

# Submission on A New Zealand Income Insurance Scheme

## Your name and organisation

Name	Rob W M Dowler
Organisation (if applicable)	Not applicable. This is a personal submission
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?*

**I do not support the introduction of an income insurance scheme for displacement and loss of work due to health conditions or disabilities. My reasons for this view are as outlined in the earlier submission that I completed to the Productivity Commission in November 2019. I have included a copy of that submission below and request that it be considered again during this consultation.**

**Further, if the consultation requires 94 questions, that begs fundamental questions about the complexity that such a structure would be introducing and whether it is therefore worth the effort. Note that I have only answered the first question.**

**The copy of my earlier submission to the Productivity Commission follows, to be considered again as part of this consultation please.**

**Submission  
by**

**R W M Dowler**

**On the paper titled**

**“New Zealand Productivity Commission (2019). Employment, labour markets and income. Technological change and the future of work, Draft report 2.”**

**Issued by**

**The Productivity Commission**

**November 2019**

**Introduction**

Thank you for the opportunity provided to complete submission.

No part of this submission is required to remain confidential.

I refer to the Productivity Commission’s three options for improving income security in New Zealand being:

- Introducing portable individual redundancy accounts
- Mandating unemployment insurance
- Making changes to benefits and tax credits

In summary, my support or opposition to each of these can be noted as follows:

- Introducing portable individual redundancy accounts – Opposed, unless amended to simply permit a partial or total withdrawal of a KiwiSaver account balance when required to smooth income.
- Mandating unemployment insurance - Opposed
- Making changes to benefits and tax credits – Supported, refer to the details below.

**Detailed Submission**

First, consider the suggested option of portable individual redundancy accounts.

Employees fall into one of three categories:

- Those who are able to make their own savings for redundancy and they do so
- Those well able to make such savings, and they choose not to or fail to do so
- Those who, quite simply, can’t afford to make such savings.

I show below an extract from my submission completed to the Tax Working Group in relation to KiwiSaver. To assist in understanding its relevance to the suggested portable individual redundancy account option, along with a few other minor tweaks in non-italicised text, I have replaced “KiwiSaver”, “retirement savings” and “universal NZ Superannuation” in that submission extract with the words “portable individual redundancy account”, “redundancy account savings” and “Jobseeker support”.

It is interesting that the message that this delivers on both KiwiSaver and the suggested portable individual redundancy account is very clear, namely that the option proposed is analogous to the issues already identified as applicable to KiwiSaver and potentially a complete waste of time and energy, and certainly unproven in enhancing productivity.

The doctored submission extract follows:

*To the extent that “the portable individual redundancy account”, results in the final two groups undertaking “redundancy” savings that would otherwise not occur (i.e. those who can afford to save but don’t or those who can’t afford to save), there may be some small incremental increase in “redundancy” savings. I understand that research suggests that this is the outcome being achieved by KiwiSaver but with much of KiwiSaver monies otherwise being savings diverted from alternative savings. (I expect the same to apply to the suggested portable individual redundancy account) .....*

*The “Productivity Commission” has also been publicly reported as suggesting compulsory membership of “a portable individual redundancy account” be considered .....* *Noting that compulsion is pointless for the first group, one can conclude that compulsion might only ever assist people in the last two categories to achieve “redundancy” savings that otherwise would not occur. However, for the last group, it is at the expense of their ability to meet their basic living requirements. Hence, if compulsion is introduced, to ensure that the living standards of this final group are not adversely impacted, government has no choice but to either enhance the income of this latter group to cover the contributions required to be made to “the portable individual redundancy account”, or alternatively for the government to make some or all of the payments direct to “the portable individual redundancy account” that such individuals would otherwise be required to make,.*

*It is at this point that one can ask, in the face of a “Jobseeker support” payment ....., what is the point of “a portable individual redundancy account”?*

*Acknowledging that “a portable individual redundancy account” would have some benefit towards enhancing financial capability in the form of financial literacy, outside of this benefit, it only has a point if it is believed that “Jobseeker support” is insufficient in itself to provide an adequate “redundancy” income, or if there is an as yet unstated intent to replace “Jobseeker support” with “the portable individual redundancy account” .....*

*Unless the financial literacy benefit achieved via “a portable individual redundancy account” is sufficient unto itself, I suggest that the inequity that the Chair of the tax working group (and the Productivity Commission, I suspect) is concerned about might best be addressed by abolishing “the option of the portable individual redundancy account” and reverting to the pure voluntary savings structure that previously existed, supported by an ongoing “Jobseeker support payment” at a level that obviates poverty .....*

*“Redundancy saving” is simply about having enough money when one “is made redundant” to enjoy the lifestyle that one aspires to at that time. It does not need to be in a specialised “portable individual redundancy account”. Providing incentives, introducing compulsion and locking money away until a specified “event such as*

*redundancy” simply introduces unnecessary distortion, increases inequity, and reduces personal financial flexibility. ....“A portable individual redundancy account” fails to recognise the other costs that the lack of flexibility within the scheme imposes.*

I trust that my point is now clear and understood. Both KiwiSaver and the proposed option of portable individual redundancy accounts are pretty much a waste of money, time and effort, and I believe thereby working directly against the objective of the Commission to enhance productivity. This is even before considering how the redundancy account should be managed and invested, a matter on which I think the report is largely silent, except for the suggestion that it might be managed alongside that individual's KiwiSaver account, if the individual has one.

That just raises a much larger question. With KiwiSaver already in place, why can't redundancy simply be yet another permitted reason for an individual to access part or all of the KiwiSaver balance? Job done, as long as KiwiSaver continues to exist, without the need for a separate complex income support structure focused solely on redundancy.

I also note that the paper contains little information on the impact on productivity of compulsorily directing monies into some form of managed fund, rather than letting the individual continue to make his or her own decision as to how to spend or invest monies. This is an issue that is also relevant to KiwiSaver, now involving some \$60 billion directed to a select group of fund managers. Is that adding to or subtracting from productivity? It would be useful to know.

Forcing reallocation of personal resources into specialised accounts or insurance, while at the same time allocating other resources to a fundamental review of benefits and taxation because of those proposed options doesn't seem to align with what I understand the Commission objectives to be.

Turning then to the second option of mandating unemployment insurance, we already have this, hence I oppose a separate insurance fund. The existing insurance plan is generally called the unemployment benefit (or Jobseeker Support, in modern parlance), and is paid from general taxation revenue.

If, as suggested in the report, there is some flaw envisaged with the level of this Jobseeker support payment, then change the access to and the level of the Jobseeker support payment to address the flaw, even if it means different individuals get significantly different benefit amounts. Any such different Jobseeker support payment amounts will, in most cases, likely reflect the significantly different amounts of tax already paid by individuals on different income levels, but suddenly facing redundancy.

Then, in this age of big data, it should even be possible to calculate all of the tax that an individual has paid to date and use this as a proxy to calculate a fictional “portable individual redundancy account” amount to establish the level of Jobseeker support applicable to the individual to smooth income.

Please don't go down the track adopted by other governments of introducing complexity into taxation structures with all sorts of separate and targeted taxes. Please keep following the KISS principle in relation to tax design.

If the Commission accepts the general tenet of this submission, then a result will be that the proposed review and likely upheaval of both taxation and benefit structures will be avoided, thereby enabling all of the resource that would otherwise be redirected to that activity to remain committed to other productive activity.

Having spent my time on this submission, I similarly now intend to revert to other productive activity, albeit I will regard my time on this submission as being highly productive if the first of the two proposed options, a portable individual redundancy account or mandated unemployment insurance, never proceed further.

## 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

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*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?*

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

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**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?*

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

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**Displaced workers: Getting back to good jobs**

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

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

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

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

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## Health condition and disability claimants: Getting back to good jobs

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*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?*

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**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?*

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

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**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?*

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

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

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**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?*

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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