



AIDE MEMOIRE

Further thinking on key Social Insurance design issues

Date:	8 June 2021	Priority:	High
Security classification:	In Confidence	Tracking number:	2021-4028

Information for Minister	
	Deadline
Hon Grant Robertson Minister of Finance	10 June 2021
Hon Chris Hipkins Minister of Education	
Hon Carmel Sepuloni Minister for Social Development and Employment	
Hon David Parker Minister of Revenue	
Hon Stuart Nash Minister for Economic and Regional Development	
Hon Michael Wood Minister for Workplace Relations and Safety	

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Jivan Grewal	Policy Director, Employment, Skills and Immigration Policy	Privacy of natural persons	<input type="checkbox"/>
Francis van der Krogt	Principal Policy Advisor, Skills and Employment Policy		

The following departments/agencies have been consulted
The Treasury, MSD, IRD, DPMC, ACC

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 Withdrawn |

Comments



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Further thinking on key Social Insurance design issues

Date:	8 June 2021	Priority:	High
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Purpose

The purpose of this note is to present further thinking on key design issues for social unemployment insurance.

Jivan Grewal
**Policy Director, Employment, Skills and
Immigration Policy**
Labour, Science and Enterprise, MBIE

08 / 06 / 2021

Background

1. The Social Unemployment Insurance Governance Group (SUIGG) is holding exploratory meetings to discuss design choices for a social unemployment insurance scheme.
2. The purpose of these meetings is to inform the Tripartite Working Group about the SUIGG's priorities, rather than to take decisions. Ministers are meeting prior to each full SUIGG meeting.
3. An initial meeting with officials and ministers was held on 10 May, with the full SUIGG meeting on 17 May. Discussion focussed on coverage and entitlement choices.
4. A further meeting with officials is scheduled for 10 June, and with the full SUIGG on 14 June. These June meetings are an opportunity to discuss the scheme as a whole. The attached briefing presents three stylised social insurance packages with differing scope and entitlements.
5. Scope and entitlements are the key policy levers that could be used to mitigate some of the key unintended consequences and the uncertainties in the costs of the scheme. Narrowing scope and limiting entitlements, however, could reduce the scheme's effectiveness. The project team seeks feedback from Ministers about their preferences in managing this trade-off.
6. The project team has also provided some initial thinking on other design features not previously canvassed with the SUIGG. These include:
 - scheme revenue and levy design,
 - implementation and delivery arrangements,
 - claimant obligations and consequences, and
 - coverage and entitlements for health conditions and disabilities
7. The Tripartite Working Group will use the SUIGG's feedback to inform the discussion document. Ministers and the SUIGG will receive a complete draft of the Discussion Document in late June for discussion and comment.
8. Note that while this version will cover the breadth of policy issues, it will still be a work in development, and further editing of the document will continue. A final version (incorporating editorial changes) and feedback from SUIGG will be available ahead of submission to Cabinet.
9. Cabinet will consider the Discussion Document in July. Officials recommend that, once Cabinet has approved the draft Discussion Document, any further changes to the document would need to be broadly consistent with that Cabinet mandate or be subject to further Cabinet approval.
10. In August, the Tripartite Forum will be invited to endorse the Discussion Document for public release, and initiate the public consultation.

Annex 1 provides portfolio-specific commentary for the 10 June meeting.

Annex 2 provides a full policy briefing for the 10 and 14 June meetings.

Annex 1: Portfolio-specific commentary

Cross Employment, Education and Training issues

- A SUI scheme would provide financial support to smooth the incomes of eligible workers who are economically displaced, or whose ability to continue to work is limited by health conditions and disabilities. Help to prepare for, and to find, employment includes job search assistance, career advice, skills assessments, training, and (where necessary) assistance to respond to health conditions and disabilities.
- The briefing notes that significant rehabilitation, retraining or upskilling can take longer than six months and relies on the existence of appropriate infrastructure to identify appropriate training and rehabilitative services. Such infrastructure is still in development as part of the Reform of Vocational Education. Vocational rehabilitation services to support SUI claimant return to work may need to be developed.

Social Development and Employment, and Disability

- The policy packages illustrate narrower approaches to eligibility, and lower entitlements. These approaches could adversely impact some groups who already face disadvantage, particularly those with health conditions or disabilities.

Accident Compensation

- The Working Group is liaising with ACC to understand better where AC Scheme policy is suitable for unemployment insurance, and where it would differ, and also to explore the practicalities of the ACC delivering social unemployment insurance.

Revenue

- The briefing provides advice on levy design choices. To lower costs, and to discourage employers and employees from switching to levy-free forms of work or reclassifying income, it is desirable for the levy to apply as broadly as possible to all exertion income (as distinct from investment income). Further, in the interest of fairness, the levy-payer base should align with eligibility for insurance payments.

Economic and Regional Development and Small Business

- The design of a social insurance scheme will need to achieve a balance between the costs imposed on businesses and workers, and the potential benefit of ensuring a just transition for workers displaced by technology, lowering emissions and other economic shocks.
- The inclusion of self-employment may also provide some encouragement to people to try self-employment by partly de-risking business failure. The working group has also had some initial engagement with MBIE's Small Business Advisors group.

Workplace Relations and Safety

- The proposed scheme includes job loss due to a health condition or disability. Where the health condition or disability results from the workplace, there will be close connections with the health and safety at work system. The Working Group and MBIE's Health and Safety Policy Team will work together to achieve compatibility between the incentives created by the social unemployment insurance scheme and the employer and employee behaviour changes needed to realise the vision of the Government's *Health and Safety at Work Strategy 2018-2028* that "Work is healthy and safe for everyone in New Zealand".

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- The Working Group is also devoting significant attention to exploring the obligations employers and employees might face (including bridging payments and notification obligations), and how social unemployment insurance could cover people engaged in non-standard employment.

**Annex 2: Briefing to the Social Unemployment Insurance
Governance Group**

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To: Social Unemployment Insurance Governance Group

From: Social Unemployment Insurance Working Group

Date: 8 June 2021

Briefing: Further thinking on key insurance design issues

Purpose

1. This briefing discusses further thinking on key issues for a social unemployment insurance scheme.

Executive summary

2. This briefing informs the Social Unemployment Insurance Governance Group's (SUIGG) second meeting to explore key social insurance design issues. Note that this briefing does not seek SUIGG decisions on any issues. The working group is still in the process of developing its recommendations and the discussion set out in this paper is intended to be exploratory in nature. It seeks to prompt a discussion about the SUIGG's priorities and preferences.
3. This material is a work in progress, and does not necessarily represent the final view of the Working Group as a whole, of officials, or of the social partners. The Working Group intends to develop its draft recommendations for discussion with the SUIGG by the end of the month.
4. The SUIGG's first exploratory meeting discussed aspects of coverage and entitlements. The SUIGG's second meeting is an opportunity to discuss the scheme as a whole. The meeting is also an opportunity to discuss some issues further, and to canvas remaining issues not previously discussed. These include:
 - coverage and entitlements for health conditions and disabilities,
 - claimant obligations and consequences,
 - scheme revenue and levy design (levy free thresholds, cost sharing options, maximum leviable income settings, crown contributions, levy setting arrangements, and the role of a reserve fund), and
 - implementation and delivery arrangements.
5. To inform a discussion about the scheme as a whole, the Tripartite Working Group has developed three stylised packages with differing scope and entitlements. Scope and entitlements are the key policy levers that could be used to mitigate the unintended consequences and the uncertainties in the costs of the scheme.

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6. Narrowing scope and limiting entitlements, however, could reduce the scheme's effectiveness. The project team seeks feedback from Ministers about their preferences in managing this trade-off.
7. The packages range from narrower coverage, and less generous entitlements to broader coverage, and more generous entitlements:
 - Package 1: Narrow scope of coverage and entitlements*
 - Will likely have fewer unintended consequences and gaming risks, and result in lower costs (and levies), but less impact on the scheme's objectives
 - Package 2: Broader scope of coverage and entitlements*
 - More likely to target cohorts who are in need (particularly for workers with health conditions and disabilities), and reduce wage scarring but will require more extensive mitigating policies to counter greater risk of gaming and unintended consequences, and higher costs and levies
 - Package 3: Expansive scope of coverage and entitlements*
 - This model would achieve greater coverage, and entitlements, but also greater cost uncertainty.
8. The Tripartite Working Group will use the SUIGG's feedback to inform the Discussion Document. Ministers and the SUIGG will receive a complete draft of the Discussion Document in late June for discussion and comment. Cabinet will then consider the Discussion Document in July.
9. In August, the Tripartite Forum will be invited to endorse the Discussion Document for public release, and initiate the public consultation.

Recommendations

10. The Social Unemployment Insurance Working Group recommends that you:
 1. **Note** that this briefing discusses further thinking on some of the key issues for a social unemployment insurance scheme, and
 2. **Provide** feedback on this paper.

Jivan Grewal
Lead, Social Unemployment Insurance Working Group

08 / 06 / 2021

Background

11. Prior to choosing a preferred model for social unemployment insurance for the discussion document, the SUIGG is holding exploratory meetings to discuss design choices. The purpose of these meetings is to inform the Working Group about the SUIGG's priorities, rather than to take decisions. Ministers are meeting prior to each full SUIGG meeting.
12. An initial meeting with officials and ministers was held on 10 May, with the full SUIGG meeting on 17 May. These meetings focussed on coverage and entitlements.
13. On 17 May, the SUIGG indicated an early preference for the following coverage and entitlement settings:

Coverage

- low minimum employment history requirements for initial claims, with the possibly of tighter requirements for subsequent claims
- coverage for all working arrangements (inclusion of non-standard working arrangements)
- coverage for all forms of health conditions and disabilities
- coverage for partial loss of employment (aligned to the Accident Compensation scheme)

Entitlements

- income replacement rate of 80%, for six to twelve months
 - exertion income to abate insurance payments in the same manner as the Accident Compensation scheme
 - continue to consider all options for maintaining scheme integrity (including a possible role for statutory employer economic displacement payments)
 - a triage model to identify claimants at risk of poor outcomes and stream them into return to work case management (possibility for government to meet these costs). ACC would connect claimants to support services delivered by other agencies, such as MSD.
14. Following the SUIGG meeting, the project team also provided the SUIGG with initial advice on costs. That advice highlighted significant uncertainties arising from limited data, and the unpredictability of employer and worker behavioural responses.
 15. The SUIGG's second meeting is an opportunity to discuss the scheme as a whole. To inform this discussion, the Tripartite Working Group has developed three stylised packages of the scheme parameters that would likely be most relevant to manage the uncertainty in take-up (which primarily relate to coverage and entitlements). The paper also provides an indication of the working group's thinking on the residual design features for feedback (including scheme revenue and levy design, implementation and delivery arrangements, claimant obligations and consequences, and coverage and entitlements for workers with health conditions or disabilities.)
 16. This briefing describes packages that highlight choices in the coverage and entitlements dimensions. The specific options identified in within the packages are not

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intended to be firm recommendations or exhaustive choices. They are meant to illustrate the ways in which parameters can be adjusted to narrow or widen the scheme which will in turn impact on costs.

17. Ministers and SUIGG are invited to provide feedback on their preferred scheme parameters, using the stylised packages as a point of reference.
18. The briefing provides further information in four annexes
 - Annex 1: A3 summary of the stylised packages.
 - Annex 2: financing arrangements.
 - Annex 3: coverage and entitlements for health conditions and disabilities.
 - Annex 4: delivering social unemployment insurance.

Policy context and managing trade-offs

19. The Tripartite Forum is designing a social unemployment insurance scheme to help mitigate the social and economic harms that can arise from economic displacement, and from the loss of capacity to continue working due to a health condition or disability.
20. When people lose their jobs through no fault of their own, they can face sudden large income losses, prolonged unemployment, and poor wages or conditions in subsequent employment – an effect known as wage scarring.
21. 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.
22. These adverse effects harm workers, their families, communities and employers. Equally, a support system that mitigated these harms could benefit each of these groups. Effectively supporting people who lose their jobs through no fault of their own would contribute to a more a more productive, sustainable, inclusive, and resilient economy.
23. Rapid technological change, climate change (and adaptation), globalisation, and demographic change are changing the world of work. This means that the scale of involuntary job loss could increase, increasing the need to manage the social and economic harms that can arise.
24. As an income-smoothing instrument, social unemployment insurance offers an effective tool to mitigate sudden substantial drops in income, allowing workers time to adjust to their changed circumstances. Further, a relatively high replacement rate reduces the financial pressure to quickly take up any job, giving workers more opportunity to find (or prepare for) a job that minimises wage scarring.
25. Social unemployment insurance would signal a mutual commitment by society and government to provide effective support to workers through change, treating them with dignity and empathy. This mutual commitment could bolster the social license for difficult economic disruptions.

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26. The Working Group's research so far has revealed that the cost of social unemployment insurance is highly uncertain. The three packages presented in this briefing offer ways to mitigate this uncertainty through narrowing eligibility for insurance, and reducing entitlements. While these measures reduce uncertainty, they could also reduce the scheme's reach and effectiveness. The project team seeks feedback from Ministers about their preferences in managing this trade-off.

Coverage parameters

27. Access to social unemployment insurance can be made narrower or broader, with implications for the cost of the scheme, ease of implementation, labour market behaviours, and outcomes.

The scheme could cover a wider or narrower range of working arrangements

28. Unemployment insurance could cover all working arrangements, or exclude self-employment, for all or some of the scheme's benefits. Other forms of non-standard work – including permanent part time work, premature termination of fixed term or seasonal arrangements or loss of casual work where there is a regular pattern of work – would be covered in any model of the scheme.
29. The self-employed category includes a diverse set workers, including sole-traders (e.g. tradespeople), small business owners, and contractors with varying degrees of dependence on a small number of clients.
30. Self-employed workers are problematic to include for economic displacement because the triggering event for entitlement is less clear. It is also difficult to model how the self-employed may change their behaviour if a SUI scheme is established but we know that self-employed are better able to control their working arrangements and this may increase gaming risks.
31. Excluding self-employed from coverage for economic displacement will simplify the scheme, reduce scheme costs (though not levy rates) and the uncertainty around the costs. However, as has happened in other jurisdictions, excluding self-employed from the scheme may incentivise more employers to move workers into contracting arrangements. The size of this group of workers is likely to grow over time due to the future of work trends.
32. Including coverage for loss of income due to health conditions and disabilities is somewhat more straightforward for the self-employed since the onset of a health condition provides a clearer trigger.
33. Package 2 covers self-employed who are most like employees who can suffer a redundancy-type event. This includes coverage for contractors and platform workers (e.g. ride hailing-app drivers). To avoid the scheme covering standard business risks, Package 2 does not cover self-employed workers who most resemble trading businesses.
34. The packages provide a range of options for covering working arrangements:
- Package 1 covers employees only (full and part-time), excluding all self-employed for both health conditions and economic displacement

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- Package 2 extends coverage for health conditions to all self-employed, and provides economic displacement cover to certain contractors
- Package 3 provides economic displacement and health condition coverage to all types of working arrangements, including the self-employed.

Proportion of income lost: The scheme could cover partial loss or only total loss

35. The proportion of income loss that qualifies for coverage is a key choice. Insurance could be made available only for complete loss of a job (includes loss of part-time and full-time work that results from economic displacement, or incapacitation), or also for degrees of income loss (such as a partial reduction in availability of work, or partial loss of ability to work due to a health condition or a disability)
36. There is a significant degree of uncertainty about how many workers would claim for partial loss. We do not have any existing data on the scale of such claims at the moment. Equally, there is reason to believe that the expected behavioural impacts on partial loss may be larger than for full displacement (since people will still be able to maintain the some job attachment during the period of loss). As such, coverage for complete loss is simpler to design and to implement, and lower-cost than allowing for degrees of loss.
37. “Partial economic displacements” are more likely during an economic downturn. Allowing insurance coverage in this situation is analogous to using insurance as a wage subsidy, given that a business may recover, and an employer may then be able to offer more work. Governments may wish to have the option of using insurance as a wage subsidy, but could reserve this for declared emergencies.
38. Allowing coverage for partial loss due to ill-health or disability would allow workers to maintain their attachment to employment while also providing them with a greater opportunity to receive care and manage their condition. There are difficult choices:
 - Limiting coverage to complete loss of work capacity could mean workers stay in work when this is not ideal, further undermining health and recovery. It is likely some workers will over-state symptoms to qualify for support (although a shorter duration would mitigate this risk).
 - Coverage of partial loss could create arbitrary distinctions about levels of incapacity that are difficult to administer and open to gaming. Setting the thresholds too low would create a form of collective sick leave. However, setting the thresholds too high would have a similar impact to limiting coverage to complete loss.
39. Further, providing insurance coverage for partial loss – whether due to loss of available work, or ability to work – would be consistent with encouraging insurance recipients to accept part-time work, and to make a gradual return to full-time work.
40. The packages provide three options for scale of income loss:
 - Package 1 allows for complete loss of a job only (including where it is one of more than one job held, where that job accounts for at least 20% of total income),
 - Package 2 allows for complete loss of available work (economic displacement), and partial loss (of at least 50% of hours) due to a health condition or a disability, and

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- Package 3 allows for partial loss (20%) for either economic displacement or health conditions.

Contribution periods could be longer or shorter

41. Contribution periods are a further coverage gateway. Contribution periods can be useful for limiting gaming, especially if the contribution period relates to a particular employer. With a contribution period linked to a particular employer, there is less risk that the job is simply “sham employment” created to access the scheme. Longer contribution periods can also be useful for supporting a scheme’s finances, since workers need to contribute for longer before drawing on the scheme.
42. At the same time, lengthy contribution periods (e.g. 12 or more months) tend to discriminate against people who move in and out of the labour force such as for parental responsibilities, people with irregular patterns of work, or people who change employers frequently. A long contributions requirement could also undermine the objective of encouraging workers to take greater risks in entering frontier sectors or firms.
43. The packages provide three options for contribution periods, from more to less stringent:
 - Package 1 requires three months in the job from which the worker has been displaced
 - Package 2 requires three months of work since the last claim or starting employment, or
 - Package 3 requires no minimum contribution.
44. In the first two cases, the contribution includes statutory parental leave including paid parental leave and unpaid leave to mitigate against gender bias. Further work could consider whether other forms of unpaid work could also count towards a contribution period.
45. Three months contribution is low compared to international schemes, where contribution periods are often significantly longer.

The scheme could allow a greater or lower number of claims within a time period

46. A related question is how frequently a person can lodge claims for unemployment insurance. Placing limits on repeated claims is useful both to manage costs, and to manage gaming risks. Most people are unlikely to need to claim against the scheme repeatedly. Instances of repeated claims are more likely to be attempts to game the scheme.
47. However, the limits will disadvantage some workers, for example, those who do experience repeated economic displacement (e.g. because they work in an industry with a high turn-over of firms), or experience recurrent reductions in work capacity due to relapses in their health condition. Tight limits on repeated claims could deter people from jobs in more dynamic fields, where there is a greater chance of economic displacement.
48. The packages provide three options for considering successive claims, from more to less stringent:

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- Package 1 provides up to one base period entitlement every 2 years (for either health conditions or economic displacement),
 - Package 2 provides up to one base period entitlement every 18 months or 2 years for economic displacement and one base period in every 18 months for health conditions, and
 - Package 3 provides one base period in every 12 months for either economic displacement or for health conditions.
49. “Unused entitlements” would remain available (though would not accrue over time), when other eligibility criteria were met.

Entitlement parameters

50. Entitlements can be made more or less generous, with implications for the cost of the scheme, labour market behaviours, and outcomes. We also note that entitlement settings have less impact on the incidence of unintended consequences, but tend to amplify those consequences. A reduction in entitlements may also begin to limit the effectiveness of the scheme on the twin objectives of preventing wage scarring and facilitating income smoothing.

Replacement rates and caps could be lower or higher

51. Since a relatively high replacement rate and cap is important to achieving the scheme’s objectives, each package provides an 80% replacement rate, and the same income cap as the accident compensation scheme. Reducing the replacement rate or cap will reduce the overall costs of the scheme. However, lower replacement rates and a lower cap will likely also impact on the schemes ability to limit wage scarring.

Entitlement durations could be shorter or longer, and there are options for duration extensions

52. The maximum duration of entitlement is a key design choice, with implications for cost, claimant behaviour, and the options available to claimants to return to suitable work or adjust to changed circumstances.
53. A six-month insurance entitlement creates some opportunity to retrain or upskill, and/or to adjust to / recover from health conditions. Any significant retraining or upskilling will take longer than six months. A six-month entitlement may be a suitable period of cover to recover from a health condition and/or to undertake effective job search (under normal labour market conditions) or limited upskilling or retraining. However it may insufficient for claimants with health conditions needing longer recovery periods or who need to significantly retrain after a period of recovery. Fixed entitlement durations do risk creating arbitrary cut-offs, especially for people with health conditions.
54. The packages provide for an entitlement duration from 6 to 12 months.
55. Recognising the limitations of a short fixed entitlement, the Forum agreed in principle that SUI could be extended for training and rehabilitative/treatment reasons, unless there is good reason not to allow this.
56. Such a flexible approach would need to be underpinned by an appropriate infrastructure to support the identification of suitable training and rehabilitation/

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treatment. This infrastructure is at various stages of development across welfare, education and health systems. Tight eligibility criteria would be required for extended entitlement periods to avoid complexity in levy setting, to enable efficient administration of the scheme, and to support perceptions of fairness between claimants.

57. There is also a trade-off between supporting retraining and rehabilitation and maintaining work incentives. Allowing for extensions could incentivise some claimants to take up training or rehabilitation to avoid returning to work, although this could be mitigated by requiring a decision to be made well before the end of the standard duration. In a context of widespread job loss, and low labour demand, it may be appropriate to place a greater emphasis on retraining and rehabilitation. Workers from industries in decline, for reasons such as climate change or changing technology, are also likely to benefit from retraining.
58. The packages provide a range of choices for duration extensions:
 - Package 1 does not allow claimants to extend the base period but they can undertake training or rehabilitation/treatment instead of job search activities.
 - Package 2 allows claimants to extend the base period for specified additional period (for example 50%) to allow for participation in approved training or rehabilitation/treatment.
 - Package 3 allows claimants to extend the base period for the duration of approved training or rehabilitation/treatment.

Employer contributions to manage integrity and reduce levy costs

Employers could be required to make greater or lesser co-payments / severance payments

59. Social insurance can be seen as an alternative to employer-funded, lump-sum severance or redundancy payments, although many OECD countries have mandatory severance payments as well as social insurance.
60. A form of employer “co-funding” (or “bridging payment”) for a brief initial period of unemployment could play a useful role in the insurance system. Firstly, if employers were liable for the initial period of unemployment insurance costs, they may give more consideration to whether redundancy is the best choice for their business. Other options include redeploying a worker within the firm, providing a lengthy notice period, or supporting an employee to another job.
61. Secondly, with an insurance system in place, there may be some incentive for employers to cooperate with employees to lodge spurious claims - such as a claim where the employee is voluntarily leaving the firm, or as an attractive alternative to a dismissal for poor performance. Both of these situations are inconsistent with the intent of the social insurance scheme. Making employers liable for the initial period of unemployment insurance costs could help to deter this behaviour.
62. Further, coupled with a reasonable notice period, an employer liability for the initial period of unemployment could substantially reduce the time workers draw on the scheme, reducing levy costs.

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63. An employer contribution at time of redundancy would also shift some costs away from other employers to those with control over a job loss and the costs it creates for the affected workers and for the scheme. This would function in a similar way to experience rating.
64. The employer liability could last for a period of two to six weeks, with the replacement rate set at 80% or 100%. Such an employer co-payment may not always be possible, such as where an employer becomes insolvent. This approach may also be impractical for non-standard employment. Further policy work is required here.
65. The packages provide three options for employer co-payments:
 - Package 1 provides an employer payment for (up to) the first 6 weeks,
 - Package 2 provides an employer payment for (up to) the first month, and
 - Package 3 requires no employer payment.

Other design features

Funding social unemployment insurance

66. The Forum has indicated a preference for financing the SUI principally via levies on employers and workers. The levies are compulsory and will be collected for the purpose of funding the SUI only. This provides the SUI with the benefits associated with being a user-pays scheme for pooling risk and improves the perceived fairness of the scheme. This design choice also matches the current funding mechanism for ACC.
67. It is desirable for the levies to match the expected cost of the scheme as closely as possible from an early stage. Setting levies too low risks insolvency, with a need for a government bail-out. Setting levies too high risks collecting more funds than are necessary to fund the scheme.
68. The levy will apply as broadly as possible both as an integrity measure and to lower the costs to employers and employees. For fairness, the levy-payer base should align with eligibility for insurance payments.
69. Evidence suggests that, over time, both the employee and employer levy will be passed on in the same way depending on the perceived benefits of the scheme and relative bargaining power.
70. However, it is worthwhile to introduce both an employer and employee levies as it allows future policy flexibility – as the levies can be used to impose an obligation or to deal with inequities in the system.
71. In this regard the scheme should also have four separate levies – an employee and employer levy for both redundancy and health and disability conditions. Having separate levies recognise that these two forms of displacement are very different and allows for more transparent communication of the costs of the scheme to the public.
72. There is a potential equity issue in that low income earners may contribute full levies to a scheme that offers them little more than the current welfare system. A way to achieve this may be to set a levy-free threshold for the employee levy. However, what

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this threshold is will need to be evaluated as the higher the threshold, the more costly the scheme will be for those earning above the threshold.

73. The Group is considering a variety of potential thresholds between \$5,000pa and \$23,000pa. Each of these choices would increase levy rates on in scope income (by between 10% and 50%) and would also act as a transfer to otherwise well-off families (i.e. second earners in high income households). As a result, there may be design elements relating to payment and eligibility, or changes in other Government policies (e.g. benefit rates), that could achieve a more equitable scheme at a lower cost.
74. A further choice is whether to set a ceiling on leviable income, similar to the ACC model. Setting a cap on leviable income to match income protection coverage is an equitable approach that supports the principle of aligning levies with entitlements. On the other hand, the absence of any cap would reduce levies for most workers.
75. On the employer levy side, risk and experience ratings try to match levies more closely with the expected cost a claimant will have on the scheme and may influence behaviours and ensure a fairer allocation of costs. However, neither methods are perfect solutions given their retrospectivity. In addition, experience rating is complex and costly, and introduces its own set of integrity risks and behavioural issues. Given the issues with both methods and the undue complexity associated with differential employer levies for businesses, it appears prudent to start with a scheme that applies a flat employer levy which can be revisited in the future.
76. Annex 2 provides further information on financing social unemployment insurance.

A reserve fund for the scheme

77. A sound funding structure is crucial to institutional credibility and the perception of levy payers' that the scheme will deliver stable benefits over time. Such a structure would ensure that levies are set at the appropriate rate — avoiding accumulating unnecessarily large reserves or incurring excessive debt.
78. This implies a funding structure which is managed according to clear principles and visibility to ensure that these principles are maintained. Without this, there is a risk that future Governments use reserves to fund general government expenditure or defer levy increases necessary to keep the fund solvent.
79. Clear separation from Government can communicate that contributions to the scheme will remain solely for the purpose of funding SUI payments and that the scheme will not rely on general taxation to balance its finances. A funding structure based around a reserve fund can achieve this separation from the outset.
80. We consider that the Government should act as a lender-of-last-resort in the case of extreme and unforeseeable events. In these cases, separation of the fund can be maintained by ensuring that lending is only for these events and that loans are repayable. The Government may also choose to contribute during extreme events if it decides scheme parameters need to be relaxed for a period.
81. At first, a reserve fund would require higher levy rates while the fund is built up. However, as the reserve fund is unlikely to be large, there is likely to be only a small difference. Alternatively, it could be started with a loan from the Crown to be repaid from future levies.

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Coverage for health conditions and disabilities

82. Health conditions and disabilities affect the work capacity of a significant number of workers, with impacts on workplaces. A large number of people claim welfare benefits due to a health condition or a disability. However, not all would be eligible for a time-limited social insurance scheme, only those entering the scheme from employment. HLFS data estimates that 17,300 people leave work each year due to a health condition or a disability. Mental health conditions and musculoskeletal disorders account are common amongst health and disability benefit recipients in the welfare system and are likely to be in a SUI scheme. There are significant limitations with the available data. The actual incidence of insurance-qualifying health conditions could be higher or potentially lower than the HLFS data suggest.
83. The relationship between ill-health, health and well-being is complex. Individuals may progress along this continuum from health to illness and back again. While unemployment is linked to poor health and wellbeing outcomes, engaging in suitable work appears to be good for wellbeing.
84. The OECD has recommended that improving outcomes for people with health conditions and disabilities requires a co-ordinated approach across systems. Social insurance needs to be seen within a wider context for improving labour market outcomes for people with disabilities health conditions.
85. There would be significant benefits derived from improving support for people losing work due to health conditions and disabilities. However, there are also risks that the inclusion of such workers will significantly impact the schemes costs.
86. As mentioned above there are a range of general parameters that can be used to limit the unintended consequences and gaming risks associated with social insurance schemes. Annex 3 discusses levers that could be used to manage these consequences and risks in relation to claimants with health conditions or disabilities. These include:
 - type and severity of conditions covered
 - assessment processes
 - obligations on claimants and employers
 - return to work supports and services
87. Where the health condition or disability results from the workplace, there will be close connections with the health and safety at work system. Further work will be done to promote compatibility between the incentives created by the social unemployment insurance scheme and the employer and employee behaviour changes needed to realise the vision of the Government's Health and Safety at Work Strategy 2018-2028 that "Work is healthy and safe for everyone in New Zealand".

Claimant obligations and consequences

88. A key goal of the unemployment insurance scheme is to reduce the financial pressure that people face to search for new jobs if they are made redundant, or to return to work if they develop health conditions or disabilities. With less financial pressure, people may have a better chance of finding a well-matched job, or of recovering from a health condition and returning to suitable work.

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89. There is also a risk, however, of unintended behavioural effects. These include the risks of people changing their behaviour to qualify for insurance payments, or making only limited efforts to return to work. These risks are greater with the relatively generous replacement rates proposed for the New Zealand scheme.
90. While a shorter duration limit may reduce these effects, the risk of unintended behaviour remains, leading to increased scheme costs, diminished confidence in the scheme, and perhaps less impact on the scheme's intended outcomes.
91. For these reasons, international social insurance schemes, and the New Zealand welfare and accident compensation schemes, all place obligations on claimants, with consequences for non-compliance.
92. Some obligations are necessary to underpin the operation of social insurance schemes (such as providing information to insurers on job loss or work capacity), while others relate to the scheme's intended outcomes (such as participating in job search, or work preparation).
93. Onerous obligations teamed with excessive sanctions, however, risk pushing people into poorly matching jobs, undermining core scheme objectives of being supportive towards workers and assisting them to find good jobs. Ministers and social partners have signalled a preference for keeping obligations and (especially) consequences as light as possible for the social insurance scheme.
94. Defining a set of obligations is likely to be more straightforward than defining any consequences for non-compliance. A reasonable set of obligations for insurance claimants could include the following:
 - inform the insurer of any change in circumstance that may affect the eligibility for or rate of Social Insurance
 - actively search for work (and demonstrate job search activity)
 - accept suitable offers of employment that offer at least pre-displacement wages and other terms and conditions¹
 - complete a return to work plan (where required).
95. These obligations could be waived fully or partially for those:
 - with health conditions and/or disabilities (based on work capacity)
 - undertaking approved training²
 - participating in approved active labour market programmes

¹ Suitable employment would need to be defined. The definition of suitable employment differs across countries. Differences in the definition span over the following dimensions: (i) the requirement to accept a job while enrolled in an ALMP, (ii) the possibility to refuse a job if this falls outside the job seeker's occupational area of expertise, (iii) the possibility to refuse a job if the offer is beyond some travel distance from the place of residence, and (iv) the presence of other valid reasons for job refusal. It will be important that this threshold is calibrated correctly to avoid the incentive to return to poor work.

² Further work is required on what would count as approved training for differing claimants.

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- who have children while in receipt of social insurance meaning their childcare responsibilities may prevent them from returning to similar or any work³.
96. Additional obligations could apply for claimants with health conditions or disabilities:
- the requirement to provide subsequent medical certificates should a work capacity reassessment be required by their health practitioner within the entitlement period
 - the requirement to undertake any assessments related to returning to work
 - requirements to prepare to return to work where appropriate. This could include engaging in rehabilitation activities.
97. Claimants could be obligated to remain in New Zealand, since the objective of the scheme is for workers to find work in New Zealand.
98. We assume that many claimants are likely to comply with these obligations without the prospect of consequences or sanctions. Compliance will be greater if it is easy for claimants to comply. Other measures could include:
- connecting claimants to appropriate employment services and job opportunities
 - reminding claimants about their obligations, and other “behavioural nudges” (such as reminders of a remaining period of entitlement)
 - using case management to understand individual’s needs and barriers, and to develop return to work plans. (Effective case management may help people to overcome tendencies to procrastinate)⁴.
99. Compliance is likely to be greater, however, if there are some financial consequences for non-compliance. In both the welfare and accident compensation systems there are consequences for not meeting obligations. In the accident compensation system these consequences include a cessation of payments until the person complies. In the welfare system, obligation failures can lead to sanctions which can lead to the loss of benefits and supplementary payments of 50-100% of entitlements⁵. Sanctions can range from a temporary reduction in entitlement to the immediate suspension from eligibility and a 13-week stand down period.
100. The Governance Group may prefer to introduce the scheme with no financial penalties initially (or only moderate penalties), and reserve the option of introducing financial penalties if it appears that claimants are making fraudulent representations about searching for work.

Delivering social unemployment insurance

101. There is a range of delivery arrangements to consider, including the preferred organisational form, governance arrangements, implementation timeframes and

³ There may also be other situations where work obligations would be waived e.g. claimants who have left an abusive relationship.

⁴ Spinnewijn, J. (2015). Unemployed but optimistic: Optimal insurance design with biased beliefs. *Journal of the European Economic Association*, 13 (1), 130–167.

⁵ A review of obligations and sanctions in the welfare system is being completed by MSD as part of the welfare overhaul work programme. While Cabinet has agreed that removing all obligations and sanctions is outside of scope [CAB-19-MIN-0170 refers], the review will consider the role of both obligations and sanctions in the future direction of the welfare system [REP/21/3/296 refers].

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sequencing, and operational matters such as dispute resolution. A gradual (sequenced) introduction could reduce delivery risks, and reduce the need for up-front funding, but also defer benefits.

102. The Terms of Reference note that “the scheme should be provided by ACC” and that it should be implemented in 2023. The Working Group is working with ACC, the Treasury (as ACC monitor) and the Public Service Commission to understand the practicalities and potential implementation issues.
103. Further advice on implementation and delivery will be provided to the SUIGG at the end of June.
104. Annex 4 provides additional information on delivering social unemployment insurance, including some initial options for enabling tripartite governance and Māori representation, as specified in the Terms of Reference.
105. The discussion in Annex 4 does not include any proposals about strengthening social partners’ role in the ongoing policy development for SUI. Officials are of the view that strengthening social partner involvement in policy development is a broader issue that could warrant its own consideration, rather than as an add-on to the social insurance scheme. The Council of Trade Unions has requested that this work be expedited so that it coincides with the delivery of the SUI scheme to enable future policy development on SUI to be undertaken in a tripartite fashion.

Next steps

106. The Working Group will take the direction from the SUIGG’s meetings to inform the draft discussion document, and supporting Cabinet paper. The SUIGG will receive the draft discussion document, and Cabinet paper on 24 June.
107. The Working Group is also continuing to estimate costs to inform the SUIGG’s deliberations. The Working Group intends to use the Treasury’s Tax and Welfare Analysis (TAWA) model as the primary costing model, while producing more rapid (through less complete) preliminary costings using an interim model (which is being developed on the MSD costings that informed our earlier advice to SUIGG). Further work is also underway on behavioural responses
108. The TAWA model is, however, only likely to begin to deliver results in July and there is a not insubstantial risk that useful costing results will take longer. This is likely to mean that we will need to rely on cost estimates generated by the interim model for the Discussion Document. We expect to use the TAWA model for sensitivity-checking the results from the MSD model.
109. We expect to provide SUIGG with the following briefings:

Draft discussion document and supporting Cabinet paper (for feedback)	24 June
Near-final discussion document and supporting Cabinet paper	1 July (for discussion at 5 July SUIGG meeting)

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Draft discussion document and supporting Cabinet paper (for feedback)	24 June
Final discussion document and supporting Cabinet paper	22 July

110. The Working Group is also undertaking targeted consultation to inform the discussion document. We have met with the Small Business Advisors and key disability stakeholders. We have also undertaken meetings with some Maori and Pasifika Reference Group, and with representatives of the private insurance sector.
111. There is also an opportunity for increased engagement and co-design with Māori when the detailed design and implementation of the scheme are commenced. Māori are disproportionately represented in the displaced worker statistics and are more vulnerable to loss of work due to a health condition or disability.

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Annex 1: Stylised policy packages

Three models are presented below. While all the individual parameters for all packages could be tweaked to achieve different results, these packages are intended to demonstrate a suite of design options that together have different impacts on the reach, costs and unintended consequences arising from the scheme.

		Package 1: Narrow coverage and entitlements.		Package 2: A broader possible scheme.		Package 3: A more expansive model		Impact
		Will likely have fewer unintended consequences and gaming, and result in lower costs (and levies), but less impact on the scheme's objectives		More likely to target cohorts who are in need (particularly for health conditions and disabilities), and reduce wage scarring but will require mitigating policies to counter greater risk of gaming and unintended consequences, and higher costs and levies		Greater coverage, and entitlements, but also greater cost uncertainty.		This column is intended to illustrate how shifting the policy parameters affects the trade-off between cost uncertainty and the scheme's reach and effectiveness.
		<i>Economic Displacement</i>	<i>Health conditions and disabilities</i>	<i>Economic Displacement</i>	<i>Health conditions and disabilities</i>	<i>Economic Displacement</i>	<i>Health conditions and disabilities</i>	
Gateway	Working arrangements (this could impact on gaming behaviour. Also removal of certain groups would reduce overall revenue pool)	Only employees (full and part time). Excludes self-employed. Cover for fixed term for premature termination (and only for residual period). Casuals covered by break in pattern of employment, but unlikely to be able to claim. Seasonal employees covered similarly (pattern of work) for remainder of shortened season.		Cover for employees as per package 1. Cover sole contractors as per fixed term employees, subject to conclusion of current work on contractors. Potentially opt in for other self-employed (with minimum contribution periods).	Covers all working arrangements	Covers all working arrangements. Potentially opt out for self-employed.		More likely to reduce the gateway due to complexity (so will have more of an impact on fraud and coverage creep). May exclude people who have legitimate need for income support. Will have less of an impact on overall costs and levy rates
	Income lost (unavailable data on partial loss. Likely significant impact on costings)	Only covers complete job loss (ie. no partial loss, but coverage for any job earning over 20% of income)	100% incapacity (ie. no partial loss) Accompanied with certification guidelines and stringent assessment process	Only covers complete job loss (ie. no partial loss but coverage of any job over 20% of income)	50-75% incapacity (ie. some partial loss covered) Accompanied with certification guidelines and stringent assessment process (e.g. medical reviews)	Covers reduction of hours over 20% (ie. partial loss covered)	20% incapacity (ie. partial loss covered)	
	Contributions history (could have impact on gaming and on chronic health conditions)	3 months in job, including statutory parent leave including Paid Parental Leave (PPL) and unpaid leave		3 months employment since claim or since beginning employment, including statutory parent leave including PPL and unpaid leave		No minimum contributions (ie. eligibility at day 1)		

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		Package 1: Narrow coverage and entitlements.	Package 2: A broader possible scheme.		Package 3: A more expansive model		Impact	
	Multiple claims (could have impact on gaming and on chronic health conditions)	One complete claim period once every 2 years (but could be spread over multiple claims. Timeframe runs from initiation of first claim). Unused portion carried over within the two year period.	One claim period once every 18 months		One claim period every 12 months			
			6 month entitlement once every 2 years	6 month entitlement once every 18 months				
Other integrity or cost mitigation measures	Employer funded stand down periods (could have an impact on gaming)	6 weeks employer bridging payment (post displacement)	4 weeks employer bridging payment (post displacement)		No employer funded payments			
Entitlements	Replacement rate (likely to have the most significant impact on costs).	80%					More likely to reduce overall costs and levies. However, could increase incentives for claimants to take sub-optimal jobs	
	Duration (as with replacement rate)	6 months - 12 months						
	Extendibility (as with replacement rate)	No extension but can undertake training within base duration subject to availability of appropriate infrastructure to accurately identify approved training.	No extension but can undertake rehabilitation within base duration as determined by medical professional.	Base duration entitlement can be extended for duration of approved training (for a further 50% of base duration – ie. 3 months if 6 month base duration). Subject to availability of appropriate infrastructure to accurately identify approved training.	Base duration entitlement can be extended for duration of approved rehabilitation (for a further 50% of base duration – ie. 3 months if 6 month base duration). Rehabilitation programme must be determined to be necessary by medical professional.	Base duration entitlement can be extended for duration of approved training (training duration not capped). Subject to availability of appropriate infrastructure to accurately identify approved training.		Base duration entitlement can be extended for duration of approved rehabilitation (uncapped). Rehabilitation programme must be determined to be necessary by medical professional.
	Replacement cap	As for ACC						

Irrespective of the breadth of the scheme, there are further choices where additional work is needed. These include levies and organisational structure.

		Option 1	Option 2
Levies	Levy free threshold	Low levy free threshold – results in moderate increases to levy	Higher levy free threshold- bigger impact on levy
Organisational Structure	Entity	ACC	Other Crown entity

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Other design features

	Economic Displacement	Health condition or disability
Immigration	<ul style="list-style-type: none"> Any person who is resident in NZ (similar to the AC model) But requirement to limit time overseas and payment ceases if no evidence of expected return <i>Alternative</i> - Only NZ citizens and permanent residents 	
Evidence of work loss	<ul style="list-style-type: none"> Evidence – redundancy notice or business failure Evidence of previous income (could be provided by IR direct to the scheme (and expected future income (in the form of employment agreement plus pattern of income) 	<p>Event triggered</p> <ul style="list-style-type: none"> Assessment by medical practitioner Independent opinion in conflict and will take precedence (employee chooses list of accredited practitioners) Evidence from employer of capacity to undertake work Excludes condition covered by ACC <p>Employer triggered</p> <ul style="list-style-type: none"> Where dismissal initiated by employer due to a health condition or disability, evidence of dismissal from employer is sufficient
Employer obligations	<p>Notice</p> <ul style="list-style-type: none"> 4 weeks prior to displacement (where feasible in non-redundancy) to both SUI provider and employee Employer has redeployment obligations where possible 	<p>Notice</p> <ul style="list-style-type: none"> If employer initiated, then 4 weeks' notice. If triggered by health event, notice not required <p>Pre-work loss due to a health condition or disability</p> <ul style="list-style-type: none"> To undertake reasonable steps to support worker to continue working (including workplace accommodations or redeployment where possible) <p>Post displacement (including partial)</p> <ul style="list-style-type: none"> If event triggered, to undertake reasonable efforts to protect the job where there is a reasonable prognosis of return to work within 6 months
Abatements	<p>Abatement of SUI</p> <ul style="list-style-type: none"> Any personal exertion income bringing total income above 100% pre-displacement income to result in SUI being abated dollar for dollar Non personal exertion income has no impact on entitlements <p>Abatement of other entitlements</p> <ul style="list-style-type: none"> SUI treated as income for tax and social security purposes 	
Replacement floor	Minimum payments 80% of minimum wage	
Case management	<ul style="list-style-type: none"> Variable case management, depending on need Triaging function At a minimum will include references to other available services Where needed, will include a mutually agreed development of return to work plan Could also include regular case management for those in need (including regular monitoring of obligations). But start with client driven case management. Focus on return to non-wage scarred job 	<ul style="list-style-type: none"> As for redundancy, but focus will be on improving health outcomes and best possible return to work outcomes Will involve additional work capacity assessments as duration increases
Additional Services to be funded from scheme	<ul style="list-style-type: none"> Initially, no additional services funded out of levies (other than brokerage arising from case management). Could be looked at as scheme matures 	<ul style="list-style-type: none"> Possible additional funding for return to work services – particularly aimed at bringing employment focus to health and rehabilitation services

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	Economic Displacement	Health condition or disability
	(particularly those that reduce incidence of future displacement – and consequent levy liability) <ul style="list-style-type: none"> • Crown to continue addressing gaps in existing services 	
Claimant obligations	<ul style="list-style-type: none"> • Job search and/or approved training <p>Sanctions and penalties</p> <ul style="list-style-type: none"> • No sanctions, but possible increased case management where needed • Penalties for Fraud 	<ul style="list-style-type: none"> • Engaging with health and rehabilitation services • If there is capacity to work in non-wage scarred job, as for redundancy <p>Sanctions and penalties</p> <ul style="list-style-type: none"> • As for redundancy
Levy	<p>Rates and Levy Structure</p> <ul style="list-style-type: none"> • 50/50 split between employer and employee levies (self-employed would cover both employer and employee components) • Covers admin and entitlements • Maximum leviable income set at ACC rate (\$130,911) • Flat employer levy on total payroll (including contractors labour component, if included) • Crown contribution to set up costs • <i>Alternative</i> – different levy free threshold (5k, 23k) or removal of maximum leviable income (whilst maintaining maximum payment), risk rated employer levies <p>Levy setting</p> <ul style="list-style-type: none"> • Cabinet, on recommendation of scheme and policy agency (as with current ACC settings) • Embedded requirement that levy setting be based on actuarially fair methodology (to account for changing demand through business cycle). 	
Fund	<ul style="list-style-type: none"> • Creation of a notional fund • Crown is lender of last resort to fund 	
Info sharing, dispute resolution, fraud and levy enforcement	<ul style="list-style-type: none"> • TBD • As for redundancy 	
Governance	Tripartite including Māori (with other elements of tripartism in the system) TBD, but to be built of ACC model	
Transitional issues	TBD	

Annex 2: Funding social unemployment insurance

A social unemployment insurance system will need to be financed

1. The Forum has indicated a preference for financing SUI principally via levies on employers and workers. This is consistent with a compulsory insurance scheme designed to support employed individuals whose lose their jobs.⁶ Insurance levies would be applied to personal exertion income, as distinct from income from investments or other sources.
2. This is a *hypothecated design*, where revenue is collected for a specific purpose, with many of the benefits associated with being a user-pays scheme for pooling risk. Such a design matches the current funding mechanism for ACC.
3. A *hypothecated* funding mechanism allows for *levy-benefit linkage* for individuals — that is, the payment of the levy is associated with an *expected benefit* for the individual in terms of the value they place on the income insurance. Such a linkage appears to be both a potentially fair way of financing the scheme and a way of avoiding disincentive effects for work, insofar as the SUI scheme is seen as salient.
4. Further, because income insurance is subject to adverse selection, levy contributions should be compulsory. If contributions were not compulsory, low risk individuals would opt-out, increasing levies and pricing out individuals who would have benefited in a compulsory setting.

Where possible, the financing mechanism should support the purpose of the payment

5. To lower costs, and to discourage employers and employees from switching to levy-free forms of work or reclassifying income, it is desirable for the levy to apply as broadly as possible to all exertion income. Further, in the interest of fairness, the levy-payer base should align with eligibility for insurance payments.
6. As this is an insurance mechanism, as a starting point, the levy should only apply to net income that is insured. This would suggest a flat levy applied to all leviable income. Whether to place a cap on leviable income is a policy choice. In the accident compensation scheme model, the cap for leviable income is the same as the cap for income protected by the scheme (\$130,000).
7. At present the intention is to match the levy and payment base by making both as wide as possible. However, even if this is done effectively, mismatches due to the *interplay with welfare benefits* and *differences in the risk of displacement* will remain. These may lead to inadvertent reductions in net support to low income earners and adversely impact on occupation and work choices.

Net support for low income earners

⁶ Broader-based welfare schemes are more appropriately funded via general taxation as they are intended to redistribute income and offer a base minimum standard for all people in New Zealand.

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8. The SUIGG has previously indicated a preference that SUI payments would abate some existing welfare system support. While desirable, this setting does create an inequity, where some low-income earners would be required to pay insurance levies, lose welfare benefits through abatement, and then be effectively worse off from the introduction of social unemployment insurance.
9. There is a range of choices for managing this issue. The Working Group has focussed on the options for some form of *progressive employee levy* - as distinct from a flat-rate levy - to make the scheme more equitable. A progressive levy rate increases with the individual's income. This does not imply the SUI should ensure a direct link between welfare eligibility and levy liabilities. Firstly, such a system would be impractically complex. Further, low income individuals are more likely to claim insurance for both economic displacement and health and disability conditions, increasing their expected (lifetime) benefit from with a scheme.
10. Setting a levy free threshold (for the employee levy) could be the simplest approach. The working group has considered three options for a levy free threshold:
 - a. a levy free threshold applied at \$23,000pa,
 - b. a lower levy free threshold at \$5,000pa, or
 - c. a levy free threshold at \$5,000pa without a maximum leviable income.
11. A levy free threshold applied at \$23,000pa would ensure that no-one who has average displacement risk would contribute more than they expect to receive. However, this would shift costs to people earning above this amount, and would benefit individuals who would not have been eligible for Job Seeker Support (such as second earners in a family, or those with sufficient cash assets). Initial estimates suggest that a \$23,000pa threshold would require the employee levy rate to rise by 70-80% (i.e. if the employee levy is 1%, it would need to rise to around 1.7%-1.8%). A smaller threshold of \$15,000pa (around current welfare benefit levels) would increase employee levy rates by 40%.
12. An alternative option is a lower levy-free threshold of \$5,000pa. Initial estimates indicate that this would require the employee levy to rise by about 10-12% (i.e. from 1% to around 1.1%). This lower threshold would do less to reduce equity, but this could be offset by the expected greater frequency of claims by lower income earners.
13. A further option is a \$5,000pa levy-free threshold combined with the removal of any cap on leviable income. Our current assumption, consistent with the Accident Compensation scheme, is that only income up to \$130,000 would be liable for insurance levies⁷. Removing the \$130,000 leviable cap would collect more revenue, and reduce the need to raise levies, but would also mean that people earning over \$130,000 will pay more but not benefit from their contributions in excess of \$130,000. In effect, workers contributing above \$130,000 would subsidise the scheme. This may distort labour market choices and may be seen as unfair.
14. While a levy-free threshold would promote equity, any levy-free threshold would be difficult to administer for those who have multiple jobs. There may be alternatives (i.e.

⁷ Income protection coverage also applies only to the first \$130,000 of a worker's income, giving a maximum payment of \$104,000, assuming an 80% replacement rate.

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increases in benefit rates for short duration claimants) that could achieve these ends at a lower cost.

Risk and Experience ratings

15. Some jurisdictions also apply risk or experience ratings to the employer levies that fund economic displacement insurance. Risk or experience ratings are intended to make levies more closely match the expected cost a claimant will have on the scheme. This may influence behaviours and ensure a fairer allocation of costs.
16. Mismatches in the expected benefit of the scheme and levy paid (due to design and/or perception) lead workers and employers to move towards riskier industries. Such shifts may increase aggregate risk taking and labour market displacement.
17. The purpose of risk rating is to ensure that businesses and employees in riskier industries, who may draw more on the scheme, face higher levy rates. Under risk rating, the rate of an employer levy is tied to *industry* risk.
18. Experience rating, by contrast, adjusts the *firm's* levy in relation to the unemployment insurance payments the employer has generated through previous layoffs. Experience rating can discourage layoffs by tying the levy rate to displacement. This can also reduce gaming by discouraging employers from colluding with employees to access UI payments.
19. However, experience rating entails considerable costs, and integrity risks. Discouraging employers from making staff redundant could also deter employers from making productivity enhancing investments. They may also be deterred from hiring. Further, employers may misreport claims (or contest employees' claims) creating a more adversarial relationship and reduces take-up rates; and it would require additional resource to administer, increasing the overall cost of the scheme.
20. Overall, risk rating and experience rating methods are imperfect solutions given the unknowability of future displacement risk — as the risk assessment should be based on true *expected risk of displacement* perceived by employees and employers. Basing it on history locks businesses and workers into older, less efficient, ways of doing work which will consequently hurt productivity and put workers at risk of more drastic displacement during an economic downturn.
21. Given the negative experience with experience rating overseas, and the undue complexity associated with differential employer levies for businesses, it appears prudent to start with a scheme that applies a flat employer levy. There may also be more efficient ways to achieve the objectives of reducing gaming, and allocating costs fairly.⁸ However, as experience with the scheme grows through time this is a policy choice that could be revisited in the future.
22. Apart from the perception of risk, individuals work arrangements may respond to a levy as if it is an increase in their underlying income tax rate. If the effective tax rate for

⁸ One option is the use of severance payments, where employers pay a replacement income (at a full or partial rate) for an initial period of the worker's unemployment spell, such as four weeks – although such payments will be subject to some of the costs from experience rating (reduced hiring incentives, reduced incentive to undertake productivity enhancing restructures).

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earning an extra dollar is already very high - as it is for sole parents earning the minimum wage - then the return for an individual associated with receiving a pay rise or working longer hours is very small. This reduces the incentive for the individual to progress at their workplace, and limits the employer's ability to reward good work.

Levy setting through the economic cycle

23. The demand for insurance will correlate with the economic cycle, especially insurance claims arising from economic displacement. The number and duration of claims will spike during recessions, and reduce during economic expansions. Since the economic cycle is unpredictable, and because the scheme's need for revenue will fluctuate, levies will need to be adjusted from time to time.
24. The system for adjusting levies will need to manage several risks. One risk is that rapidly raising levies during a recession, or economic recovery, can reduce aggregate demand, deter hiring, and delay economic recovery.⁹
25. However, a more gradual levy increase risks transferring costs to people who have not benefitted from the scheme. A levy that does not fund the scheme over the long-term will implicitly involve a transfer between people – with short term underfunding leading to either levy hikes or tax rate increases in the future.
26. The issue of levy cyclicalities points to a levy setting system that is independent, transparent, and involves stability in the levy rate set.
27. The social insurance scheme will also act as an automatic stabiliser through recessions, by sustaining incomes, and hence consumption. If Governments want the ability to enhance this effect through extended insurance entitlements during recessions, financing arrangements will need to allow for this extra cost.

Government contributions have a role

28. As an insurance scheme, the cost of administration and SUI payments is expected to be fully funded from the levy system. Funding it from government contributions would shift the burden of financing to individuals who would not benefit from the scheme, and may create future pressures to reduce payments from the scheme when New Zealand is faced with an economic downturn.
29. However, there may be areas where there might be a rationale for a government contribution:
 - a. The cost of initially setting up the scheme.
 - b. A contribution to the scheme covering health conditions and disabilities to represent broader social value associated with supporting this group.
 - c. In the absence of a levy-free threshold, funding to recognise the reduction in Crown expenses associated with the operation of the scheme.
 - d. During extreme events if it decides scheme parameters need to be relaxed for a period.

⁹ Recent evidence from the United States indicates that rising levies during the recovery from a downturn (due to experience rating) increase unemployment and have a negative effect on new job listings during the recovery period.

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The levy split can help to keep policy options open

30. Both the employee and employer levy have a specified *statutory incidence* (ie the employer or the employee directly pays the levy). However, due to changes in the agreed upon gross wage rate the final *economic incidence* may differ from this. Economic incidence describes who actually pays the final cost.
31. Who bears the economic incidence of both levies is a function of both the levy-benefit linkage — the extent to which an employee perceives themselves to benefit from the scheme — and labour market conditions (bargaining power, outside options, responsiveness of hours and job offers).
32. Regardless of how the total levy is split between employees and employers, the incidence of both levies will be the same. As a result, the preferred choice of the levy split is a question of which is easier to administer and enforce – and if the transitional burden of the scheme should fall more heavily on either employers or employees.
33. A key rationale for having both an employee and employer levy is that it allows the imposition of obligations on employees and employers that can be used to incentivise “good” behaviour. Thus, even when the economic incidence of both levies is the same, designing a system that includes both levies allow for maximum flexibility and future proofing of the system’s design.
34. Even if such differential levies are not put in place when the scheme is established, having an employer levy in place initially allows obligations to be imposed on the employer as well as the employee – which maximises future policy flexibility.
35. Furthermore, this provides a strong basis for having four separate levies for the scheme – an employee and employer levy for both economic displacement and health and disability conditions. As well as allowing for flexibility, the separate levies recognise that these two forms of displacement are very different allowing for more transparent communication of the costs of the scheme to the public.

There are integrity issues from funding as well as the payment

36. For a SUI system, there may be an incentive for individual employers and employees to manipulate leviable income in order to reduce their levy liability.
37. A link between the contributions paid and the expected benefit received helps to limit the incentive to avoid paying. However, the greater the mismatch between the levy and the expected benefit the larger the incentive will be to reclassify leviable income (i.e. if there was no maximum leviable income).
38. There are two key ways such avoidance could occur on the levy side:
 - a. Employees and other potential UI claimants may reduce their levy liability by reclassifying their income.
 - b. Employers may reduce their levy liability by reducing the size of their payroll — this can be achieved by reclassifying their workers or reclassifying the types of income they remunerate their workers with.
39. The following design elements appear to be practical measures to mitigate levy-side integrity concerns to some extent:

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- a. Active auditing on the basis of general anti-avoidance rules for the administering agency.
- b. Deeming provisions for shareholder salaries, buttressed by an association rule.
- c. Levying employers on their total payroll including contractors' labour costs.

Managing the fund

40. Consideration will also need to be given to how the fund for the SUI scheme will be managed. Even though the nature of the fund would be different to the long-term ACC fund, ACC would be able to manage the fund cost-effectively and to the required objectives. It would be preferable for the fund to sit alongside the levy collection and payment functions to reduce complexity.

Annex 3: Coverage for health conditions and disabilities

Health conditions and disabilities affect the work capacity significant number of workers and impact on workplaces

112. In New Zealand the burden from work-related acute injuries is far outweighed by the burden on workers and their families from work-related ill health. It is estimated that 750–900 people die from work-related diseases each year, with 5,000-6,000 hospitalisations each year due to work-related ill-health. Musculoskeletal disorders account for the largest burden of harm, followed by mental ill health, cancers and respiratory diseases.
113. A large number of people claim welfare benefits due to a health condition or a disability. As at end of April 2021, 78,204 people were receiving Jobseeker Support for a health condition and disability (JS – HCD) and 85,383 people were receiving Supported Living Payment (SLP). Mental health conditions and musculoskeletal disorders account are common amongst JS-HCD recipients.
114. However, not all of people claiming benefit for a health condition or a disability would have been eligible for a time-limited social insurance scheme, only those entering the scheme from employment. HLFS data estimates that 17,300 people leave work each year due to a health condition or a disability.
115. Some groups in our society are more vulnerable loss of work due to a health condition or a disability, particularly Māori, older workers, people with pre-existing health conditions, and those with poor literacy and numeracy and limited employment opportunities.
116. Workers experiencing ill-health and disability have an impact on workplaces in the form of:
- Presenteeism (attending work while sick) is difficult to quantify but maybe widespread and associated with significant costs, including a suboptimal allocation of labour.¹⁰
 - Absenteeism
 - Social insurance claims
 - Lost productivity

¹⁰ Sick pay and sickness benefit schemes in the European Union. Background report for the Social Protection Committee's : in-depth review on sickness benefits, Brussels, 2016 <https://op.europa.eu/en/publication-detail/-/publication/fc7a58b4-2599-11e7-ab65-01aa75ed71a1/language-en/format-PDF/source-210113689>

2015 Coming to Work While Sick: An Economic Theory of Presenteeism with an Application to German Data. <https://www.iza.org/publications/dp/9015/coming-to-work-while-sick-an-economic-theory-of-presenteeism-with-an-application-to-german-data>

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The relationship between ill-health, health and well-being is complex

117. Ill-health and wellbeing are multidimensional concepts encompassing social, economic, psychological and biomedical factors and exist on a continuum. Individuals may progress along this continuum from health to illness and back again.
118. Unemployment is almost universally a negative experience and linked to poor health and wellbeing outcomes. This body of evidence is well established, although the direction of causality may still be contested. Work does appear to be good for wellbeing but there are caveats.
- The beneficial health effects of work depend on the nature and quality of work.
 - It is possible that the work-health association reflects people in good health being more likely to work, versus work causing good health
 - The social context must be taken into account, particularly social gradients in health
 - Findings are about average or group affects, and a minority of people may experience contrary health effects from work

Wider context for improving labour market outcomes for people with disabilities health conditions

119. Social insurance needs to be seen within a wider context for improving labour market outcomes for people with disabilities health conditions.
120. The OECD has recommended that improving outcomes for people with health conditions and disabilities requires a co-ordinated approach across systems including:
- Working to prevent the incidence of ill health and disability, especially amongst young people (future workers)
 - Bringing a greater focus on employment to the health system
 - Creating workplaces that are supportive of health and wellbeing
 - Making financial and employment support fit for those out of work due to a health condition or a disability.
121. The OECD has recommended that New Zealand improve financial and employment support for workers losing work due to a health condition or a disability¹¹. Their 2018 report recommended taking steps to address difference in support given to workers unable to work due to injury compared with those unable to work due to a health condition or disability not arising from an injury. A time limited social insurance scheme that covered workers with health conditions not arising from an injury would be a step towards addressing this difference. In Europe, social insurance is the predominant form of organizing sickness benefits.
122. However, improving financial support for workers with health conditions not arising from an injury could have perverse incentives:

¹¹ Compared to European countries, countries with liberal models (such as Australia, Japan, the United Kingdom, New Zealand and the United States), are characterised by less generous and less accessible compensation and less well-developed employment and rehabilitation measures.

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- Employers may be less inclined to change practices that undermine worker health and wellbeing in the knowledge that a scheme is available to support those unable to work. Work would need to continue to reduce the incidence of work-related illnesses.
- Workers may be incentivised to leave employment when they have remaining work capacity or are not ill (see below).
- Long-term outcomes for those with health conditions and disabilities could be poor if other parts of the system are not supportive (e.g. employment support is not teamed with health support; employers are not incentivised with support people with health conditions or disabilities to remain in or return to work).

Levers to manage numbers

123. There are a range of general parameters that could be used to limit the unintended consequences and gaming (eg. waiting periods, reduced periods etc) for any social insurance scheme. The section below discusses levers that are specific to claimants with health conditions or disabilities.

Excluding some conditions such as mental health is an option

124. Spending on social insurance schemes covering health conditions and disability has been growing and much of this growth has been driven by increases in claimants with mental health and musculoskeletal conditions. Determining the veracity of such claims is challenging as there is a reliance on subjective information, co-morbidities are often present, or the severity of conditions fluctuate (e.g. many mental health conditions, musculoskeletal conditions).

125. Social insurance schemes exclude claimants leaving work due to more subjectively defined conditions such as mental health. However, some schemes have responded by significantly restricting access for conditions reliant on more subjective information (e.g. excluding claimants with a primary diagnosis of mental health, limiting access to those where the condition is caused by work). Such policies may reduce scheme costs. However, there is a lack of consistent evidence that such policies improve employment outcomes¹². Moreover, there is evidence of unintended impacts:

- In New South Wales restrictions on access to the workers compensation scheme designed to improve financial sustainability, slowed insurer decision making and increased median disability duration.
- There are indications this may not necessarily lead to reduced long-term costs. Excluding or restricting claims for mental health related conditions can result in an upsurge in claims for other conditions with underlying psychological features (e.g. non-specific musculoskeletal injuries)¹³ or claims for other benefits¹⁴.

¹² McHale P et al. (2020) What is the effect of changing eligibility criteria for disability benefits on employment? A systematic review and meta-analysis of evidence from OECD countries. PLoS ONE 15(12): e0242976.

¹³ Actuaries Institute (2017) Mental Health and Insurance, Green Paper. Institute of Actuaries of Australia [GPMENTALHEALTHWEBRCopy.pdf \(actuaries.asn.au\)](#)

¹⁴ McHale P et al. (2020);

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- International evidence indicates that restricting access to schemes for some conditions will likely contribute to negative health effects, including mortality, and increased poverty for those who are experiencing the excluded conditions¹⁵.

Set a higher threshold for ill-health or disability for entry

126. Another way in which schemes have sought to manage the costs of schemes is set a higher threshold for entry. For example, we could require a high reduction in work capacity to qualify for SUI. In addition the scheme could require the health condition or disability to have an impact on work capacity for a significant period of time to qualify for SUI. The expectation would be that sick leave would cover short-term illnesses. For example,

- If partial loss is covered (see below) we could require a 50% reduction in work capacity to qualify for SUI with an expected duration of at least 4 weeks.
- Alternatively the scheme could only cover those with a 100% reduction in work capacity with an expected duration of at least 4 weeks.

127. Internationally, work capacity reduction thresholds range from 25-75% (as illustrated in the table below).

128. There are trade-offs to be made:

- Stricter entry requirements may lead to more genuine claimants being excluded. There is evidence that false rejections of genuine claimants is a substantial problem, and these are more serious than false acceptances of healthy applicants¹⁶.
- The effectiveness of the threshold will depend on the assessment processes. More effective assessment processes are typically more expensive and more time-consuming. More stringent, and time-consuming processes are associated with worse health outcomes¹⁷.
- A higher level of incapacity required at entry may undermine efforts to sustain people in work. Working and claiming partial benefits slows skill and earnings deterioration and work has positive benefits for mental health. Setting too high a threshold may lead to perverse incentives (people being unwilling to work part-time when they can, presenteeism, worse health outcomes), but too low will substantially increase the cost of the scheme.

Improving the accuracy of assessment at entry

129. Most jurisdictions recognise a wide range of factors influence work capacity and a holistic assessment is required to obtain an accurate picture. However the cost and complexity of undertaking holistic assessments mean medical factors still prevail.

¹⁵ Collie A, Beck D, Gray SE, et al. Impact of legislative reform on benefit access and disability duration in workers' compensation: an interrupted time series study *Occup Environ Med* 2020;77:32–39.

García-Gómez P, Gielen AC. Mortality effects of containing moral hazard: evidence from disability insurance reform. *Health Econ* 2018; 27:606–21.

McHale P et al. (2020) What is the effect of changing eligibility criteria for disability benefits on employment? A systematic review and meta-analysis of evidence from OECD countries. *PLoS ONE* 15(12): e0242976.

¹⁶ Low, H. & Pistaferri L. Disability Insurance: Theoretical Trade-Offs and Empirical Evidence, *Fiscal Studies*, vol. 41, no. 1, pp. 129–164 (2020) 0143-5671

¹⁷ McHale P et al. (2020), Collie et al (2020)

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130. Independence provides some greater assurance of claimant need, but comes at significant cost and workforce demand. The use of independent assessments has sometimes been associated with greater claimant stress and delays in claims being granted¹⁸.
131. The preferable option is assessing work capacity using an initial assessment by the claimants' health practitioner (e.g. GP, nurse practitioner or specialist), with targeted use of more costly second opinions. This is a common approach internationally and is less costly than the above alternatives. The delivery agency could make the decision on whether or not a claim is accepted. The delivery agency will need to have expertise to make eligibility decisions based on this information, and to determine when targeted second opinions are required. This approach could be strengthened by:
- Providing certification guidelines to treating health practitioners. Scandinavian models provide good examples of the use of practice guidelines to support GPs to complete assessments well and reduce variability in practice.
 - Systematically undertaking independent medical reviews. In Switzerland the insurance agency undertook medical reviews. These involved file-based reviews, exchanges with treating physicians and personal examinations by agency officials and other third-party physicians. Introducing medical review reduced disability insurance incidence by 23%. Incidence reductions were closely tied to difficult-to-diagnose conditions. Having a partial benefit system means reductions in full benefit awards were partly offset by increases in partial benefits. More intense screening also increased labour market participation. Existing benefit recipients are downgraded and lost part of their benefit income when the scheduled medical reviews occur. The external medical review is highly cost-effective.¹⁹
132. Consideration could be given to the role of the employer in the assessment process. Obligations could be placed on employers to support engagement in and return to work (e.g. supporting workplace accommodations, job protection while on the scheme). Placing obligations on employers can improve return to work outcomes. However there is also a risk employers reduce employment of people with health conditions and disabilities.
133. Claimants could be obligated to engage in assessments and return to work planning. Such requirements are common in other social insurance schemes. Several European jurisdictions go a step further and require claimants to engage in rehabilitation and employment activities that support return to work. This approach requires:
- Sufficient case managers to triage and coordinate the return to work process
 - Timely access to effective rehabilitation and employment services. Access to, and availability of such services is may be problematic in New Zealand.

¹⁸ Collie A, Beck D, Gray SE, et al. Impact of legislative reform on benefit access and disability duration in workers' compensation: an interrupted time series study *Occup Environ Med* 2020;77:32–39.

¹⁹ Liebert, H. (2019) Does external medical review reduce disability insurance inflow? *Journal of Health Economics*, Volume 64. [2101.03117.pdf \(arxiv.org\)](https://arxiv.org/pdf/2101.03117.pdf)

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Provision of services and support to aid return to work

134. In addition to employment services (e.g. matching services, links to training) claimants with health conditions and disabilities may need other support to return to work. This could include support in accessing health and rehabilitation services and help to arrange reasonable accommodations in the workplace. In supporting return to work, health and rehabilitation services are more effective when integrated with employment support. Workplace programs aimed at facilitating work accommodations and supervisor support can contribute to return to work as well as the prevention of early labour market exit of workers with poor health.²⁰
135. As mentioned above, partial payments could be used to support a graded return to work. This is a common feature of international schemes. The chart on the following page provides international comparisons.

Links to health and safety at work reforms

136. Since the proposed scheme includes job loss due to a health condition or disability, there will be close connections with the health and safety at work system, where the health condition or disability results from the workplace. The Working Group and MBIE's Health and Safety Policy Team will work together to achieve compatibility between the incentives created by the social unemployment insurance scheme and the employer and employee behaviour changes needed to realise the vision of the Government's Health and Safety at Work Strategy 2018-2028 that "Work is healthy and safe for everyone in New Zealand" .

²⁰ Jansen J, van Ooijen R, Koning PWC, Boot CRL, Brouwer S. The Role of the Employer in Supporting Work Participation of Workers with Disabilities: A Systematic Literature Review Using an Interdisciplinary Approach. J Occup Rehabil. 2021 May 12. doi: 10.1007/s10926-021-09978-3. Epub ahead of print. PMID: 33978875

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International Sickness Benefit/Insurance Comparisons

Focus is on schemes that support workers/employees

Country	Eligibility criteria			Assessment Model	Payment conditions				Obligations and support services	
	Mental health exclusion?	Incapacity threshold	Incapacity duration		Replacement rate	Duration	Contribution history	Waiting period	Claimant Obligations	RTW services
Austria	✗	>25%	>6 weeks	<ul style="list-style-type: none"> Doctor certification Insurance provider doctor in some circumstances 	50-75% Partial payments	26 weeks 52 weeks	< 6 months in past 12 months > 6 months in past 12 months	After sick pay – 6-12 weeks	<ul style="list-style-type: none"> RTW planning / rehabilitation Written reintegration agreement with employer for partial benefit 	Jobs are protected Advice on part-time reintegration
Canada	✗	>40% earnings loss	NA	<ul style="list-style-type: none"> Doctor certification (or approved medical practitioner) 	55%	15 weeks	600 hours in last 52 weeks	1 week	<ul style="list-style-type: none"> Fortnightly reporting to confirm ongoing eligibility 	✗
Denmark	✗	>4 hours a week	NA	<ul style="list-style-type: none"> Doctor certification 	80% Partial payments	22 weeks over 9 months	240 hours over 6 months	30 days*	<ul style="list-style-type: none"> Formal interview with employer about RTW at 4 weeks. Co-operate in RTW follow-up activities with case manager 	Jobs are not protected Case management, training Flexi job support (5 years) Vocational rehab
Finland	✗	>40% earnings loss	NA	<ul style="list-style-type: none"> Doctor certification Further specialist assessment at 60, 90 & 150 days 	70% Partial payments	12 months	3 months	9 days*	<ul style="list-style-type: none"> Participate in assessments Have agreement with employer if working part-time 	Info on workplace adjustments Job matching Vocational rehabilitation
France	✗			<ul style="list-style-type: none"> Doctor certification 	50% Partial payments	12 months per 3 years	600 hours in last 52 weeks	3 days*		Rehab and reintegration services Some job protection
Germany	✗	Unable to work for at least 6 weeks		<ul style="list-style-type: none"> Doctor certification 	70% Partial payments	78 weeks over 3 years	4 continuous weeks	6 weeks*	<ul style="list-style-type: none"> Gradual reintegration 	Jobs are not protected Occupational integration for long-term illness (employer pays)
Netherlands	✗	>35% earnings loss		<ul style="list-style-type: none"> Doctor certification 	70% Partial payments	104 weeks*	✗	2 years*	<ul style="list-style-type: none"> Attend appointments Co-operate in assessments and RTW process 	Jobs are not protected Case management, job matching, training, contracted reintegration agencies
Norway	✗	>20% earnings loss		<ul style="list-style-type: none"> Doctor certification (various types of sick notes) 	100% to 80% Partial payments	52 weeks	4 weeks	16 days*	<ul style="list-style-type: none"> Employer/employees must cooperate on solutions RTW plan and rehab 	Jobs are protected Rehab
Sweden	✗	>25%		<ul style="list-style-type: none"> Doctor certification 	80% to 75% Partial payments	No time limit	6 months	14 days*	<ul style="list-style-type: none"> Employer has to develop RTW plan if illness will last >60 days 	Jobs are protected Employment services Rehab
Switzerland	✗	50%		<ul style="list-style-type: none"> Doctor certification 	Voluntary scheme, varies by agreement				<ul style="list-style-type: none"> Employer and employee participate in RTW assessments & processes 	Jobs are protected while ill
UK	✗			<ul style="list-style-type: none"> Health professional contracted by delivery agency 	20% Partial payments	No limit	Paid enough NI credits	?	<ul style="list-style-type: none"> Partial work if possible 	Work and health programme
US	✗	Severe	1 year or terminal	<ul style="list-style-type: none"> Doctor certification Social Security Administration decides 	Varies No partial payments Means tested	Unlimited	Have enough 'work credits'	✗ but long processing times		Some vocational rehab services, varies by state
Australia	*	Able to work 8+ hours a week	NA	<ul style="list-style-type: none"> Doctor certification 	Flat rate Partial payments but means tested	12 months	✗		<ul style="list-style-type: none"> RTW planning 	Jobs are not protected Information on education & employment support Disability Employment services

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NOT GOVERNMENT POLICY

AS AT 20 MAY 2021

* Employer pays for this period

Annex 4: Delivering social unemployment insurance

Form of Scheme administrator

1. Governance and other delivery arrangements are important for ensuring that a SUI scheme is delivered in a way that engenders trust from the outset. The SUI scheme, being funded by employer and worker levies for the specific purpose of providing income replacement (eg. in the event of economic displacement), would need to have independence from undue political interference and delivery credibility. The entity would also need to be accountable to stakeholders and able to respond to legitimate Executive influence exercised on behalf of the public.
2. While a full analysis of entity form options is yet to be done, initial thinking is that a crown agent or autonomous crown entity form is better suited than a departmental form for delivering a levy funded SUI scheme. Key benefits of such forms are that they set a high hurdle for undue influence, and can maintain a clearer separation of levy funding from general taxation (and levy funding being diverted to other government uses).
3. On the other hand, since crown entities operate at arms-length from government, it can be more difficult to influence them to deliver government objectives. However, the Executive maintains a number of levers of influence, including legislation, policy directions, ministerial performance expectations (via the Service Agreement, Ministerial instructions), and Board appointments. Sanctions for unacceptable performance tend to be governance-focussed.
4. The Tripartite Future of Work Forum's indicated starting point is that "the scheme should be provided by ACC" and that it should be implemented in 2023. The Working Group is working with ACC, the Treasury (as ACC monitor) and the Public Service Commission in considering the practicalities and potential implementation issues to deliver the scheme. Further advice will be provided to Ministers at the end of June.
5. ACC has a number of functional capability sets which a SUI could leverage (administration of levying, fund management, claims assessment, payment, case management, actuarial expertise, data management and analytics, dispute resolution) but a SUI will require additional operational processes and additional capacity investment. The SUI insurance provision focus would be different to ACC's management of the AC Scheme and would hence broaden the capabilities required and the interaction with other agencies such as MSD.
6. The advice at the end of June will also consider specific risks with using ACC. ACC is in the midst of embedding new systems and processes from its transformation programme and a SUI could shift ACC's focus from locking in the benefits from this significant investment. The introduction of a SUI will also occur at a time where ACC will be needing to re-gear for changes in the health and disability system, which could stretch its capacity to respond to Government priorities. SUI policy and legislative work could entail trade-offs with work required to progress the Government's manifesto commitments for the AC scheme
7. There are also complex scheme interfaces to consider. Interfaces with the AC scheme and other government services will need to be configured carefully from the

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outset. The SUI scheme would exist independently of the AC scheme. For instance a SUI scheme will require its own stand-alone legislation, information sharing provisions, interface provisions with other systems (including the AC scheme) from the outset. These will need to be carefully designed.

8. Whilst there could be fewer legislative impediments to establish a new entity, this would come at a significantly higher cost, would likely take longer and would have risks for ACC staffing (as a new entity would need many of the same capabilities as ACC).

Governance

9. The Tripartite Future of Work Forum has also indicated a preference that governance of SUI “should be tripartite and include Māori representation.” Tripartite governance could contribute to a continuing voice and influence in the delivery of the scheme by its principal stakeholders – employers and working people – and hence improved scheme performance. The overarching objective of Māori representation in SUI scheme governance is to fulfil Treaty obligations for partnership, enabling Māori to achieve aspirations and for ensuring equity.
10. In considering representation we need to remember that ACC is a highly complex institution and the Board skills matrix should be the priority for delivering that Scheme. To the degree that there is a crossover in governance skills, these should be focussed on operational strategies that balance how scheme entitlements are delivered in an efficient and effective manner, for the benefit of all New Zealand employees and businesses. To the degree that policy or performance does not meet the standard of stakeholders, and this is agreed by Ministers, opportunities to influence will include reviewing legislative settings, annual letters of expectation and negotiation of service agreements.
11. Social partners and Māori representation could be involved/have influence in SUI scheme governance via a number of channels:

Governance channels	Tripartite representation	Māori representation
Board membership	Include board members who have experience and skills in unions and businesses	Include Maori board members
Consultation on Board appointments	Social partners could be consulted on appointments (eg. through a consultation requirement on nominees or composition), or the ACC board skills matrix could be adapted to include consideration for having worker and employer representation.	The Board could engage a Māori advisor (this is already a feature of the ACC Board), or an advisory committee and an obligation to show how its advice has, or has not, been implemented. There could be a requirement to engage with Māori leadership eg. Iwi Chairs Forum to build rapport and understand Māori aspirations.

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Governance channels	Tripartite representation	Māori representation
Performance measures	Involvement in the development of performance. eg. stakeholder satisfaction measures	Specific performance expectations to improve Māori scheme outcomes (already a feature of the ACC service agreement)
Operational partnering	Involvement of social partners in specific services where they have a comparative advantage (eg. facilitating redeployments within or across firms in large scale economic displacement situations)	Delivery of services via Kaupapa Māori providers (as per the current ACC approach)

12. The table above does not include any proposals about strengthening social partners' role in the ongoing policy development for SUI. Officials are of the view that strengthening social partner involvement in policy development is a broader issue that warrants its own consideration, rather than as an add-on the social insurance scheme. The CTU has requested that this work be expedited so that it coincides with the delivery of the SUI scheme to enable future policy development on SUI to be undertaken in a tripartite fashion.

Dispute Resolution

13. The number of disputes that the scheme will generate is difficult to anticipate. ACC declines ~5% of claims received, of which ~7% are disputed. Disputation appears to be highly dependent on scheme settings and sentiment. Based on overseas experience, SUI denials and therefore disputation is expected to mostly to relate to:
- determinations of eligibility based on how workers became unemployed
 - determinations of eligibility for health claims based on medical assessment
 - non-compliance with scheme obligations (to the extent these are a feature).
14. ACC experience is that is that disputed medical evidence is a significant contributor to the number of disputes, time to resolve and perceived unfairness of outcome. This would not be a factor in economic displacement claims, but may affect claims for health conditions and disabilities.
15. A SUI dispute process will need to balance the following objectives: be accessible, timely; proportionate, efficient; and have sufficient independence.
16. Timely resolution is a key objective in the first instance, but it is important that this does not undermine the impartiality of the process overall.
17. One option would be to adopt the ACC model, set out as follows:
- Internal review– ACC undertakes an internal review of a review request, which may result in the original decision being overturned – This is a relatively quick process, through which nearly a third of disputes are resolved
 - Mediation– For outstanding review requests a mediation may be offered

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- Formal review– Unresolved disputes are referred to a contracted third party review, which is subject to a legislatively defined process. Claims that reach this process tend to take longer to resolve (on average 87 days).
 - Appeal to the courts– A review decision is appealable to the District Court, and from there to the High Court and Court of Appeal.
18. A key benefit of ACC's approach is that it is reasonably mature having been honed over a number of years, and is less adversarial and more oriented to fact finding than the Courts system. Downsides are that if there is a high number of disputes, this could detriment the timeliness of decision making for both SUI and ACC claimants, although this could be managed with appropriate funding. It is likely that a SUI process may adopt some different settings than an ACC process (eg. ACC is legislatively required to pay costs when the case goes their way on the consideration of whether it was reasonably brought). Having different procedural provisions could create perceptions of inequities between the systems and undermine trust in the procedures.

Establishing social unemployment insurance

19. The Working Group's terms of reference indicate that the Accident Compensation Corporation (ACC) will deliver social unemployment insurance, that the new scheme should become operational in 2023, and that employer and employee levies should fund the scheme. Building on this starting position, there are a number of detailed delivery issues to consider.

Implementation timeframes

20. The time needed to implement the new scheme will depend on the scope and scale of the scheme. There are many aspects to implementation including legislation, technology, process design, organisational design and workforce recruitment and training. Of all these components, the technology timeframes are likely to be the longest and most costly. Timeframes will differ depending on the complexity and coverage of the scheme, for instance, whether ACC is only required to administer income replacement functions; or whether active work capacity assessment and case management is provided.
21. Implementation timeframes and costs will be heavily influenced by the extent to which existing technology platforms and functionality can be leveraged. Initial indications are that ACC has the required platforms, however development and modification of these systems would be required to accommodate the new scheme. Consideration will be needed on the extent to which the new scheme should have its own systems or be fully integrated with ACC.
22. To implement a scheme that covers the full potential scope and scale, implementation lead times of greater than 18-24 months are likely to be required. Should a phased implementation approach be adopted, a scheme which administers income replacement for economic displacement could possibly be operational within nine – twelve months of set-up commencing.²¹ Further elements of the scheme could then be implemented in phases. This approach would also spread implementation cost and risk.

²¹ These timeframes are still subject to confirmation

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23. Consideration could be given to commencing the scheme without case management and initially relying solely on referral to existing services where available. This would reduce implementation risk but would also allow baseline performance to be established. More active case management could then be introduced on a selective basis for the cohorts where the data indicates that intervention would make a difference. This would assist in managing scheme costs and maximising the effectiveness of the case management resources applied to the scheme.
24. To implement the new scheme, the required workforce will need to be designed, recruited and trained. This could occur in parallel with technology development. As a broad guide, workforce design could be completed within three months, recruitment within a similar timeframe and training within six weeks depending on the role complexity.
25. Sufficient time and resources will also be required for careful legislative drafting to prevent unintended consequences:
 - new legislation is required to establish a social unemployment insurance scheme, which will need to outline ACC's role in administering the scheme
 - cross-linkages in the legislation will need to be clearly drafted to achieve efficiencies for administering both schemes (such as sharing resources across schemes)
 - the Accident Compensation Act will also need to be amended.
26. To enable efficient and effective revenue collection, the administrative agencies (including Inland Revenue) will require the authority and capability to share information with each other, and to obtain information from working people and employers, including insurance claimants. The agencies will also need the authority and capability to share information with each other. Establishing this authority and capability will be a central aspect of further design and implementation work.