



COVERSHEET

Minister	Hon Grant Robertson	Portfolio	Finance
Title of Cabinet paper	New Zealand Income Insurance: decisions on outstanding policy questions	Date to be published	28 April 2023

List of documents that have been proactively released

Date	Title	Author
November 2022	New Zealand Income Insurance: decisions on outstanding policy questions	Office of the Minister of Finance
7 November 2022	New Zealand Income Insurance: Decisions on Outstanding Policy Questions CAB-22-MIN-0484 Minute	Cabinet Office

Information redacted

YES / NO [select one]

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Some information has been withheld for the reasons of Legal Professional Privilege, Confidentiality, and Free and Frank Opinions.



Cabinet

Minute of Decision

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New Zealand Income Insurance: Decisions on Outstanding Policy Questions

Portfolios **Finance / Social Development and Employment / ACC / Workplace Relations and Safety**

On 7 November 2022, following reference from the Cabinet Business Committee, Cabinet:

Background

- 1 **noted** that in July 2022, Cabinet agreed to proceed with New Zealand Income Insurance (NZII) and made decisions on the detailed design of the Scheme [CAB-22-MIN-0250.02];
- 2 **noted** that Cabinet invited the Ministers of Finance, Social Development and Employment, ACC, Revenue, and Workplace Relations and Safety (the responsible Ministers) to report back to the Cabinet Economic Development Committee by October 2022 on outstanding policy questions relating to:
 - 2.1 further options for reducing the impact of the NZII levy on low-income workers;
 - 2.2 further coverage choices for self-employed workers;
 - 2.3 NZII's role in responding to economic crises;
 - 2.4 further advice on enforcement, offences, and penalties;
 - 2.5 coverage for non-standard workers (fixed-term, seasonal, and casual);
 - 2.6 arrangements for obtaining and sharing personal information required to administer NZII;
- 3 **noted** that Cabinet agreed to do further work on whether the bridging payment is in addition to any contractual entitlement to redundancy compensation [CAB-22-MIN-0250.02];

Levy modelling update

- 4 **noted** that previous public consultation earlier in 2022 referenced a levy rate of 2.77 percent of salary and wages, which was based on behavioural assumptions set towards the upper end of the range of modelled methods;

- 5 **noted** that an updated indicative initial levy rate will need to be communicated as part of any announcement of final decisions on the detailed design of the Scheme, to allow New Zealand workers and businesses to plan as best as possible for the actual cost imposed of the Scheme;
- 6 **noted** that subsequent work policy and risk analysis modelling work (which remains a work in progress) indicates that the initial levy could be set within a range of 1.7 to 3.0 percent of salary and wages (split evenly between workers and employers);
- 7 **noted** that there are trade-offs in the balance of financial risk to be borne by levy-payers and the Crown in the early years of the Scheme, and Cabinet's risk appetite should guide where the levy is initially set within the range of 1.7 to 3.0 percent;
- 8 **agreed in principle** to adopt an updated indicative initial levy rate of 2.0 percent of salary and wages for the purposes of announcing the Government's intention to introduce the Scheme;
- 9 **agreed in principle** that subject to the change in timeframe for the Scheme going live (from December 2023 to 1 April 2025), levy modelling work should continue to be advanced and that the initial levy rate be agreed following a round of public consultation on the levy following passage of the legislation;

Income replacement rate

- 10 **agreed** to retain a replacement rate of 80 percent of prior income up to a maximum cap, consistent with Cabinet's decision on 4 July 2022 [CAB-22-MIN-0250.02];
- 11 **noted** that Cabinet agreed that the levies be equally shared by workers and employers at the outset of NZII, but that this could be adjusted over time by regulation as is deemed equitable [CAB-22-MIN-0250.02];

Levy structure

- 12 **agreed** to a flat rate levy structure which, together with an 80 percent replacement rate, is expected to be redistributive in favour of lower-income families and provide greater support than welfare alone;
- 13 **noted** that alternative progressive levy structures were considered, with the best alternative being a levy-free threshold, though this is not well targeted;
- 14 **noted** that the following progressive levy structures would raise the same amount of revenue as the flat-rate 2.0 percent levy:
- 14.1 a levy-free threshold of \$14,000, with a levy rate of 1.34 percent above that (up to the maximum cap);
- 14.2 a levy free threshold of between \$14,000 – \$19,000, with a levy rate of 1.39 percent above that (up to the maximum cap);

Coverage of self-employed workers

- 15 **agreed in principle** to exclude self-employed workers from NZII initially, to focus on establishing the main Scheme for employees;

- 16 **noted** that the responsible Ministers will communicate their intent to explore avenues to bring vulnerable groups of self-employed workers into the Scheme and mitigate the risk of employees being reclassified as contractors to avoid NZII levies;

Bridging payments

- 17 **noted** that Cabinet agreed in July 2022 that employers would be required to provide a four-week notice period and a four-week bridging payment when making an employee's position redundant, whether or not they are eligible for income insurance [CAB-22-MIN-0250.02];
- 18 **noted** that the responsible Ministers sought further advice on options to provide a four-week bridging payment when making an employee's position redundant only if an employee is eligible for the NZII Scheme, but have not recommended this approach;
- 19 **agreed in principle** that employers can satisfy the bridging payment requirement by paying contracted redundancy compensation that meets or exceeds the four-week bridging requirement.

Next steps

- 20 **invited** the Minister of Finance, the Minister for Social Development and Employment and ACC and the Minister for Workplace Relations and Safety to report back to Cabinet in January 2023 to confirm final scheme design and implementation;

Other areas of ongoing policy work

- 21 **noted** that there are a number of further areas where policy work is progressing, and responsible Ministers intend to update Cabinet on these issues when they seek approval to introduce the Bill to the House;
- 22 **noted** that Cabinet authorised responsible Ministers to make additional policy decisions, minor and technical changes, and related matters of detail to the policy decisions agreed by Cabinet, consistent with the general policy intent, on issues that arise in drafting of the Bill and its passage through the House, in consultation with relevant Ministers as appropriate [CAB-22-MIN-0250.02].

Rachel Hayward
Secretary of the Cabinet