

# A New Zealand Income Insurance Scheme

These questions are about the proposals in the summary document overall

## 23. What do you think are the strengths of the scheme?

While in theory there may be some positive benefits from the introduction of the scheme, specifically claimants being able to undertake approved training and reskilling as part of the scheme, Sealord does not believe they outweigh the inherent downsides as detailed in our responses to Questions 24 and 25.

For this reason, Sealord submits that the scheme should not be progressed as is currently being proposed.

## 24. What do you think are the weaknesses of the scheme?

*The proposed New Zealand Income Insurance Scheme (NZIIS) does not currently take into account contractual redundancy provisions that employers may already have in place.*

When employment is terminated by reason of redundancy, under the proposed scheme the employee would receive four weeks' notice. The employer must continue to pay wages for four further weeks at 80% from when the job ends – after which the income insurance payments would begin.

It is proposed that such payments would be in addition to any other agreed redundancy provisions in the employment agreement. For employers which already have comprehensive redundancy packages for their employees this is an added and unnecessary extra cost, over and above the proposed 1.39% levies. Sealord submits that, if the scheme is progressed, any contractual redundancy payments should be taken into consideration so that applicable employers are not, in effect, paying twice.

### *The Scheme Introduces Substantial Additional Cost for Employers*

There are many industries in New Zealand that are suffering economic hardship at present and therefore can ill afford any additional material costs in the next 3 to 5 years. Sealord expects that the cost of employment will increase due to the introduction of this scheme. In the current economic environment, in which companies face higher costs for many of their factor inputs, increased labour costs will place additional pressures on employers.

While many employers may be able to absorb additional costs during good or at least normal business circumstances, the New Zealand economy in 2022 is facing a multitude of challenges. From getting out of the COVID-19 restrictions, dealing with labour market shortages, supply chain issues, and general increasing costs of doing business, there is no shortage of problems for New Zealand businesses. To introduce yet another costly scheme during this extremely difficult and demanding time would not be beneficial for business.

### *Potential Impact on Unemployment*

As a rule, in economics if you pay more for something, you will get more of it. Unemployment is no different. As evidenced in similar schemes overseas, payments from Social Unemployment Insurance provide an incentive to remain unemployed for longer. At the very least, they may reduce the urgency with which people losing their jobs will seek alternative employment. Studies in the United States have shown the more generous the unemployment payments, the less time unemployed spent looking for alternative employment. Research showed that job searches intensified just before the benefit payments were about to end.<sup>1</sup> We also note that long-term unemployment (defined as people unemployed for 12 months or longer) is rare in New Zealand. The current employment rate as at March 2021 quarter is 4.9 percent. Within this group, 11.2 percent of all unemployed people were in long-term unemployment<sup>2</sup>. Unemployment insurance prolongs unemployment.

## 25. Do you have any other comments you'd like to make about the scheme?

Sealord's opposition to social unemployment insurance concerns the concept of the proposed scheme itself, rather than individual features of proposed scheme. Given this, our submission focusses on Consultation Question #1: **Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?**" Our short answer is 'No'. We give our reasons below.

According to the consultation document, an estimated 115,000 people are displaced on average each year. But on its own, that number does not tell us anything about the need for unemployment insurance. It does not highlight the time it takes for employees to find other work. In a well-functioning labour market, displaced employees should be able to find new employment quickly. New Zealand is fortunate to have such a functioning labour market, as is evidenced by low rates of unemployment. Right now, COVID-19 is constraining movement of people and goods, thus halting the economy across the board. Businesses in fishing, tourism, agriculture, and hospitality face particular challenges. However, COVID-19 is obscuring the real problem. Eventually COVID-19 will wane, and the skills let go now will be required again, whereas those affected by long term existential trends will not.

Social unemployment insurance is unnecessary in the New Zealand context because there is no obvious problem it could solve in the current circumstances we face. Combined with this is the fact that New Zealand, unlike many other developed economies, does not have a problem with high and persistent levels of unemployment nor significant episodes of industry wide redundancies. Given this Sealord submits that the scheme should not be progressed.

### *Recommended Amendments if Implemented*

Any implementation needs to be delayed until such time as education and training products are available to ensure the scheme can deliver on its objective of returning displaced workers to work appropriate to their skills and knowledge. Currently, New Zealand has no system for managing large scale displacement and what systems there are do not focus on enabling displaced workers to regain employment appropriate to their knowledge and skills.

---

<sup>1</sup> Krueger, Alan and Mueller, Andreas, (2010), Job search and unemployment insurance: New evidence from time use data, *Journal of Public Economics*, 94, issue 3-4, p. 298-307

<sup>2</sup> [Long-term unemployment as at March 2021 | Stats NZ](#)

We recommend that case management of scheme participants should be able to be contracted out in similar fashion to the way ACC manages injury cases now. Recognition of “accredited” employers or providers may be a suitable vehicle for this. The source and nature of the case management expertise will vary between these scenarios. It is highly unlikely case management will be able to be sourced and deployed by ACC alone. This suggests strongly that options for outsourcing of case management need to be included in any proposed scheme.

#### *Scheme needs to consider contractual redundancy provisions*

When employment is terminated by reason of redundancy, under the scheme the employee would receive four weeks’ notice. The employer must continue to pay wages for four further weeks at 80% when the job ends – after which the income insurance payments would begin.

Sealord submits that businesses that already provide redundancy compensation should be able to opt out of the NZIIS, albeit that some additional commitment would need to be made regarding getting redundant employees back to suitable work. Alternatively, if businesses are unable to opt out of the scheme, Sealord believes there should be available credits, so employers are not paying twice with redundancy compensation and also the four further weeks at 80%.

#### *Application to Sickness and Disabilities*

Workers who are unable to work because of sickness or disability are in a different category to workers made redundant because there is no work for them. While the latter are normally technically and physically capable of resuming paid employment immediately, those who are sick, or disabled, are not. The basis for their being unable to work is fundamentally different (the removal of the job in the case of those made redundant versus the loss of ability to work in the case of those who are sick or disabled). This creates potentially very significant differences in the approach to costing the provision of support for these groups.

The uncertainties inherent in the length of time a sick or disabled person may be unfit for any work, as well as the complexities of treatment and rehabilitation, make the accurate assessment of the true costs of an insurance scheme a lot less certain. This runs the risk that the costs of managing cases of sick and/or disabled workers may end up being subsidised by those (employers and employees) made redundant. Ultimately this also may lead to cost blowouts, with negative consequences for all.