

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**.

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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	Naomi Ballantyne
Organisation (if applicable)	Partners Life
Contact details ^P _r	

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?

Partners Life agrees that it would be valuable for New Zealanders to have a broad solution to issues of displacement, and loss of work due to health conditions or disabilities.

Displacement is very different from loss of work due to health conditions or disabilities. We submit that the solutions should differ accordingly. Although both are (broadly) out of control of the worker, displacement is due to a decision of the employer (which may be influenced by the worker), while loss of work due to health conditions or disabilities is almost always outside the employer's and worker's control at the time of the event.

Partners Life will submit different consultation documents for each of the displacement, and the loss of work due to health conditions, topics both because the issue of displacement impacts Partners Life more as an employer than as an insurer, and because the two needs require different solutions.

For **displacement**, we submit that New Zealanders would be better served by the inclusion of mandatory minimum redundancy clauses in all employment contracts.

This alternative solution is explained further here, and in the detail of the questions below.

- The Life Insurance industry in general, and Partners Life specifically, have always believed that good employers should include redundancy protections in their employment contracts. As the decisions relating to redundancy are in the hands of the employer and given the financial and emotional impacts of redundancy on employees can be significant, we believe the employer should be required to support employees when they have decided to make their role e redundant.
- A compulsory redundancy scheme run by ACC will mean good employers who already provide redundancy entitlements for their employees, will likely remove those protections for new employees because of the existence of the government scheme. This may result in a poorer outcome for their employees than they currently experience i.e., lesser benefits, no access to lump sum entitlements restricting life choices, the introduction of disincentives to find replacement work quickly, and the complications of a claims process to ACC during a potentially stressful period for the employee. Partners Life does not

believe some employees should be faced with worse outcomes in order to compensate those currently employed by employers who provide the bare minimum of working conditions. A compulsory redundancy scheme run by ACC will have significant infrastructure and ongoing costs that are unlikely to have been correctly estimated, meaning proposed levies are unlikely to accurately reflect the costs of setting up such a scheme. Employers already have payroll systems in place which can easily accommodate the calculation and payment of redundancy provisions included in employment contracts.

- Compulsory or mandated redundancy provisions in employment contracts both act as a redundancy disincentive to employers and provide financial protections to impacted employees.
- Employers like Partners Life that already include redundancy provisions within their employment contracts will not be required to change anything (provided their current provisions would meet the minimum mandated requirements). Thus, the impact of such legislation would be limited only to employers who currently do not provide such protections to their employees. Using a compulsory state run scheme to address employers who do not wish to provide mandatory redundancy protections to their employees, means the large number of good employers who already do, are being made to change their employment practices and costs basis because of those who don't. We propose that any regulations in this space be specifically designed to address those poor employers.
- Compulsory redundancy provisions in employment contracts would mean all employees would not have to pay a levy for protection against redundancy – which for the vast majority will never be something they will get to use or receive benefit from. For employees in companies and/or industries where redundancy is rare, they will effectively be paying for the employment choices of others
- Employers who must pay a mandatory minimum redundancy settlement for each employee in a role that is made redundant must take the cost/benefit ratio into account before making such a decision i.e., they only have to bear the cost of redundancy if they choose to use it. This would act as a deterrent to frivolous or vexatious employer behaviour.
- If the employer instead has to pay a levy for redundancy for all employees irrespective of how they use redundancy as a tool to reduce their employment costs, that deterrent effect would not apply. This could lead to an increase in the number of employees being made redundant each year – leading to upwards pressure on claims and therefore levies.
- Employers who do already have redundancy provisions in their employment contracts usually pay it as a lump sum (generally based on a number of weeks per year of employment). The ex-employee can restart work immediately after without any risk to their payment. By receiving a lump sum the employee is not disincentivised to find new work quickly in order to receive the maximum benefit, and the employer does not need to amend payroll systems to continue to pay regular redundancy income to an ex-employee (and keep track on whether they have returned to work or not during that period).
- A redundancy provision which pays a regular income for a fixed maximum number of months on the other hand, may act as a disincentive to find work quickly. Being out of work for increasingly long periods may make finding new work more difficult as future employers form judgements about the motivation and work ethic of the individual. There is also the risk of the job seeker becoming increasingly unskilled, the longer they are out of the workforce. People out of work for longer periods of time also start to lose their confidence and perform less well during selection processes due to being “out of practice”. This will be particularly problematic during times of increasing unemployment. This will also lead to an increase in the length of time people remain out of work following a

redundancy, leading to upwards pressure on levies. If the employer was required to pay minimum redundancy provisions as a regular income for a fixed maximum number of months, they would need to amend payroll systems to continue to pay regular redundancy income to an ex-employee (and keep track on whether they have returned to work or not during that period).

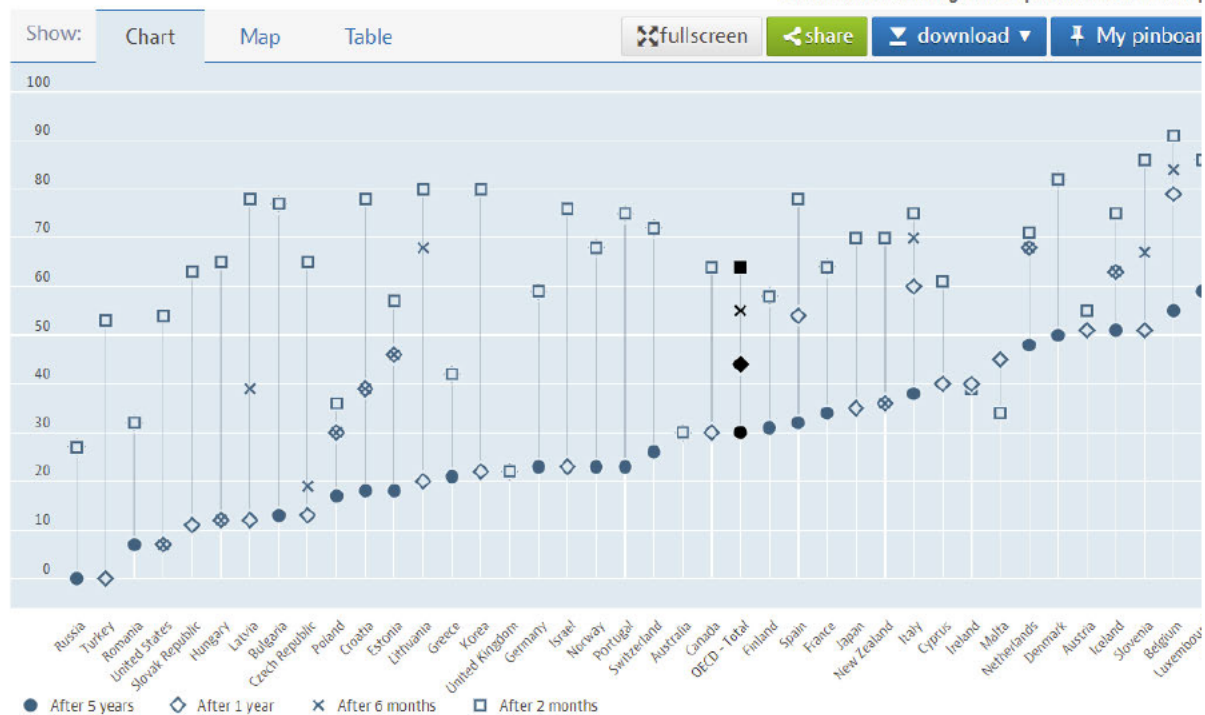
- The above two points would be important considerations for the suggested state-run redundancy scheme as well, given the current design as a regular income compensation following redundancy. The likelihood of an employee having been made redundant being able to be retrained and then rehired within a maximum 6-month window is highly optimistic. This means that person may still be in the middle of retraining (and therefore possibly not rehire-able) when their redundancy benefit ends. This means the idea that the scheme will facilitate people being able to retrain to restart their careers into different roles/industries is likely to be flawed. An employee who receives a minimum redundancy payment in the form of a lump-sum can both restart work immediately and spend their redundancy funds on retraining, if they wish to, or be able to fund a relocation to a region where there are more work opportunities. This means the employee who has been made redundant can make their own choices about their future life, free of the potential restrictions of a dependency on the state-run regular income scheme.
- Having the scheme administered by ACC will mean it will be influenced by the political will/direction/financial budgets of NZ's regularly changing governments. Employers and employees who are required to pay levies (akin to insurance premiums) will not have any contractual certainty of what the employee will be covered for by the time they may need to make a claim. Employers have regulatory and employment contract obligations they must meet in protection of their employees (and compulsory redundancy provisions would be an example). ACC is not governed by the same regulations for its "customers", lessening the certainty of the protections provided to individual employees.
- Low-income earners who have to pay a redundancy levy, but who are never made redundant, may be significantly worse off if their take home pay drops as a result of both the employee and over time employer levies (where remuneration is effectively reduced to accommodate the employer fee).
- Low-income earners may stop contributing their optional 3% to KiwiSaver to offset a compulsory levy to balance their household budget. This would have a negative flow on effect to their ability to support themselves in retirement – potentially burdening the public purse as a result.

There has been a suggestion that NZ is well behind in the OECD for redundancy and illness income. This OECD chart suggests otherwise: <https://data.oecd.org/benwage/benefits-in-unemployment-share-of-previous-income.htm>. This OECD analysis shows that for benefits in unemployment as a share of previous income, NZ is above the OECD average and well above the median for most metrics (particularly 2 months and 5 years).

Benefits in unemployment, share of previous income

After 5 years / After 1 year / After 6 months / After 2 months, % of previous in-work income, 2020 or latest available

Source: Benefits and wages: Net replacement rates in unemp



Moreover, a quick review of 15 OECD countries revealed that only 12 have a state-run scheme of this kind, and they vary widely. Some only cover redundancy, or illness and disability, but not both, and generally they cover 60-70% of employment income. Three of the countries reviewed do not have a state-run scheme. Instead, they may have basic welfare allowances and/or redundancy requirements for employers. (Countries with some form of government-run scheme: Belgium, Canada, Chile, Finland, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, USA. Countries without government-run income schemes: Denmark (privately run), Ireland, Hungary.)

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?

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?*

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

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

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?*

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?*

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?*

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

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

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?

1
5 *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

1
6 *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?*

1
7 *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

1
8 *What risks do you see with covering, or not covering, people in self-employment?*

1
9 *Are there some groups of self-employed who should and should not be covered?*

2
0 *How can we practically distinguish between contractors who resemble employees, and those with a high degree of independence?*

2
1 *Because a self-employed person cannot technically be made redundant, what types of events would be appropriate 'triggers' for insurance payments?*

2
2 *How do you think the levy should be collected from self-employed workers?*

A modest minimum contribution period

2
3 *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

2
4

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

2
5

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

2
6

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?

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?

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?

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)?

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?

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?

34

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

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

35

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

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?

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?

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?

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?

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?*

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?*

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

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?*

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?*

Avoiding unnecessary redundancies

45

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

46

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

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?

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?

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)?

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?*

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?*

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?*

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

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)?*

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

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?*

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

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?*

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

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

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

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

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?

66

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

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?

68

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

69

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

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?*

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

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?*

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

78 *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

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?*

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?*

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?*

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?*

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?*

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

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?

94

Does such flexibility create risks that require additional mitigations?

Other comments

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Your name and organisation

Name	Naomi Ballantyne
Organisation (if applicable)	Partners Life
Contact details	Privacy of natural persons

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

Partners Life does not agree that an insurance scheme for *displacement* should be introduced, but that if one was that it should be a completely separate scheme from any disability scheme.

Partners Life believes there is a significant difference between displacement and disability as causes of the loss of income.

This key difference being with displacement both the employer and the impacted employee have choices to make which collectively determine the outcome to the employee.

The employer gets to choose the roles to be displaced, while the employee gets to choose what steps they then take to try to regain employment and how quickly they do so.

When disability is the cause of the loss of income, the employer has not had a choice in this occurrence, and the employee's ability to make choices about their recovery and return to work is significantly lessened compared with displacement.

A displacement insurance scheme could increase the likelihood of employers choosing to displace roles; increase the likelihood of fraudulent collusion between employer and employee to the expense of the scheme and its contributors; and could disincentivise an employee from proactively re-seeking work for a prolonged period (7 months) all of which would deliver a very bad outcome for New Zealand.

Where employers and employees must pay for a displacement insurance scheme whether they use it or not, the dynamics of the use of displacement will likely change significantly.

Partners Life's view is that displacement should not be considered an insurable event, but instead should be a contractual obligation within all employment contracts.

We have submitted separately on our views of the *displacement* portion of the disclosed scheme to facilitate a focussed submission on the *disability* portion of the scheme in this submission. As a result, all of our comments in this submission pertain only to *disability*.

Partners Life agrees that it would be valuable for New Zealanders to have a broad solution to issues of loss of income due to health conditions or disabilities in keeping with the support provided by ACC in respects to injury arising from accidental causes. Obviously, the Life Insurance industry in New Zealand has long offered products to individuals and employers to provide financial support for loss of income due to disability precisely because we could see the need for such support. Many New Zealanders have already opted to purchase and pay for such products to provide protection for themselves, their families and/or their employees - the majority of whom will be covered for much longer payment terms than the one proposed under the scheme.

The proposed scheme as it stands is likely to have a significantly negative impact on those life insurance customers who are currently paying for more extended coverage from an insurer. They will be faced with having to pay a levy for public cover they won't ever use or to reduce their more extensive insurance coverage in exchange for the limited public cover.

It is also likely to have a significantly negative lapse impact on life insurers from customers who choose not to pay two lots of premiums for what they may perceive to be the same coverage, or who elect to reduce their existing comprehensive coverage to offset the levy costs.

These impacts have not been catered for in the proposed scheme design.

We do appreciate that ACC was largely created to avoid the litigation stress and costs commonly associated with accidents in other parts of the world, but we also believe that the "no fault accident" legislation which applies to ACC could be stand-alone from the "insurance" part of the scheme, which would remove the need to consider disabilities arising from accidental causes separately and differently from those arising from illness.

We do not believe that the impact of losing income arising from an injury is substantially different enough from that arising from an illness to treat the two separately. We are therefore confused as

to why the new disability scheme would limit the term applied to illness related causes to just 6 months, when that is not a limitation applied to injuries under current ACC legislation.

It is also odd that treatment costs are covered under the current ACC accident cover but are not proposed for illness related disabilities.

Given longer term disabilities are statistically more likely to arise from illness related causes compared with accidents, it seems odd that illness disability cover is proposed to be limited to such a short term.

With ACC being proposed to run both the accident and disability insurance schemes, it is likely to be confusing to consumers as to why the term of any claim is dependent on the cause of the claim. This limitation suggests that an illness is somehow a lesser issue than an accidental injury. It could also encourage people diagnosed with an illness which causes disability to “proactively” suffer from an accidental injury during their recovery in order to extend the term of the financial support. This is not what an insurance scheme should incentivise.

But even regardless of the above, Partners Life is of the view that the current proposed structure of the disability insurance scheme is not likely to achieve its stated objectives, unless a number of issues are addressed.

It is also not clear how the current entitlement to the universal “sickness’ benefit” which is not linked to earned income, and is therefore more beneficial to lower income earners than others, and which is currently paid for by all New Zealanders out of general taxation would be compensated for in respect to employed New Zealanders, given six months of those usual benefit entitlements would presumably be replaced by the insurance scheme - which is to be paid for by separate levies.

As a life insurer providing disability income products, Partners Life has considerable experience of the behaviours of New Zealanders who are covered by a disability insurance scheme. While ACC will have extensive experience of the behaviours of accident claimants, because: the definitions of disability and work that ACC applies are much more restrictive than those used by the insurance industry; and, given that ACC coverage, rules and processes can be changed based on Government directives unlike the life-time contractual commitments of life insurers; and given ACC has no experience at case managing illness claims (and particularly mental illness); it is likely the experience and opinion of the life insurance industry will be more applicable as an input into the design and estimated outcomes of the scheme than those of ACC.

Given life insurers already have the experience and infrastructure to manage disability claims, it would seem logical that the Government would involve the industry in not only the design of a public disability scheme, but also in the delivery of it. A successful example of this public/private partnership is KiwiSaver where investment firms deliver against the product requirements, employers are required to facilitate and to contribute towards their employee’s KiwiSaver funds, and the Government sets the rules and polices the behaviour of the providers.

Given the life insurance industry already has the infrastructure and experience needed to support New Zealanders whose income is reduced/stopped due to disability, it would not be difficult for the industry to implement a guaranteed acceptance, compulsory disability income scheme for all employees which can be administered by life insurers. It would also mean consistency of approach to claims management for those New Zealanders who top up their government benefits with private insurance – making the effective management of disabilities that last for longer than the 6-month term much more focussed and effective (given the insurer’s incentive to avoid the claimant seeing themselves as a long-term beneficiaries).

An alternative, which would protect insurers against the impacts of the scheme on existing and new customers would be for the Government to outsource the administration of claims under the scheme for insured customers, meaning the Government still pays the benefits (through the insurer) and collects the levies for their proportion, but the insurer gets to proactively manage the claim from day one for their customers – allowing them to minimise the impacts to their own longer term claims outcomes. A contribution towards costs to the insurers would be required for the outsourced claims management during the first 6 months.

Another alternative would be for employees who have purchased private disability insurance to be able to opt out of the scheme, both in respect to levies for themselves and their employers, and in respect to coverage. This would minimise many of the unintended impacts of the scheme on those who can look after themselves, and those who want a better product than offered under the scheme.

The insurance industry experience is that without proactive and effective case management and encouragement, claimants very quickly move from an expectation to return to work (and their usual lifestyle) to believing themselves to be beneficiaries and losing all confidence and motivation to return to work as a result (i.e., they adjust their lives to the benefit). ACC will have significant experience of this within their own injury claims. Once claimants reach this mindset, they then see any attempt to rehabilitate them and retrain them as an attempt to take their benefit “entitlement” away from them and become extremely resistant.

A further factor which interferes with a claimant’s ability to return to work after a prolonged disability is employer reluctance to recruit such candidates. For insurers and ACC with long-duration coverage, there is a substantial incentive to ensure claimants whose type of disability should be expected to be short-term, do not enter that “beneficiary” mind-set. Significant resources are therefore deployed early on in these claims to manage the claims duration appropriately. The cost/benefit incentive to do so is significant given the potential for very long-term duration claims.

As the scheme is proposed to provide only a 6 month claim duration this cost/benefit ratio is completely different and is therefore very likely to impact on the resources allocated by ACC over time to return people to work inside that 6-month period. This is likely to then increase the number of long-duration disabilities experienced by employees who reach the end of their 6-month claim without receiving intense proactive claims management. This will have an impact on the claims against the other government “sickness benefit”; on disability insurers who provide coverage for waiting periods of longer than 6 months; and for ACC – where claimants may be incentivised to “manufacture” an accidental injury prior to the end of their 6-month disability claim, to continue receiving 80% of their income.

The suggested scheme component of extending claim terms up to 12 months where a claimant is engaged in retraining or rehabilitation will be extremely difficult to manage and to justify to those who are not supported past the 6-month term. It therefore runs the risk that many claimants will agree to engage in retraining/rehabilitation simply to extend their claim term. Effectively the

predominant payment term may end up being 12 months rather than the planned 6 months which may significantly change the applicable pricing from that modelled.

This lengthened payment term will also likely significantly increase the risk that the claimant starts to see themselves as a long-term beneficiary rather than being motivated to return to their pre-disability life. Something that would be very bad for them personally and for New Zealand as a society.

As with redundancy, given employers and employees must pay for the scheme whether they use it or not, there may be collusion between the parties to agree a disability as a method to facilitate an employee's exit/resignation.

For employees who cancel or extend waiting periods on existing disability insurance benefits because of the scheme, and for employees who don't buy disability insurances because of the scheme, they will lose the contractual and regulatory protections that are legislatively required of life insurers, given ACC is not regulated or supervised in the same way as private insurers.

In addition, as Government provided schemes can be changed/withdrawn by Governments at any time there is no certainty of the nature of the cover to be provided nor the cost of that cover over time. This can mean that employees who would otherwise have chosen to insure themselves but don't because of the scheme, are at risk of having much poorer outcomes than would have been the case under a comprehensive, un-cancelable and unchangeable insured benefit.

If the scheme is ever withdrawn (for some or all employee groups), then a proportion of those employees may, at the time of underwriting, have become uninsurable (or insurable but only with restricted terms or at higher premiums) in the interim – which then limits their ability to replace what the Government has taken away.

There may also be a significant reduction in employees either seeking or accepting financial advice, because the new scheme coupled with ACC may lead them to believe they don't need anything else. This will be extremely detrimental to the already poor financial literacy of New Zealanders as well as worsening the significant underinsurance gap. This may also have the added outcome of significantly impacting the livelihoods of financial advisers leading to a reduction in the numbers of advisers available to provide access to advice for New Zealanders.

Using existing Life Insurers to provide product disability options for low-income New Zealanders would necessitate the development of specific fit for purpose and affordable products and this could provide a more natural pathway for those customers to get advice on other products, and ongoing advice about their needs as their life circumstances change over time.

One of the Government's current areas of focus is looking at policy to improve KiwiSaver outcomes for New Zealanders and create greater wealth in readiness for retirement.

Many people of course will never need to claim for a disability and the levies over the course of a working career could also far exceed any benefit received, even for those who have made limited claims. These employees would have actually been far better off investing the NZIS levy into their KiwiSaver accounts.

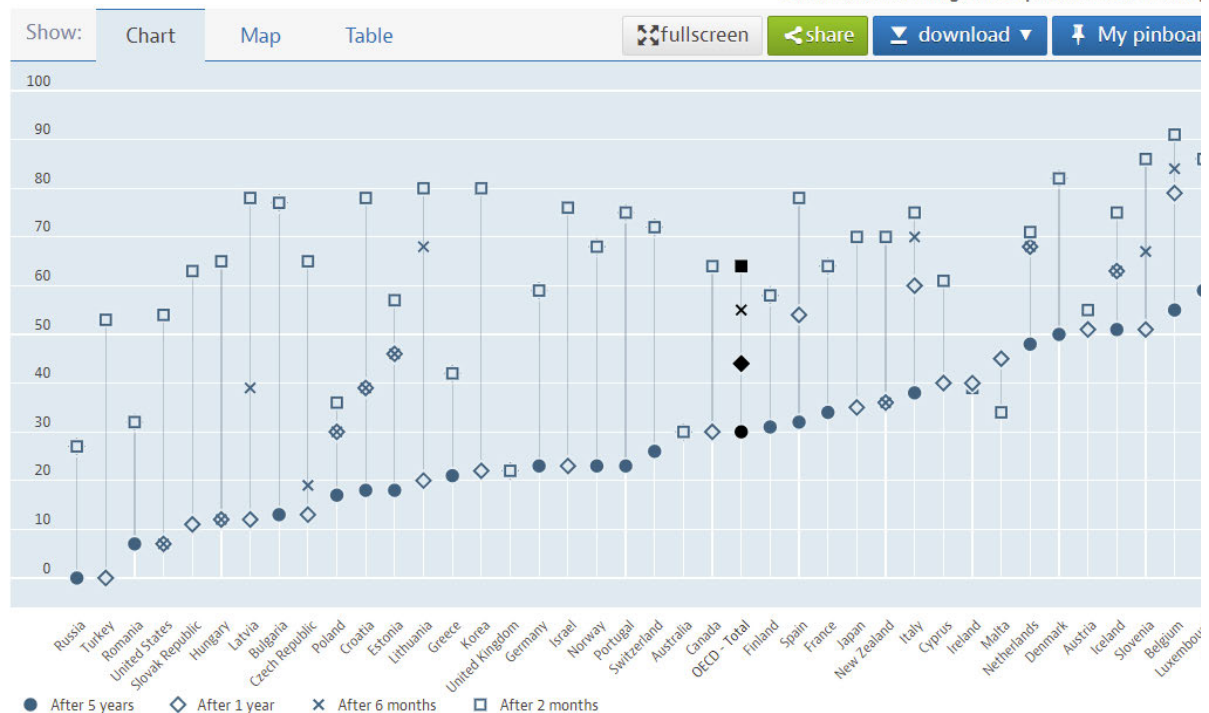
A number of low-income earners may stop contributing their optional 3% to Kiwisaver to offset the compulsory levy of an Income Insurance Scheme to balance their household budget. Is this what is intended for the scheme?

Government releases in promotion of the scheme suggest that NZ is well behind in the OECD for redundancy and illness income. This OECD chart suggests otherwise: <https://data.oecd.org/benwage/benefits-in-unemployment-share-of-previous-income.htm>. This OECD analysis shows that for benefits in unemployment as a share of previous income, NZ is above the OECD average and well above the median for most metrics (particularly 2 months and 5 years).

Benefits in unemployment, share of previous income

After 5 years / After 1 year / After 6 months / After 2 months, % of previous in-work income, 2020 or latest available

Source: Benefits and wages: Net replacement rates in unem



Moreover, a quick review of 15 OECD countries revealed that only 12 have a state-run scheme of this kind, and they vary widely. Some only cover redundancy, or illness and disability, but not both, and generally they cover 60-70% of employment income. Three of the countries reviewed do not have a state-run scheme. Instead, they may have basic welfare allowances and/or redundancy requirements for employers. (Countries with some form of government-run scheme: Belgium, Canada, Chile, Finland, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, USA. Countries without government-run schemes: Denmark (privately run) Ireland, Hungary.)

Partners Life are concerned with how the proposed levy of 2.77% was calculated, and the possibility that it may therefore have increase early in the life of the scheme. This would have

significant negative impacts on New Zealand residents, particularly low-income and vulnerable consumers.

We understand that Treasury developed economic models that produced a range of possible costs, and 2.77% is approximately the midpoint of those estimates.

Private insurers have teams of actuaries who calculate premiums based not only on economics, but on detailed data from reinsurers about the likelihood of illness and disability events for different categories of people. We are required to have a government-appointed actuary to oversee our actuarial processes and provide confidence that our premium calculations are sufficient to ensure the solvency of our businesses.

We would expect the government to apply the same rigour into its calculations before it finalises this scheme, so that New Zealanders have the opportunity to consider the realistic price of this scheme, rather than a midpoint estimate.

The Life Insurance industry has traditionally sold its disability income benefits to middle to upper income earners in New Zealand, as well as to the self-employed. This has meant that lower income earners are not well covered through private insurance for this risk, and this may have led to the Government's desire to address this issue.

This underinsurance of low income earners could be for a number of reasons e.g.:

1. Understanding of the need for, and access to, advice
2. Government benefits which provide non-income lined support e.g. sickness benefit, which represents a higher percentage of lost income for lower earners
3. Affordability issues

Since the Government is now proposing that employers and employees will be compulsorily required to pay for coverage under an income scheme, then this introduces the possibility of a remedy to 1 and 3 above, negating the need for the new scheme. If it were compulsory for employers to both provide access to advice regarding, and to contribute towards the cost of, private disability coverage, then the current private system could expand to better meet the needs of lower income earners.

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?*

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?*

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

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

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?*

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?*

•

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?*

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

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

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?*

1
5

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

1
6

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?

1
7

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

1
8

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

1
9

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

2
0

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

2
1

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

2
2

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

A modest minimum contribution period

2
3

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

2
4

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

2
5

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

2
6

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?*

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?*

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?*

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)?*

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?*

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?*

34

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

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

35

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

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?

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?

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?

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?

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?*

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?*

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

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?*

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?*

Avoiding unnecessary redundancies

45

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

46

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

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?

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?

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)?

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?*

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?*

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?*

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

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)?*

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

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?*

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

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?*

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

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

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

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

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?

66

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

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?

68

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

69

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

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?*

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

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?*

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

78 *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

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?*

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?*

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?*

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?*

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?*

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

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?

94

Does such flexibility create risks that require additional mitigations?

Other comments

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