments.
48. Non-standard jobs that may require people to be self-employed, or have a combination of jobs including self-employment, such as for musicians and actors, and IT related workers, should be incorporated into the scheme. Future labour markets may develop so that more people may combine self-employment with being an employee. The scheme does not currently appear to address this.
49. Concerns with ACC being the proposed government agency overseeing this scheme should be addressed. ACC's own research finds that it discriminates against women, Māori, and Pasifika. Women are less likely to make ACC claims, more likely to be declined when they do, and they receive far less compensation than men. Over the past five years it has become even harder for women, especially Māori and Pasifika women, to get an ACC claim accepted.
50. Another possible improvement would be to provide a supplementary payment to those whose income while receiving payment from the scheme falls below a certain threshold. This could take into account the circumstances of the family, eg income received, number of dependents, total necessary outgoings, etc.
51. Consideration needs to be given to equity issues in the current proposals. It should be noted that there is no monetary value attached to care-giving or unpaid work, no mention of sole parents, who are mostly women, or those who have to leave their jobs to take care of dependents or are sick or disabled and can't work. Those in caregiving work are twice as likely to be women, and Māori. These people will not be covered by this scheme, which raises the issues of equity in a more general sense.
52. The scheme needs to be gender equitable and the structure of it established so that this is delivering gender equity. Part of this can be provided by gender equity being one of the principles of the scheme. This can also be provided by ensuring that the governance structure of the scheme is representative of women to bring a gender equity perspective and lens.
53. There also needs to be more research into the gender aspects of the scheme and the future of work and industries from a gender perspective. The male-bread-winner model of the past does not reflect reality or women's labour market participation.


Conclusions

54. NCWNZ is broadly supportive of the proposed income insurance scheme, particularly in light of the current levels of uncertainty from COVID-19 that can impact on the employment market and affect workers. As industries change in the future, the scheme

will help to ensure workers are protected and can access training to enable them to get other employment.

55. NCWNZ would like to see any further development of the scheme done with gender equity as a core principle. Should the scheme be implemented we believe that a review of its operation be conducted within a set timeframe. It will be important to independently review how well the scheme is operating, bearing in mind the gender equity principle.

Privacy of natural persons



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