



AIDE MEMOIRE

Aide Memoire for attendance at the Future of Work Tripartite Forum Meeting 27 July 2020

Date:	23 July 2020	Priority:	High
Security classification:	In Confidence	Tracking number:	2021-0315

Information for Minister(s)

Hon Andrew Little
Minister for Workplace Relations and Safety

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Jivan Grewal	Manager, Skills and Employment Policy	Privacy of natural persons	✓
Simran Singh	Graduate Policy Advisor		

The following departments/agencies have been consulted

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Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

This aide memoire provides our advice for the meeting of the Future of Work Tripartite Forum on 27 July 2020, and provides speaking points for your presentation to the Forum.

Jivan Grewal
Manager, Skills and Employment Policy
Labour, Science and Enterprise, MBIE

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Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** the contents of this briefing and the attached annexes for the Future of Work Tripartite Forum on 27 July 2020.

Noted

- b **Forward** this Aide Memoire to the Minister of Finance and the Minister for Social Development

Agree / Disagree

Meeting of the Future of Work Tripartite Forum, 27 July

1. The Future of Work Tripartite Forum (the Forum) is a partnership between the Government, Business New Zealand and the Council of Trade Unions (CTU) that aims to support New Zealand businesses and workers to meet the challenges and take the opportunities presented in a rapidly changing world of work. The Forum is a consultative body for dialogue and influencing the Government's policy agenda.
2. The next Forum meeting is on Monday, 27 July 2020, 2.30-5.30pm, in the Grand Hall of Parliament House. Your office has received the briefing pack from the Minister of Finance.

The objective of this Forum meeting is to acknowledge and discuss the impact of the COVID-19 pandemic on workers and businesses, to advance the discussion of key policy issues previously identified by Forum members (support for displaced workers, and skills and training) and summarise the work of the Forum as the general election approaches.

3. The Forum will be chaired by the Government (the Minister of Finance and the Minister for Economic Development). The first agenda item (introduction and scene setting) will be presented by the Minister of Finance, the Minister for Economic Development, and the Minister of Education. The Minister of Finance will update the Forum on the impact of COVID-19 on the economy, and the Government's response and key initiatives in Budget 2020.
4. The Minister for Economic Development will then provide an overview of the Government's refresh of the Industry Strategy and industries of focus for Industry Transformation Plans post COVID-19. The Minister of Education will then provide an overview of the current state and outlook of the labour market, an overview of initiatives that are being overseen by the Employment, Education and Training (EET) Ministerial Group, and progress on those initiatives.

Government presentation on 'Support for Displaced Workers'

5. We understand that you have agreed to deliver the second agenda item on 'Support for Displaced Workers'. The Tripartite Forum's Strategic Assessment of the Future of Work identifies four broad megatrends shaping the future of work: technological progress, demographic change, globalisation and climate change. These megatrends could increase worker displacement as a possible consequence.
6. In response, one of the Forum's four priority work areas is to support workers who are displaced or at risk of displacement. That displacement could arise from gradual change, or from episodic shocks such as pandemics (for example – a sudden increase in technology adoption due to changes to how people work). Systems to support displaced workers could be designed to respond to either circumstance, or both.
7. The economic impact of COVID-19 has also highlighted the concerns with the current system of support for displaced workers. COVID-19 has required temporary increases in financial support and has highlighted the importance of ongoing job matching and training policies. The Forum's work to enhance support for displaced workers, however, preceded the COVID-19 pandemic and the focus of discussion at the Forum is on establishing a more effective support system over the medium and longer term, rather than to respond to the immediate challenges posed by COVID-19.
8. The Ministry of Business, Innovation and Employment (MBIE) is exploring social insurance along with a range of alternative and complementary policy options (such as scaling up active labour market programmes and statutory redundancy).
9. The Forum agenda provides one hour for the 'Support for Displaced Workers' session. The Minister of Finance will briefly open this session and then hand over to you to provide a scene-setting presentation on the Government's recent work on enhancing support for displaced workers. The full presentation slides are attached as **Annex One**. We have also provided talking points for each slide and an overall summary as **Annex Two**. Presenters will speak "from the table" rather than a lecturer.
10. This item will be supported by an officials' discussion document on options for enhancing support for displaced workers (this is included in the Forum briefing pack). Officials from MBIE and the Ministry of Social Development will be available to support you throughout the presentation.

Social partners' views

11. Social partners will respond to the Government presentation and outline their perspectives on support for displaced workers. Social partners strongly support a social insurance approach, and have expressed some concerns that the officials' papers overstate costs, and understate benefits. Below, we have identified some likely questions and suggested responses:

Why include such unrealistic rates of displacement? This will overstate the costs.

- The higher rates of displacement are drawn from the Integrated Data Infrastructure, or the IDI.
- In the IDI it's hard to distinguish actual cases of redundancy from job endings more broadly.
- So the higher numbers reflect a lot more than redundancy (for example- choosing to leave the labour force).
- That said, an insurance scheme could change people's behaviour (to qualify for the scheme) and hence increase rates of displacement.

Are you serious about considering market-based approaches? We should take this off the table now.

- This is just one option to consider.
- Ideally, we would incentivise insurers to work on behalf of displaced workers to get them into good jobs. And at the same time grow a "market" for active labour market support.

The officials' discussion document suggests there's no evidence that a longer job search will reduce wage scarring. What's the basis for that claim?

- The IDI data suggests that people who take longer to resume work don't show higher wages or salaries.
- This is very preliminary analysis and it is not definitive.
- It would be good to discuss the relevant literature with social partners. (ie – the literature on the effects of social insurance on wage scarring)

Why are you still considering welfare-type approaches like the COVID CIRP payment? We've been clear that this about social insurance, not welfare.

- The CIRP has some of the features of an insurance payment such as being linked to redundancy and being individualised, so achieves some of the objectives of an insurance scheme.
- Clearly there'll still be an important role for the welfare system, even if an insurance scheme is established.

Annexes

Annex One: Ministers presentation to the 27 July Tripartite Forum

Annex Two: Speech for the presentation on 'Support for Displaced Workers'

Annex One: Ministers presentation to the 27 July Tripartite Forum

Annex Two: Speech for the presentation on ‘Support for Displaced Workers’

Government scene setting presentation on Social unemployment insurance and support for displaced workers

Future of Work Tripartite Forum – 27 July 2020

Purpose & background

Purpose

- provide an update
- confirm objectives
- discuss alternative models of social unemployment insurance

Background

- supporting workers who are "displaced or at risk of displacement" is a Forum priority
- COVID-19 has highlighted the importance of this work
- FOW Forum requested advice additional on active labour market and financial support for displaced workers (which might include insurance, statutory redundancy payments, and/or welfare changes)
- Social partners have requested a focus on social unemployment insurance as a preferred option

Discuss and confirm strategic objectives

Strategic objectives influence the options considered, and their costs

Objectives could include:

- **substantially smoothing incomes** (reducing hardship, financing a period of job search, and perhaps retraining and upskilling),
- **reducing wage scarring**, with gains to workers through wages, and to firms through better skills matching,
- **raising productivity**, through greater openness to technological change (increasing confidence), more productive risk-taking, and more investment in upskilling and retraining,
- **supporting macroeconomic stability** through sustaining consumption in downturns
- **replacing ad hoc tools** (such as the CIRP) with a permanent form of financial support for displaced workers , and / or
- **adjusting to the future of work and other industry transformation** which may require lengthy adjustment processes.

Tools for supporting displaced workers

Supporting displaced workers better is likely to require a package of:

- enhanced access to effective active labour market programmes (employment brokerage, advice, upskilling and retraining),
- financial support, and
- employment opportunities.

Broad agreement that ALMPs are foundational. But what is the role of financial support?

- financial support could be key to reducing pressure to take poorly-matching jobs
- Provides support and mitigates resistance to necessary change
- enhancing welfare support is complementary

But financial support could be high cost

- social partners particularly interested in social unemployment insurance to help socialise that cost (potentially coupled with statutory redundancy)

Social unemployment insurance: Policy choices

Policy choices drive effectiveness and cost.

Eligibility

- all workers, or exclude the self-employed?
- limited to economic displacement, or consider other life-shocks?
- voluntary or compulsory (auto-enrol)?

Entitlement

- link duration to job search (3-6 months?), or to retraining and upskilling and lengthy or economy-wide disruption (up to 12 months)?
- substantially smooth incomes (eg 80% replacement rates), or only moderately (eg 60%), or gradual step-downs?

Financing

- mixture of levies on employers and workers, with government contributions? What costs will employers and workers bear?

Social unemployment insurance: Indicative costs and benefits

Benefits include:

- dedicated income smoothing tool (less hardship, more time for job search & retraining/upskilling)
- (with ALMPs) reduced wage scarring
- counter-cyclical stimulus
- predictable / reliable support
- perceptions of increased equity against systems such as ACC

Costs include:

- direct financing and administration costs
- potential labour market distortions (including behavioural shifts to maximise returns from insurances)
- impacts on tax system efficiency
- perceptions of inequity if recently displaced workers appear to be treated more generously than others

So far, officials have modelled the direct costs of insurance payments, and estimated the costs of wage scarring. Also need to consider how insurance would intersect with ACC, welfare, and health systems.

Social unemployment insurance: Scenarios

Option / scenario	Replacement rate			Maximum duration (months)	Estimated average cost per displaced employee (income capped at \$134k)	Estimated cost per year depending on the displacement rate (income capped at \$134k for 2.3m employees)					Cost per employee (36,000 - 375,000 job losses)
						1.6% displacement rate (36,000 job losses) (consistent with OECD displacement rates)	3.3% displacement rate (75,000 job losses) (similar to the number of new Jobseekers per year)	5.0% displacement rate (114,000 job losses)	9.7% displacement rate (219,000 job losses) (potential during 'Normal' times)	16.5% displacement rate (375,000 job losses) (potential during the GFC)	
High rate, long duration	80%			12	\$14k	\$0.4b - \$0.6b	\$0.8b - \$1.3b	\$1.3b - \$2.0b	\$2.4b - \$3.7b	\$4.7b - \$5.8b	\$180 - \$2,600
High rate, short duration	80%			3	\$7k	\$0.2b - \$0.3b	\$0.4b - \$0.6b	\$0.6b - \$1.0b	\$1.1b - \$1.8b	\$2.1b - \$2.8b	\$90 - \$1,200
Low rate, long duration	60%			12	\$11k	\$0.3b - \$0.5b	\$0.6b - \$1.0b	\$1.0b - \$1.5b	\$1.8b - \$2.8b	\$3.5b - \$4.3b	\$130 - \$1,900
Low rate, short duration	60%			3	\$5k	\$0.1b - \$0.2b	\$0.3b - \$0.5b	\$0.4b - \$0.7b	\$0.9b - \$1.4b	\$1.6b - \$2.1b	\$40 - \$900
Variable rate, long duration	80% first 4 months	70% second 4 months	60% third 4 months	12	\$13k	\$0.4b - \$0.6b	\$0.8b - \$1.2b	\$1.2b - \$1.8b	\$2.3b - \$3.4b	\$4.3b - \$5.3b	\$180 - \$2,300
Continue the COVID-19 Wage Subsidy	100% replacement up to \$585.80 p/w			6	\$8k	\$0.2b - \$0.4b	\$0.4b - \$0.7b	\$0.7b - \$1.1b	\$1.3b - \$2.1b	\$2.4b - \$3.2b	\$90 - \$1,400

- Initial estimates only, based on average cost per displaced worker and very sensitive to assumptions
- Rate of displacement is key (1.6% about average, but variable and uncertain). Higher rates are possible and would increase cost accordingly.
- Including other “life events” would increase cost
- Excludes: savings from reduced welfare cost, behavioural impacts, overheads, cost of ALMPs
- A key question is how the costs would be financed. Options could include a dedicated financial assets fund (like ACC) or treat as hypothecated revenue (like petrol tax to Land Transport Fund).
- Useful to contrast against potential economic wage scarring costs (which some preliminary work indicates could range from between \$4.74bn (assuming approximately 30,000 displacements per annum) to \$15.12bn (for 99,000 displacements per annum)). It is important to note that a social insurance scheme is unlikely to address all the economic costs of wage scarring.

Social unemployment insurance: Delivery choices

Delivery choices also influence effectiveness and cost.

A **state-administered model** like the Accident Compensation Scheme

- crown entity to manage the scheme.
- ALMPs delivered in-house, or contracted, or via the Ministry of Social Development (for example either through an extension to CIRP or higher-rate initial period of Jobseeker Support).

A **tripartite model** like Sweden's Job Security Councils

- Job Security Councils are bipartite (business and union) institutions that manage unemployment insurance claims and support workers return to work

A **market-based model** like Kiwisaver

- workers nominate accredited providers to manage their insurance policies and claims
- accredited providers must accept all-comers, and could be incentivised to support displaced workers into “non-wage scarring” jobs
- tripartite governance, and government contributions

Key questions for discussion

What would be the preferred mix of entitlements and eligibility for social unemployment insurance?

What are the preferred models for delivering social unemployment insurance?

How would the costs of social unemployment insurance be shared?

Minister of Workplace Relations & Safety presentation on Social unemployment insurance and support for displaced workers

Summary

- Better support for displaced workers would give working people more confidence through economic disruption, smooth their transitions following job loss, reduce “wage scarring” (wage loss on re-employment), and raise productivity. [Slides 2 & 3]
- Financial support and Active Labour Market Programmes are key tools.¹ Social partners propose a new social unemployment insurance scheme. This would fill a large gap in current financial support. [Slide 4]
- Policy objectives should guide eligibility, entitlement (payment rate, duration) and financing choices. [Slide 5]
- Officials have begun modelling costs. Displacement rate assumptions are critical, but are uncertain. [Slides 6 & 7]
- The state, a tripartite body, or market providers could deliver an unemployment insurance scheme. The Accident Compensation Scheme, Sweden’s Job Security Councils, and Kiwisaver illustrate potential delivery models. [Slide 8]
- The Forum could discuss eligibility, payment rates and duration; delivery choices; and cost sharing between government, working people, and employers. [Slide 9]
- This Forum discussion will inform a final report to the incoming government. Ministers will be asked to decide whether a social insurance scheme is part of their preferred approach to supporting displaced workers.

Speaking notes

¹ ALMPs comprise programmes such as career advice, job brokerage, education, and training.

[Slide 1: Covering slide]

[Slide 2: Purpose and background]

The purpose of this item is to talk through the options for improving support for displaced workers. I note that an “officials’ discussion document” has also been circulated.

Supporting displaced workers is the quintessential Future of Work issue, and it is particularly topical in the current environment. We’ve introduced a lot of new support at pace. This partly reflects long-standing gaps in how we support working people when they lose their jobs.

The question for the Forum is how to establish an enduring system that makes working people and the economy more resilient to future shocks.

This includes economy-wide shocks - such as the present one. But I’m also concerned about the more regular disruption that routinely occurs when firms restructure or close-down.

[Slide 3: Discuss and confirm strategic objectives]

There is much to be gained from better supporting working people when they lose their jobs. And it's really pleasing to see the strong consensus between the social partners on this.

Those gains would include:

- substantially smoothing incomes,
- reducing wage scarring,
- raising productivity,
- supporting macroeconomic stability, and
- replacing ad hoc tools

I think the Forum can readily endorse all the objectives listed here, but their relative importance may vary. And these relative priorities can inform policy choices.

[Slide 4: Tools for supporting displaced workers]

Again, I think the Forum would readily agree that any support package needs to include financial help, career advice and job brokerage, and help to retrain and upskill.

Each of these is a key ingredient. And they are mutually reinforcing.

Effective financial support, for example, reduces the pressure to accept the first job offer that comes along. As a result, a worker can spend more looking for the right job, and getting help with job search. They could also have more time to retrain and upskill – which is critical for adjusting to the future of work.

There is a range of ways of getting financial support to workers who lose their jobs, including social unemployment insurance.

[Slide 5: Social unemployment insurance: Policy choices]

Officials have made good progress looking at the options for introducing an insurance scheme – although I note this remains a work in progress.

There is a raft of choices in how to design a scheme. How these choices are made depends partly on those relative policy priorities, and appetite for cost.

The key choices relate to eligibility, entitlements, and financing (as noted on the slide).

I know that the social partners have expressed some preferences already, and it would be good to discuss these.

[Slide 6: Social unemployment insurance: Indicative costs and benefits]

Policy choices influence the costs and benefits of an insurance scheme
– summarised here at a high level.

The largest cost, of course, is the actual insurance payments paid to displaced workers. And this cost depends on levels of payment, durations of payment, eligibility rules, and volumes of displacement.

[Slide 7: Social unemployment insurance: Scenarios]

Officials have begun to model these costs.

The figures here are initial estimates. Further work will refine these estimates so we can have more confidence in them.

The really critical assumption to note is the rate of displacement.

The lower rates of displacement, on the left, are consistent with “pure redundancy”. This is where a permanent worker is expressly made redundant by their employer. These lower rates are more useful for planning purposes.

The much higher rates, on the right, are consistent with “job endings” more broadly defined (such as the end of a fixed-term contract).

Redundancy is a small subset of this broader category.

[MBIE and MSD officials can also speak to these points.]

[*Slide 8: Social unemployment insurance: Delivery choices*]

There are also delivery choices to consider.

Broadly, we can think about state, tripartite, or market-led approaches.

In each case, the objective would be to deliver the best outcomes for displaced workers.

I understand there may be some preference to narrow the range of options considered [*CTU prefers to set aside a market-based delivery option*]. But I think it is useful, at this stage, for work to continue on each, and to assess the choices on their merits.

[Slide 9: Key questions for discussion]

There is clearly more work to be done.

To inform that work, it would be useful for the Forum to discuss these key questions.

The first question is about the mix of entitlements and eligibility criteria.

Policy priorities drive these choices.

The second question is about different ways of delivering insurance, and employment support.

And the third question is about how to share costs.