

Submission template

A New Zealand Income Insurance Scheme

This is the submission template for the discussion document, *A New Zealand Income Insurance Scheme*.

The Ministry of Business, Innovation and Employment (MBIE), on behalf of the Government, Business New Zealand and the New Zealand Council of Trade Unions, seeks your written submission on the matters raised in the discussion document by **5pm on 26 April 2022**.

Your submission could be made public

The information provided in submissions will be used to inform policy development on the proposed income insurance scheme, including how it could be improved and how it could affect different groups. We may contact submitters directly if we require clarification of any matters in submissions.

The *Privacy Act 2020* applies to submissions and responses. Any personal information you supply to MBIE in making a submission will only be used for the purpose of assisting in the development of policy advice as part of this review. When businesses or organisations make a submission, we will consider that you have consented to the content being included in any summary of submissions unless you clearly state otherwise. If your submission contains any information that is confidential or that you do not want published, you can say this in your submission. Please clearly indicate in your cover letter or email with your submission if you do not wish your name, or any other personal information, to be included in any summary of submissions that may be published.

Submissions and responses may be subject to requests for information under the *Official Information Act 1982*. Please clearly indicate in your cover letter or email with your submission if you have any objection to the release of any information in your submission, and which parts you consider should be withheld, together with the reasons for withholding the information. Your views will be taken into account when responding to requests under the *Official Information Act 1982*. Any decision to withhold information requested under the *Official Information Act 1982* can be reviewed by the Ombudsman.

How to make a submission

Please send your written submission on the options and questions in this consultation document by **5pm on 26 April 2022**. You can make your submission (preferably using this submission template) as follows:

1. Include your name, the name of your organisation (if applicable), and contact details. We may contact submitters directly if we require clarification of any matters in submissions.
2. Your submission may respond to any or all of the questions in the consultation paper. Where possible, please include information or evidence to support your views. We also encourage your input on any other relevant aspects of the income insurance scheme in the “Other comments” section.
3. Sending your submission:
 - a. Attach as a Microsoft Word document or searchable PDF and email to:

incomeinsurance@mbie.govt.nz (preferred), or

b. Mail your submission to:

Social Unemployment Insurance Tripartite Working Group
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6145

If you have any questions on the submissions process, please contact incomeinsurance@mbie.govt.nz.

Submission on A New Zealand Income Insurance Scheme

Your name and organisation

Name	Andrew Hughes
Organisation (if applicable)	Public Trust
Contact details	Privacy of natural persons

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?

By way of introduction, Public Trust is an Autonomous Crown Entity, established under the Public Trust Act 2001. As part of our corporate trustee services business, we act as a Supervisor of Kiwisaver schemes established under the Kiwisaver Act 2006.

In summary, we support the introduction of the proposed income insurance scheme from the perspective of being a Kiwisaver Supervisor. This is on the basis that the scheme will benefit Kiwisaver members, by reducing the number of significant financial hardship withdrawals and increasing the pool of retirement savings.

As set out in s 3 of the Kiwisaver Act, the purpose of Kiwisaver is to “*encourage a long-term savings habit and asset accumulation...to increase individuals’ well-being and financial independence, particularly in retirement, and to provide retirement benefits*”. As such Kiwisaver members are not generally permitted to withdraw their funds until they reach the superannuation qualification age of 65.

However, part of our role as Supervisor is to administer applications by Kiwisaver members for early withdrawals in case of significant financial hardship. The Kiwisaver Act sets a high threshold for eligibility for significant financial hardship withdrawals, including suffering significant financial difficulties and exhausting alternative sources of funding. This accords with the main purpose of Kiwisaver under the Kiwisaver Act referred to above, being to encourage individuals to accumulate their Kiwisaver savings to use in retirement rather than using their savings in the short-term as a result of loss of income.

As a Supervisor under the Financial Markets Conduct Act 2013, s 153(1)(b) we are required to act in the best interest of scheme participants. With regards to administering Kiwisaver hardship applications, we act in participants’ best interests by ensuring that early withdrawals do not occur unless the requirements under the Kiwisaver Act are met.

Public Trust’s view is that the proposed income insurance scheme will benefit participants of Kiwisaver schemes through reducing the number of significant financial hardship withdrawals, by providing an alternative source of income for individuals with financial difficulties as a result of loss of income.

We note that our view accords with the statements made by the Tripartite Unemployment Insurance Working Group at page 46 of 'A New Zealand Income Insurance Scheme: A discussion document'.

In support of this, we advise that in respect of Kiwisaver schemes for which Public Trust acts as Supervisor, over the past eight years \$268M has been withdrawn as a result of significant financial hardship applications. Approximately 13% of the total amount withdrawn or \$34M was attributable to loss of employment, including through redundancy and other reasons outside the individual's control. Approximately 32% of the total amount withdrawn or \$86M was due to debt. Approximately 37% or \$100M of the total amount withdrawn was for subsequent withdrawals (additional withdrawals following an initial significant financial hardship withdrawal).

We are not able to determine from the data what proportion of the withdrawals for debt were related to loss of income for health conditions or disabilities, or what proportion of subsequent withdrawals were related to an initial withdrawal for loss of employment. However, we submit that it is reasonable to assume that a contributing factor for at least some of the withdrawals for debt was loss of income due to health conditions or disabilities. We also submit it is likely that if the withdrawals directly attributable to loss of employment were reduced, a proportion of the subsequent withdrawals would also be reduced (i.e. subsequent withdrawals related to an initial withdrawal for loss of employment).

In conclusion, we broadly support the proposed income insurance scheme as outlined above. We are not submitting on any other specific aspects of the consultation.

Public Trust welcomes further engagement with the Future of work Tripartite Forum if necessary to discuss its position.

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?*

15 *Do you agree that income insurance should cover fixed-term and seasonal employees, where their employment agreements are not renewed, and they can show a regular pattern of work and reasonable expectation of future income?*

Coverage provided for casual employees

16 *Do you agree that income insurance should cover casual employees who can show a regular pattern of work with an employer and a reasonable expectation of future income?*

17 *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

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

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

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

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

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

A modest minimum contribution period

23 *Do you agree with the proposed minimum contribution period of six months over a period of 18 months preceding the claim?*

Limits on subsequent claims

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

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

26 *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