



To:

**Ministry of Business, Innovation & Employment**  
**Hikina Whakatutuki**

On:

**A New Zealand Income Insurance Scheme (NZIIS)**  
A Discussion Document

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Submission From:



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**This submission is on behalf of the New Zealand plastics industry.**



## 1. Introduction

Plastics New Zealand is the trade organisation representing the New Zealand plastics industry. Our Membership comprises over 200 business units including manufacturers, suppliers, recyclers (re-processors), brand-owners and consultants to the industry. The industry has a broad range of company sizes from very large corporates to small enterprises.

### 1.1. Industry Interest in the NZIIS Consultation

Our member companies and their workers will all be impacted by the proposed NZ Income Insurance Scheme. As there is some variance in how specific companies view the proposals, we have recommended that individual companies also make their own submissions.

As many of the questions in the consultation require expertise in insurance risk and liability, we provide general feedback and answers on a few specific matters.

## 2. General Feedback

While we do not oppose the concept of an insurance scheme to cover workers for displacement, we are not comfortable with the timing of implementation. Businesses have experienced significant cost increases over the last few years due to the pandemic, additional employment provisions mandated by government, and the increasing cost of capital. The current situation with global inflation, skills shortages, and low unemployment means businesses, and workers will continue to face rising costs.

The addition of insurance cover for health and disability, while admirable in intent, also adds considerable costs and complexity to the proposed scheme. Many of the covered conditions, particularly in the mental health space, can be very subjective to diagnose, and include both work and non-work elements. We also question the appropriateness of including this alongside displacement cover when the ACC scheme could be broadened to cover health and disability. Many of the medical assessment systems will overlap or be similar to those used for injury claims. We therefore expect it would be more efficient and effective to handle all health and medical matters together. It is also completely unpalatable for health & disability insurance to be implemented at present due to the unsustainable burden businesses are currently facing.

The proposed 1.39% contribution is equivalent to ~3.6 full days of income for a full-time worker<sup>1</sup> (based on 260 working days per annum). This is a significant amount, particularly for those on lower incomes who are already struggling with the high cost of living. Given the NZIIS contribution would be mandatory, the results will be an increase in hardship for those who can least afford it, and a likely increase in the number of people stopping KiwiSaver contributions (3% = ~7.8 days of income). Implementing only the displacement cover may be more palatable and affordable for lower income workers in the short term.

The costs to businesses are also not insignificant and will amount to much more than the 1.39% increase in the basic wage bill for the company. The four-week bridging payment is effectively another 7.7% of the wage bill that must be held as a liability for the company. Also, while some workers have notice periods of four weeks, most have shorter periods of 1-2 weeks. For a company where most workers have a one week notice period, the liability for the company increases to 13.5% (7 weeks) of the wage bill. This is on top of any liability relating to unused sick-leave or holiday entitlements. This overall increase in liability can impact a company's ability to access lending, solvency, and valuation for sale. Businesses will also need to cover the costs of compliance with the scheme, particularly as the discussion document proposes that employers place the claims on behalf of their employees. This will require additional Human Resources capacity. While a large corporation may be able to absorb this additional compliance costs relatively easily, a small business without internal HR resource will struggle with this. They may struggle with the additional compliance

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<sup>1</sup> Based on 5, 8 hour working days per week, 260 working days per annum (incl. holiday entitlements)



requirements, and will need to pay for external HR assistance, often at a time when they can least afford to.

We cannot find it explicitly stated, but the discussion document appears to imply that the notice period and bridging payment are above and beyond any existing employment conditions. For example, a company with existing redundancy provision will need to pay the four weeks bridging payment on top of the pre-existing period. If this is indeed the case, implementation in this form is punishing good employers who have conditions above and beyond the minimum. It is simply unacceptable to do this. All that will be achieved in the long term is that businesses will only provide the bare minimum conditions for fear of being unfairly penalised by future legislative action.

The proposed timeframe, with legislation introduced in 2022, and implementation of the scheme in 2023, seems unnecessarily rushed. The scale, complexity, and impact of the NZIIS are such that adequate time must be taken to properly develop and consult on the policy, legislation and scheme setup. Rushing this, simply to get the scheme enacted before the 2023 election, brings into question the intent behind the proposals.

#### Recommendations:

- Ensure adequate time to develop legislation and details of the scheme is allowed, rather than rushing through the process.
- Delay implementation until inflation drops to more reasonable levels to ensure low income workers are not unreasonably impacted.
- Start with a scheme for Displacement only, thereby providing protection for workers without imposing unreasonable costs for workers and businesses at a time they cannot afford them.
- Consider adding Health & Disability insurance to ACC rather than to NZIIS, to leverage the existing systems in place for ACC claims assessment.
- Implementation of insurance for Health & Disability should be delayed until several years after the introduction of Displacement cover to allow the system to stabilise.
- Ensure that the 4-week bridging payment is not additional to any pre-existing redundancy provisions an employer may offer to prevent disadvantage to employers providing conditions above and beyond the minimum.
- Ensure adequate analysis is carried out on the impacts of the additional liability and costs on businesses. Particularly considering other legislation currently in front of the House.
- Do not levy workers, or their employers, when said workers cannot make claims against the scheme (i.e., those whose working arrangements are non-standard and not covered, those on non-resident visas etc). Their inclusion is not equitable and places an unfair burden on both those workers and their employers (where applicable).
- Utilise industry data or role-specific data for deciding on whether a role is acceptable or not. Some cases of lower pay or conditions may be due to higher-than-average conditions and pay offered by the former employer, meaning it may be unreasonable to expect the same with a new employer.

### 3. Consultation Questions

#### Chapter 4 – How a new income insurance scheme could achieve our objectives

*Q1. Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?*

See Section 2 for answer.

#### Chapter 5 – Honouring Te Tiriti o Waitangi

*Q2 – Q5. We do not presume to speak for Māori or Iwi.*



## **Chapter 6 – Coverage for displaced workers**

*Q6. Do you agree with defining displacement as the involuntary loss of work due to disestablishment of a job?*

*Q7. Do you agree with excluding poor performance and gross misconduct as reasons for claiming insurance?*

*Q8. Do you agree with excluding resignation as a reason for claiming insurance?*

Yes to all

*Q27. Do you agree with limiting coverage of the proposed income insurance scheme to New Zealand citizens and residents? (Applies to Q28 as well)*

We only agree with limiting coverage in this manner if those workers who are not New Zealand citizens and residents are not required to contribute to the NZISS. It would be a gross injustice to require workers, and their employers, to contribute to an insurance scheme that they have no hope of being able to access. This is not equitable or fair for either those workers or their employers.

## **Chapter 7 - Entitlements for displaced workers**

We make the following observations rather than answering specific questions in this section:

- The length of entitlement and the replacement rate combine to a very generous level. Given that NZ also has a well-regarded welfare system in the OECD, this may be in excess of what is required or desirable. It may encourage individuals to ‘game the system’ to get what is effectively a long-term paid holiday. It also means higher overall costs for the scheme.
- Extension of the scheme entitlement period for training or vocational rehabilitation should only be available if the training being undertaken allows the individual to move into a sector with known skills-shortages. There should also be specific requirements relating to the quality of the training undertaken (i.e., formal NZQA qualification, or industry recognised courses).
- Considering only income from ‘personal exertion’ means that the scheme will benefit those on higher incomes more than those on lower incomes, increasing inequity in the system. Those on higher income are more likely to receive income from investments, trusts and other such sources.
- The bridging payment appears to be included purely to discourage employers from unnecessarily making workers redundant. However, there are two issues with this. Firstly, no consideration is given to the effects of the increased liability on business viability. Secondly, this stance appears to assume that employers are ‘bad’ and require punitive measures to do the right thing. This is a false assumption as most employers genuinely care about their employees and face considerable anguish when having to downsize or close a business.
- Bridging payments should not apply to workers who are not eligible for income insurance.
- The NZIIS should fund bridging payments in circumstances where a business cannot pay. We would also like to see refund to employers for bridging payments where workers find work within the four weeks. To clarify on this, we would like to see this refund made through the NZIIS rather than from the former worker, to ensure that any recovery costs are captured by the NZIIS rather than an additional burden on the business.



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

See Section 2 for general comment on this aspect of the NZIIS

*Q52. 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?*

Many health conditions are insidious and develop over a long time. The reduction in capacity may take many months or years to become apparent, and may be seen as a reduction in performance, rather than due to health issues. For an aging person, there may also be difficulty in determining what capacity reduction is due to aging, and what is due to a specific illness. Particularly pre-diagnosis. These combine to create a high level of complexity. It is our belief that additional research into this area is required before decisions are made relating to the level of capacity reduction that is applicable. Particularly since there appears to be no data on how many people are in a relevant situation.

## **Chapter 9 – Insurance claimants' obligations:**

*Q60. Do you agree claimants should be obligated to look for work or prepare to return to work while receiving insurance?*

Most definitely. Without this requirement it is highly likely that individuals will 'game the system'.

*Q61. Do you agree that claimants would not be expected or required to accept offers of employment that provide lower wages or conditions?*

Partially agree. Some businesses provide higher wages and/or better conditions than others in the same sector. If a person is displaced from one of these organisations, it may be unrealistic to expect to find employment at the same wages and conditions. We recommend utilising industry data or role-specific data for making a determination on this.