



COVERSHEET

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Office of the Minister of Finance

Cabinet

Social unemployment insurance: Approach to the Future of Work Tripartite Forum

Proposal

- 1 This paper proposes that the Government work to design a social unemployment insurance scheme, for displaced workers, through the Future of Work Tripartite Forum, and seeks agreement to the Government's approach to the Forum's discussion of design choices on 22 March 2021. These design choices will inform a wider public consultation.

Relation to government priorities

- 2 Enhancing support for displaced workers through social insurance relates to the Government's commitment to building a post-COVID-19 economy that is more productive, sustainable, inclusive, and resilient to future shocks.
- 3 Enhanced support for displaced workers aligns to the 2021 Wellbeing Budget Objectives of:
 - Just Transition to a Low Carbon Economy, and
 - Future of Work: Lifting Productivity and Innovation.

Executive Summary

- 4 Through the Future of Work Tripartite Forum, the Government has been working closely with business and union representatives for three years to prepare New Zealand for a rapidly changing world of work.
- 5 Supporting displaced workers to return to good work is central to the Forum's role and to the Government's vision of a more productive, sustainable, inclusive, and resilient economy.
- 6 To navigate change successfully, displaced workers often need help to find good work, help to retrain and upskill, and a replacement income that gives them the space to do these things.
- 7 This paper focusses on replacement income, and proposes that the Government work with business and union representatives, and other stakeholders, to design a social insurance scheme to cover redundancy and the onset of health conditions and disabilities. Subsequent work on support services (such as employment services) will be necessary.
- 8 Social unemployment insurance is a preferred form of temporary replacement income because it can ensure a high level of income replacement across the

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workforce, through a self-financing mechanism supported by individuals and employers. Such schemes are well-established across most of the OECD. In New Zealand, an insurance scheme would complement, rather than replace, the welfare safety net. Welfare would continue to ensure people have a minimum income over longer spells of unemployment regardless of cause.

- 9 The Future of Work Tripartite Forum is meeting on 22 March to discuss the potential key elements of a social insurance scheme, for inclusion in a public consultation document. The following table proposes initial policy settings as the starting point for the discussion at the Tripartite Forum. I seek Cabinet agreement to this initial position for the Forum discussion.

Issue	Proposed setting
Displacement events covered by insurance	coverage provided for redundancy
	coverage provided for the loss of work due to the onset of health conditions and disabilities
Working arrangements covered	coverage provided for all workers (insofar as practicable, the scheme should cover people in casual and fixed term work, and the self-employed)
Level and duration of income replacement	duration of around six months
	income replacement set at 80%
	income coverage capped at \$130,911, with a “floor” so that no one receives less than the minimum wage (to cover hours that they had been working prior to the displacement)
Provision of supporting services	initially rely on linking people with existing (and developing) services to support return to good work, while exploring what gaps remain and developing a plan on how best to address them to improve outcomes
Obligations on insurance claimants	insurance claimants required to make genuine attempts to find work, with an initial right to refuse poor matches where appropriate, insurance claimants with health conditions or disabilities required to attend any return to work services (health services as directed by medical officers, employment services), and make genuine attempts to find work
Financing and contributions	levies split equally between employers and workers (with initial government establishment funding)
	the levy should apply progressively (or at least provide a lower levy-free income threshold to reduce contributions from low income earners)
	the levy would be compulsory for all workers covered by the scheme (a levy on “personal exertion income”), and set to fully fund the scheme (including operational and service costs)
Delivery arrangements	via the Accident Compensation Corporation (ACC)

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- 10 The choices Ministers make now are an initial position for the Tripartite Forum discussion only. These will need to be further developed (and if necessary, revised) following further work, including consultation with Māori as well as engagement with other stakeholder groups. Final policy choices will be influenced by further policy work (including further work on understanding the impacts of the development of such a scheme), the views of social partners through the co-design process, and the outcomes of the public consultation.
- 11 I propose that the following objectives guide this further work:
- Objective 1: Improving income smoothing and transition support for displaced workers
 - Objective 2: Responding to future labour market shocks and the changing nature of work
 - Objective 3: Increasing support for displaced workers to upskill or retrain
 - Objective 4: Reducing wage scarring
 - Objective 5: Strengthening automatic stabilisers to enhance New Zealand's response to recessions or widespread economic distress
 - Objective 6: Addressing inequities in the system with respect to the treatment of health conditions and disabilities
- 12 At the same time, there are risks to manage. I therefore propose the following guiding principles to inform our choices:
- enhance or maintain work incentives
 - treat similar people in a similar way, and improve outcomes for the most disadvantaged
 - ensure overall cost is manageable, and the distribution of cost impacts avoids unintended consequences
 - ensure coherence and consistency with wider settings
 - align contributions with benefits, so that only people who stand to benefit from the scheme contribute to meeting its costs
- 13 Following the Forum discussion on 22 March, I expect the co-design process with unions and business representatives to begin in earnest. I propose to bring a draft discussion document to Cabinet for approval in July.

- 14 Following the public consultation, Cabinet will need to consider whether to proceed with social insurance for displaced workers, and if so, to confirm design and delivery choices.

Background

- 15 The discussion in this paper builds on a substantial body of work calling for enhanced support for people who lose their jobs through no fault of their own, whether due to redundancy or the onset of health conditions and disabilities.
- 16 In Opposition, we led the Future of Work Commission, a major exercise to understand the risks and opportunities posed by possible changes in the nature of work for New Zealand. The Commission identified significant opportunities, especially to support workers through economic transitions.
- 17 On forming a Government, we continued the Commission's work by forming the Future of Work Tripartite Forum, a partnership between the Government, business, and unions. The Forum agreed that *helping workers find and keep decent jobs* was one of the Forum's key priorities, and has focussed on specific initiatives to address this priority. The proposals in this paper are the culmination of the Forum's work so far.
- 18 The proposals also draw on a series of independent reports that all point to the need for better support for displaced workers. These include reports by the Public Advisory Group on Redundancy and Restructuring, the Organisation for Economic Development and Cooperation, the Welfare Expert Advisory Group, and the New Zealand Productivity Commission.¹
- 19 The labour market disruption arising from the COVID-19 pandemic has further highlighted the risks of displacement, and the shortcomings of existing financial and non-financial support.

Working towards a productive, sustainable, and inclusive economy and a sound macroeconomy

- 20 To date, the Government's response to COVID-19 has largely been temporary in nature in an effort to cushion the blow of the shock. While there is significant uncertainty around the path of the virus and its impacts in New Zealand and around the globe, we can look beyond crisis interventions to more structural ones aimed at resetting and revitalising the economy.
- 21 Establishing a permanent social unemployment insurance is one way to "build back better" toward a more productive, sustainable and inclusive economy that is resilient to structural and cyclical economic shocks.
- 22 Social unemployment insurance provides a structure through which to enhance New Zealanders' wellbeing, particularly through:

¹ Public Advisory Group on Redundancy and Restructuring *Report of the Public Advisory Group on Redundancy and Restructuring* (2008), OECD *Back to Work New Zealand* (2017), Welfare Expert Advisory Group *Whakamana Tangata* (2019), Productivity Commission *Inquiry into Technological Change and the Future of Work* (2020).

- investing in their human capital by promoting labour market attachment through better employment matching, and
- investing in their financial and physical capital through an income smoothing mechanism that enables them to maintain their living standards during times of transition.

23 While the economic outlook is currently better than predicted at the outset of the pandemic, there is still significant uncertainty. Treasury's forecast is for the deficit between government spending and revenue to continue for the foreseeable future.

24 Accordingly, this work will need to take into account broader macroeconomic settings and any new scheme would need to be carefully aligned with the Government's fiscal strategy and consider how unemployment insurance could work alongside other Government priorities.

Enhancing support for displaced workers

Displacement can arise from restructuring, redundancy, and the onset of health conditions and disabilities

- 25 Displacement is when people lose their jobs, or their ability to continue working, due to no fault of their own.
- 26 Economic displacement is where people lose their jobs due to changing economic conditions. These conditions can include the introduction of new technologies, increasing competition, changing regulations, or falling demand.
- 27 Redundancies can result when firms respond to such changing conditions by restructuring, changing production methods, relocating, or shutting down. These responses change a firm's labour force needs, creating risks for some workers, and opportunities for others. For workers, the main risks are the immediate loss of salary or wages, and the possibility of sustained income loss even when re-employed.
- 28 The onset of health conditions and disabilities is a further reason for displacement. Workers developing health conditions and disabilities may find their work capacity partially or completely reduced leading them to lose salary or wages, and possibly experience sustained income loss even when they resume employment.

Displacement is a common event in many people's working lives

- 29 In New Zealand, while the data is poor, an estimated 30 - 40,000 employed people are likely to lose their jobs due to redundancy annually, under normal economic conditions. This is a relatively low rate compared to similar OECD economies. Rates of redundancy correlate closely with economic cycles, with displacement increasing substantially during events such as the Global Financial Crisis, or the COVID-19 pandemic.

- 30 The number of people who experience loss of work due to the onset of health conditions and disabilities is more uncertain. As a minimum indicator, the Ministry of Social Development (MSD) estimates that between 1,600 and 2000 people currently come onto Jobseeker-HCD and Supported Living Payment benefits from employment per month (around 19,200-24,000 a year). While a significant portion remain on benefit long-term, many others exit benefit quickly.²
- 31 New Zealand, as well as other jurisdictions, has experienced a rise in people claiming health and disability benefits. The causes are complex. The following have all contributed to a rise in people leaving work with health conditions and disabilities across jurisdictions: an aging workforce (disability is more likely with age), an increase in lifestyle factors that contribute to chronic illness, labour market changes (the incidence increases in recessions), and the leniency of policy settings.
- 32 Those displaced for economic reasons or due to health conditions or disabilities are a subset of the approximately 30,000 people per month who experience sudden and substantial falls in earnings. Other reasons people experience income drops include voluntary exits from the labour market (resignations), the need to care for children or other dependents, and the termination of seasonal or fixed-term work with no follow-on employment and dismissals.³

Cyclical and structural change can lead to economic displacement

- 33 Restructuring and redundancies routinely occur in dynamic economies and tend to increase during periods of significant economic change – whether planned, or otherwise. The COVID-19 pandemic and recession are causing particularly severe job loss across the economy. Prior events causing major economic displacement include the Global Financial Crisis and the post-1987 economic crash. Economic displacement can also be concentrated in sectors, regions, and individual businesses.
- 34 The megatrends described in the Tripartite Forum’s *Future of Work Strategic Assessment* – rapid globalisation, technological change, climate change, and demographic change – are also expected to contribute to worker displacement.

Economic displacement creates risks for workers

- 35 While it is important that firms can flexibly change their labour needs, economic displacement can harm workers, communities and broader society, unless there is support through these transitions. The main economic risks facing displaced workers are:

² While 44% of JS-HCD recipients remain on the benefit for more than two years, others only receive JS-HCD for a short time before exiting the benefit. Source: Ministry of Social Development, 2018

³ Internationally, almost all SUI schemes exclude people who are dismissed or voluntarily leave a job. Income support provided via welfare systems typically include such people, although sometimes longer stand-down periods are applied.

- unemployment and income loss, and / or
 - poor wages or conditions in subsequent employment (wage scarring).
- 36 The sudden loss of wages or salaries is likely to cause financial hardship (relative to established standards of living) that is difficult to adjust to in the short-term. Even high-income households can face large fixed expenses such as mortgage payments, and other loans. Where people are eligible for welfare payments, these are not calibrated to meet such costs.
- 37 On average, displaced New Zealand workers do appear to return to work relatively promptly, but many show significant long-term wage scarring. Wage scarring suggests poor skills matching, lost productivity, loss of output, lost income, and fiscal costs. Reduced wage scarring is one key objective in better supporting displacement workers.
- 38 Independent research suggests the lifetime wage scarring impacts arising from the economic displacement of New Zealand workers in one average year could be approximately \$4.74b, assuming 30,300 people are displaced. In times of greater disruption (where 63,900 people are displaced) this estimate increases to \$9.76b.

The onset of health conditions or disabilities also creates risks for workers

- 39 Workers losing their jobs due to a health condition or a disability can also face a significant drop in income, and re-employment earnings (wage scarring). The impact of loss of earnings is similar to that experienced by workers made redundant.
- 40 Unemployment can become entrenched where people leave work with a health condition or a disability. Alongside a high risk of living in poverty, unemployment is strongly associated with poor health outcomes – especially if unemployment is prolonged.
- 41 Although their circumstances and support needs vary, many people with health conditions and disabilities can, with the right support, work part-time or fulltime in suitable work. Engaging in suitable work is supportive of material wellbeing and health outcomes, especially mental health.
- 42 Similar to workers made redundant, insurance payments can smooth income for this group. Additionally while there is generally limited evidence on the short and long-term health effects of disability insurance, some recent evidence suggests substantial positive health effects.
- 43 It is difficult to predict trends in the incidence of people leaving work with a health condition or a disability. However, an increase in the number of older workers and economic displacement associated with megatrends are likely to contribute to the incidence of people leaving work with a health condition or a disability in the future.

Support for displaced workers is limited

- 44 The pandemic response has included a number of short-term and partial measures to support displaced workers, such as the COVID-19 Income Relief Payment. These responses have been necessary because New Zealand lacks a robust, permanent, and holistic support system for displaced workers.
- 45 A range of commentators, including the OECD, the Welfare Expert Advisory Group, the New Zealand Productivity Commission, Business New Zealand, and the New Zealand Council of Trade Unions, have reached similar conclusions. These commentators note the lack of support such as statutory notice periods, financial support (including statutory redundancy payments, insurance, or widely available welfare payments), or adequate active labour market programmes to enable upskilling, retraining, and re-employment.
- 46 The OECD and the Welfare Expert Advisory Group have also highlighted the lack of timely, effective support for workers with health conditions or disabilities not caused by an injury to return to work.
- 47 The relative lack of such support may help to explain the high levels of wage scarring in our labour market, and suggest we are not well placed for future downturns or a changing world of work that may cause elevated displacement.

Strategic objectives for a support system for displaced workers

- 48 The current lack of support, and significant wage scarring effects, and the possibility of an increasing rate of displacement, combine to make a strong case for designing a more effective support system for displaced workers.
- 49 I see a more effective support system as having five main objectives:

Objective 1: Improving income smoothing and transition support for displaced workers

Some people face significant challenges meeting their costs when they are displaced from employment. There is potential to improve support for people who don't currently qualify for income support or for whom current replacement rates are often comparatively low.

Objective 2: Responding to future labour market shocks and the changing nature of work

Protection against large income drops is needed to reduce anxiety arising from the future of work trends, and to share the costs of change widely across society. Continued or increased mobility by skilled workers could lead to better matching and higher productivity.

Objective 3: Increasing support for displaced workers to upskill or retrain

It is important to ensure that financial support systems are responsive to frequent, unpredictable changes in earnings; and that there are employment services that are effective in enabling displaced workers to transition to different types of employment.

Objective 4: Reducing wage scarring

Wage scarring effects are a quantifiable proxy for how economic disruption affects workers' incomes, and their productivity in subsequent employment.

Objective 5: Strengthening automatic stabilisers to enhance New Zealand's response to recessions or widespread economic distress

At a macroeconomic level, widespread job losses that lead to large decreases in income can deepen and prolong recessions through reduced consumption. More closely linking income to lost wages and salaries reduces the need for people to abruptly reduce consumption while meeting broader economic stimulus objectives.

Objective 6: Addressing inequities in the system with respect to the treatment of health conditions and disabilities

Our current system delivers differing levels of support to people who have similar needs and circumstances. Reforms to support displaced workers more effectively should help to reduce those existing inequities.

50 At the same time, there are risks to manage. I therefore propose the following guiding principles to inform our choices:

- enhance or maintain work incentives,
- treat similar people in a similar way, and improve outcomes for the most disadvantaged,
- ensure overall cost is manageable, and the distribution of cost impacts avoids unintended consequences,
- ensure coherence and consistency with wider settings, and
- align contributions with benefits, so that only people who stand to benefit from the scheme contribute to meeting its costs.

Designing a support system for economically displaced workers and workers with health conditions or disabilities to achieve good employment outcomes

51 An effective package of support to return to good jobs should ideally comprise financial and non-financial support, as illustrated in the table below.

Forms of support for enabling smooth transitions	Description
Employment opportunities	A business and economic environment that ensures availability of employment opportunities will ensure workers can move into (or remain in) employment.
Employment services (help to find good jobs)	<p>Career / vocational / training and educational advice enables informed choices about career options, and training pathways. Advice can be informed by skills assessments, and recognition of prior learning.</p> <p>Brokerage and job search assistance connects people with employment opportunities and tailors support to individual needs.</p> <p>Health and rehabilitation services support return to work.</p>
Education and training (help to retrain and upskill)	Education and training equips workers with skills relevant to sustainable industries (so people can remain skilled for their current jobs, can make planned transitions to new jobs, and can transition to new jobs if displaced).
Financial support (income replacement)	<p>Financial security through transitions minimises hardship (relative to established standards of living).</p> <p>Financial support reduces the urgency to find work, and hence increases the possibility of finding a job that is a good match to a worker’s skills, experience, preferences and aspirations.</p> <p>Financial support, depending on duration, can also enable some retraining and upskilling.</p>

52 Ideally, these forms of support operate as a coherent system that promotes dynamic flows of workers between jobs, with an emphasis on effectively matching workers to jobs that suit them.

53 In such a system, workers may well be displaced from their jobs, but the impact of job loss is reduced through a system of support that helps them to obtain either new work, or to engage in appropriate retraining and upskilling. The goal is to promote both labour market flexibility, and worker security.

54 Where displacement arises from the onset of health conditions and disabilities, additional support may be needed to support return to work (e.g. timely access to effective health, vocational rehabilitation and employment supports).

Enhancing financial support for displaced workers

Financial support aims to smooth incomes following displacement

- 55 The most immediate adverse economic impact of job loss is loss of wages or salaries. Loss of salaries or wages can cause hardship (relative to established standards of living), and make it difficult to meet fixed costs such as mortgages and other obligations. This in turn can create pressure to accept poor quality job matches due to inadequate search time, or lack of opportunity to retrain and upskill.
- 56 From a worker's perspective, effective financial relief largely replaces lost wages or salaries, and thereby "smooths" income from displacement to re-employment. The principal purpose of income-protection insurance is to provide this smoothing function.
- 57 While the existing welfare support smooths incomes for some lower income households, there are many others who face significant drops in income following involuntary job loss, especially for those not eligible for welfare support. Large income drops are likely to increase the pressure these workers feel to accept poor quality job matches, adversely affecting their long-run earnings and productivity.

Unemployment insurance is designed to smooth incomes

- 58 Social insurance programmes have the potential to improve support for people who do not qualify for current support or for whom current replacement rates are often comparatively low.
- 59 In the case of involuntary job loss due to a health condition and disability, unemployment insurance can smooth income while people receive the appropriate employment and health and disability support to return to work resulting in better employment outcomes in the long-term. Where return to work is not possible, the time-limited insurance payments allow people time and resource to adjust to leaving the labour market.

Social unemployment insurance can address market failures

- 60 There is a role for government in enabling further financial support for displaced workers, since the private market alone is unlikely to provide this function. Private unemployment insurance is prone to the market failures of adverse selection and moral hazard, which need to be managed.
- 61 These effects undermine the coverage and affordability of unemployment insurance. Adverse selection occurs when high risk individuals opt into insurance, and low risk individuals opt out. Because of this, internationally, unemployment insurance is usually provided as social insurance, with participation compulsory or strongly encouraged. The Accident Compensation scheme is a New Zealand example of social insurance.

Individual savings, welfare support, and redundancy payments remain essential parts of the system

- 62 Social insurance is not the only way to promote financial security, but it is the best way to ensure a high level of income replacement across the workforce, at a reasonably low cost for individuals and employers.
- 63 Welfare payments remain an essential safety net, but main benefits provide a low wage replacement rate for some household types (particularly higher earners and those with earning partners).
- 64 Individual savings accounts (such as Kiwisaver) remain an essential provision for retirement, but there are issues with relying on such individual savings accounts to smooth incomes following displacement. If displaced workers could access Kiwsaver, there is a risk of undermining Kiwisaver's primary goal of financing retirement. Further, the amount of savings available in an individual account would vary substantially depending on a person's age, and their contributions history at the time of displacement.
- 65 An alternative option is to establish a ring-fenced Kiwisaver account that enables workers to make a personal provision for displacement, alongside their retirement savings. While this would build on the well-established KiwiSaver model, there are issues with this approach. A key issue is that lower-income workers would likely struggle to save enough money to prepare meaningfully for displacement. Those workers in less stable, non-standard forms of work would also receive less support from this form of income-smoothing scheme due to reduced time contributing to the scheme because of fluctuations in and out of the labour market. This could see a widening gap between people in low-paid occupations or non-standard work, and others.
- 66 Further, to meet the objective of smoothing incomes for all those who are displaced, we would need to consider making participation in KiwiSaver compulsory, and no longer allow contribution holidays. Without such compulsion, there is a risk of low participation, undermining our core objectives of helping as many workers as possible through displacement.
- 67 Insurance schemes avoid the shortcomings of individual savings schemes by pooling all contributions. This means that all eligible people are guaranteed the same replacement rate, and individual contribution costs remain low.
- 68 Some workers are also entitled to a redundancy payment, where this is included in their employment agreement. For a redundancy payment to smooth incomes effectively, for most workers, the payment would need to be both relatively large, and compulsory. This is difficult to achieve since:
- redundancy payments are usually linked to tenure in a particular job (and hence provide little support for people who have recently joined a firm),
 - redundancy payments are not available in some types of non-standard employment,

- many failing businesses are not in a position to make redundancy payments, and
- even viable businesses wish to avoid large contingent liabilities.

69 For these reasons, we do not favour redundancy payments as a satisfactory alternative to social unemployment insurance. There may, however, be a role for a low statutory redundancy payment as a complement to insurance.

Design and delivery choices for social unemployment insurance

70 At its meeting on 22 March, the Tripartite Forum aims to agree to the key preferred design settings. These in turn will appear in a Forum-sponsored public discussion document.

71 There is a wide range of design and delivery choices for social unemployment insurance. Particularly important are the design choices relating to coverage, entitlements, and contributions.

72 I propose that Ministers agree in advance to the approach they wish to take to the Forum discussion. The choices Ministers make now are an initial position for the Tripartite Forum discussion only. These will need to be further developed (and if necessary, revised) following further work. Final policy choices will be influenced by further policy work (including further work on understanding the impacts of the development of such a scheme), the views of social partners through the co-design process, and the outcomes of the public consultation.

73 The design settings discussed here appear in a table in this paper's Executive Summary, and in the Recommendations section.

Displacement events covered by insurance

74 Redundancy and the onset of health conditions and disabilities are both significant causes of displacement, with similar consequences. There are also common elements in the support that both groups of workers need, such as meaningful income replacement, and help to return to work. For these reasons, I propose that social unemployment insurance would cover both economic displacement, and displacement arising from the onset of health conditions and disabilities.

75 I do note that covering loss of work due to the onset of health conditions and disabilities raises additional costs and design issues to work through. This includes ensuring alignment with the Disability Support System Transformation and the response to the Health and Disability Systems review.

Working arrangements covered

76 As a general principle, it is desirable to provide insurance coverage to people in a wide range of working arrangements, such as standard work and different types of non-standard work.

- 77 Coverage for people in standard working arrangements (permanent employees) is reasonably straightforward. It becomes increasingly complex to cover forms of work that differ significantly from standard employment – such as fixed term employment, casual work, and self-employment.
- 78 Further design work is required to identify the technical options for including non-standard working arrangements, and to assess the costs and benefits of those options.
- 79 All working people covered by the scheme would be required to contribute to the scheme's costs, subject to any exemptions for very low levels of income. It would not be appropriate for people not covered by the scheme to contribute to its cost.

Level and duration of income replacement

- 80 The level of insurance payments are usually defined by a replacement rate (a percentage of lost salary or wages), a duration of entitlement (in months or years, and a cap on the amount of income that is insured).
- 81 Choices of replacement rate, duration, and income caps are critical to the overall cost of an insurance scheme, and to the opportunities available to people receiving insurance.
- 82 Since the aim of insurance is to ensure displaced workers have a strong incentive and ample opportunity to retrain and upskill, and to search for a good job, I propose an entitlement of around six months, at an 80% replacement rate, with a cap of \$130,911.⁴ This cap and replacement rate match the Accident Compensation scheme settings.
- 83 The scheme would include a “floor” so that no one would receive less than the minimum wage, to cover hours that they had been working prior to the displacement.
- 84 Many people are likely to be eligible for some level of welfare payment and social unemployment insurance, raising questions about the interaction of these two payments. This is a technical issue that will require further careful consideration.

Provision of supporting services

- 85 In its most basic form, unemployment insurance simply provides an alternative income to replace wages lost due to loss of work. It is likely that insurance alone will reduce the personal shock of income loss, reduce the pressure to accept poor job matches, and lower the opportunity costs of undertaking retraining or upskilling.
- 86 Insurance payments alone, however, are likely to be less effective in promoting return to good jobs. Support services also have an important role to

⁴ This means that the maximum possible payment in a twelve month period would be \$52,000.

play in maintaining work incentives. Ideally, insurance payments would be accompanied by a package of support that includes:

- employment services to help insurance recipients to plan their next steps, and to find work,
- support for insurance recipients to retrain and upskill (either through short or longer courses), and
- services to address health conditions and disability that impact on work capacity, and promote rehabilitation and return to work.

- 87 To some extent, the wider package of services is already available to displaced workers, and people who leave work due to health conditions and disabilities. Employment services for displaced workers have expanded substantially as part of the COVID response.
- 88 The Ministry of Social Development is also strengthening a service for people at risk of job displacement as part of shifting focus from reacting when people come on to benefit towards early intervention. This service will work proactively with a range of businesses, associations, government and community stakeholders in regions to ensure people at risk of displacement are aware of, and can access, the services and supports that MSD and partners offer to help them retain their employment or transition to new good and appropriate employment or training. There is also some private provision of employment services (such as job search services).
- 89 Other reforms – such as the Careers Strategy, and the Reform of Vocational Education – are also making it easier for working people to identify their career options, and to access retraining and upskilling. Unemployment insurance can complement this wider range of training opportunities by providing a replacement income while people receive training.
- 90 The availability of effective support to assist workers with health conditions or disabilities to return to work is more limited and would require significant development.
- 91 As a starting position, I propose that we rely initially on linking people with existing (and developing) services to support return to good work, while exploring what gaps remain and developing a plan on how best to address them to improve outcomes.

Obligations on insurance claimants

- 92 Most social insurance schemes place some obligations on people receiving unemployment insurance payments, usually focussed on encouraging people to return to suitable employment.
- 93 In the case of redundancy, insurance recipients would be obliged to seek work, or engage in approved training. Insurance recipients might initially have a right to refuse wage scarring job opportunities, but might lose this right after sustained unemployment. A system of appropriate incentives is useful for reinforcing obligations.

- 94 People with health conditions and disabilities may have obligations to undertake appropriate rehabilitation services, where these are available and where return to work is a possibility. These people may be able to resume work with their existing employer, when their conditions have improved.

Financing and contributions

- 95 Introducing social unemployment insurance for displaced workers would have substantial financial implications, both to meet the cost of insurance payments, and to administer the scheme. Providing any additional supporting services (such as additional employment services) would add further cost.
- 96 To the greatest extent possible, I propose that these costs would be met by employer and employee levies, in a similar manner to the Accident Compensation scheme. As a starting proposition, I propose that the levy cost would be split equally between workers and employers.
- 97 A government contribution would be needed to establish the scheme, and the government would likely remain the “funder of last resort” if claims ever exceeded the scheme’s available funds, such as during a severe economic downturn. It could also be appropriate for the Crown to meet the costs of supporting people with health conditions and disabilities who exit the labour market.
- 98 Officials completed initial cost modelling for the July 2020 Tripartite Forum meeting. This previous advice estimated that if 36,000 people were displaced, and were entitled to an 80% income replacement for up to six months, this could cost \$0.3 to \$0.5bn. If 75,000 people were displaced, the estimated cost increases to \$0.6 to \$0.9bn.⁵
- 99 These initial estimates exclude important components such as administration costs, behavioural impacts, and the cost of supporting services. Extending coverage to include people who lose their jobs due to the onset of health conditions and disabilities would increase these numbers, but it is unclear how significant the increase would be. Improving on these initial cost estimates is a priority for further work.
- 100 There is wide range of choices in the specific design of the levy, and its incidence. The simplest approach is a flat rate levy charged on every dollar earned. This is likely to be inequitable for working people who are already effectively insured by the welfare system. Such people would find that any insurance payment simply “cancels out” their welfare entitlements, leaving them net losers from the new scheme.
- 101 Ideally, the levy would apply “progressively”, requiring only modest (if any) contributions from working people who are already effectively insured by the welfare system. A progressive levy that matches the welfare system is technically very complex. A simple version may be possible, however, such as introducing a minimum income threshold before an individual is subject to the levy, similar to the AC scheme.

⁵ These estimates assumed a cap on income coverage of \$134,000.

102 Similarly to the AC scheme, the levy would apply to all working New Zealanders. Mandatory participation is a defining feature of social insurance. Mandatory participation overcomes the tendency of private markets to provide high cost insurance to only a selected small proportion of the labour market. Mandatory participation also eases administrative complexity (since there are no exclusions), and helps to avoid incentives to misclassify workers to avoid levy costs. As noted earlier, contributions would only be required from working people covered by the scheme.

Delivery arrangements

103 There is a range of government and market-based approaches for delivering some or all of a social unemployment insurance scheme. There are also options to build on existing structures – such as the Accident Compensation scheme and the Ministry of Social Development’s employment services.

104 Given the similarities to the Accident Compensation scheme, I propose that social unemployment insurance would be delivered by the Accident Compensation Corporation (ACC). The ACC would collect levies, assess and manage claims and provide dispute resolution and enforcement functions. Supporting services could be contracted from third parties, including other government agencies.

Additional design choices

105 In addition to these main choices, there are other less fundamental settings to consider. These include:

- immigration status of the worker,
- the number of claims a person can make in any given year,
- obligations placed on employers before a worker is displaced,
- incoming employer’s obligations, and
- supporting systems and processes (processes to assess and approve claims, monitor compliance with obligations, take enforcement action and resolve disputes).

106 Officials will continue to work on these and other detailed design questions, but do not think that they are key design features that need to be agreed at the 22 March Forum.

Comment

107 The nature of work is changing rapidly. For New Zealand, this change can be a risk, or an opportunity. To seize the opportunity, we need to improve significantly the way we support working people to adapt to change.

108 Our response to COVID-19 has foreshadowed what this support can look like, with enhanced support to sustain incomes, to retrain, and to find work. Working people and employers need the confidence and certainty that

support is available at all times, and not simply turned on and off when crises arise.

- 109 The proposals discussed in this paper seek to strengthen these supports further, and to embed them for the future. Most advanced countries ensure that people who lose their jobs through no fault of their own are eligible for a temporary income payment that substantially replaces their lost salaries or wages. We are familiar with this social insurance concept from the Accident Compensation scheme, which has supported injured New Zealanders for nearly 50 years.
- 110 The time is overdue to consider seriously whether New Zealand should offer similar support where people are made redundant, or develop a health condition or disability that reduces their capacity to work. Such a system would help working New Zealanders to weather storms such as pandemics, and to adjust to the changing nature of work.
- 111 People receiving income replacement payments following redundancy would have more opportunity to search for new job that matched their skills, and to retrain and upskill without the financial pressure to take poorly matching jobs. The result would be less hardship, higher productivity, higher wages, and less anxiety about a rapidly changing world of work.
- 112 People receiving income replacement payments following loss of work due health conditions and disabilities would also have greater opportunity for recovery, and to access health services, where these are available.
- 113 There is strong support from both business and unions for a social insurance scheme. I also expect there will be strong support from the New Zealand public.

Working in partnership with business and unions

- 114 Businesses and working people have a fundamental interest in the success of this work. To date, we have worked closely with representatives of the business community and with unions – the social partners. I propose to continue this close and productive partnership.
- 115 Together with the social partners, I propose to continue to co-design a preferred scheme, to co-draft the public discussion document, and to lead public consultation jointly.
- 116 Together, we have the best prospect of reaching consensus on a preferred model, and the best prospect of establishing a scheme that will endure. I envisage the social partners contributing staff to work side-by-side with officials throughout this process.
- 117 I also propose that we use the consultation process to ensure that all stakeholder groups have a full opportunity to engage in our consideration of social unemployment insurance.

Next steps

- 118 Following the Tripartite Forum on 22 March, officials will work closely with business and union representatives to develop the public discussion document, and the consultation process. Consultation will need to cover all stakeholders, including consultation with Māori and engagement with representatives of disabled people (including people with health conditions).

- 119 The Future of Work Governance Group – comprising the President of the Council of Trade Unions, the Chief Executive of Business New Zealand, and the Ministers of Finance, Education, and Regional and Economic Development – will oversee this work.

- 120 I propose to return to Cabinet in July to present the draft public discussion document for Cabinet approval.

- 121 The following table presents milestones for this work, through to a possible implementation in May 2023.

Milestones (overall scheme)	By when
Co-design of Discussion Document and Cabinet approvals to consult	August 2021
Public consultation launch	September 2021
Public consultation closes	December 2021
Submissions analysis and final policy design work	January 2022
Cabinet decisions	February 2022
Drafting of legislation	July 2022
Introduction and first reading	August 2022
Select Committee process	September 2022
Passage of legislation	April 2023
Implementation/Go Live	May 2023

Financial Implications

- 122 There are no immediate implications arising from this paper.

- 123 Introduction of social unemployment insurance would have very substantial financial implications across the economy. Our intention is for these costs to be substantially met by employers and employees.
- 124 The next phase of work will provide more detail on financial implications, including fiscal implications. These are critical inputs to the public consultation document.

Legislative Implications

- 125 There are no immediate legislative implications. Introduction of social unemployment insurance would require a new act of Parliament.

Impact Analysis

Regulatory Impact Statement

- 126 There is a range of options in this paper which, if they were to be recommended to Cabinet, would undergo a regulatory impact analysis. I propose that a full regulatory analysis be completed as part of any subsequent legislative process. In the interim, the proposed public consultation document will serve to inform the subsequent full regulatory impact analysis.

Climate Implications of Policy Assessment

- 127 A Climate Implications of Policy Assessment is not required.

Population Implications

- 128 The further work proposed in this paper will examine fully the implications for population groups of establishing a social unemployment insurance scheme.
- 129 Coverage for workers in temporary or non-standard employment will be a critical issue to consider as work progresses. This includes approximately 308,700 self-employed people and contractors (e.g. Uber drivers), and a further 201,200⁶ temporary workers, made up of:
- 129.1 24,000 seasonal workers
 - 129.2 108,600 casual employees
 - 129.3 56,800 fixed term employees
 - 129.4 10,400 temp agency employees
- 130 Temporary workers are more likely to be women, younger workers (15-24 years) or older workers (65+ years), and Māori and Pacific people.⁷

⁶<https://www.stats.govt.nz/reports/survey-of-working-life-2018>

⁷ <https://www.stats.govt.nz/assets/Reports/Employment-relationships-permanent-and-temporary-workers-December-2016-quarter/employment-relationships-permanent-temporary-workers-december-2016-quarter.pdf>

- 131 There are significant implications for people with health conditions and disabilities. Over the five years to September 2016, 11 percent of people who left their jobs did so because of a health condition, disability or injury. This would equate to about 41,250 people in a year. Of those who left jobs for this reason, about 75 percent were out of work for three months or less.⁸

Human Rights

- 132 There are no relevant implications for human rights.

Consultation

- 133 The Ministry of Business, Innovation, and Employment prepared this paper.
- 134 The Treasury, Ministry of Social Development, and Inland Revenue have been consulted. The Department of the Prime Minister and Cabinet has been informed.

Communications and Proactive Release

- 135 I propose to release this paper in conjunction with the release of the public discussion document.

Recommendations

The Minister of Finance recommends that the Committee:

- 1 **note** that helping people to find good jobs following redundancy, or the onset of health conditions and disabilities, is a key step towards a more productive, sustainable, and inclusive economy that is resilient to shocks and ready for the future of work;
- 2 **note** that, while the support for displaced workers has been improving steadily, there is still a large gap in the availability of financial assistance that effectively smooths incomes and mitigates large income drops;
- 3 **note** that limited financial assistance can constrain displaced workers' opportunity to search for good jobs, to make use of employment services, or to retrain and upskill – increasing the risk that workers take jobs that make poor use of their skills or potential;
- 4 **note** the central importance of continuing to work hand-in-hand with business and union representatives, and other stakeholder groups, on steps to enhance support for displaced workers;
- 5 **agree** that the Government work with business and union representatives to design a social unemployment insurance scheme for public consultation;

⁸ <https://www.stats.govt.nz/assets/Reports/Reasons-people-who-are-not-employed-left-their-last-job/reasons-people-who-arent-employed-left-last-job.pdf>

I N - C O N F I D E N C E

- 6 **note** that the Future of Work Tripartite Forum (the Forum) is meeting on 22 March to discuss the key design choices of a social unemployment insurance scheme to improve financial assistance for displaced workers;
- 7 **note** the Minister of Finance is seeking an agreed Government approach to the Forum;
- 8 **note** that these design choices are intended to guide the Forum discussion, and to inform a subsequent public discussion document, and that the choices are not binding policy decisions;
- 9 **agree** to the following initial policy settings as the starting point for the discussion at the Tripartite Forum:

Issue	Proposed setting
Displacement events covered by insurance	coverage provided for redundancy
	coverage provided for the loss of work due to the onset of health conditions and disabilities
Working arrangements covered	coverage provided for all workers (insofar as practicable, the scheme should cover people in casual and fixed term work, and the self-employed)
Level and duration of income replacement	duration of around six months
	income replacement set at 80%
	income coverage capped at \$130,911, with a “floor” so that no one receives less than the minimum wage (to cover hours that they had been working prior to the displacement)
Provision of supporting services	initially rely on linking people with existing (and developing) services to support return to good work, while exploring what gaps remain and developing a plan on how best to address them to improve outcomes
Obligations on insurance claimants	insurance claimants required to make genuine attempts to find work, with an initial right to refuse poor matches where appropriate, insurance claimants with health conditions or disabilities required to attend any return to work services (health services as directed by medical officers, employment services), and make genuine attempts to find work
Financing and contributions	levies split equally between employers and workers (with initial government establishment funding)
	the levy should apply progressively (or at least provide a lower levy-free income threshold to reduce contributions from low income earners)
	the levy would be compulsory for all workers covered by the scheme (a levy on “personal exertion income”), and set to fully fund the scheme (including operational and service

	costs)
Delivery arrangements	via the Accident Compensation Corporation (ACC)

10 **note** that the Minister of Finance will report to DEV seeking approval of the draft public discussion document, prior to its indicative release in August 2021.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance