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BRIEFING

Joint officials' advice on the Social Unemployment Insurance proposal

Date:	24 June 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2021-4319

Action sought		
	Action sought	**Deadline**
Hon Grant Robertson **Minister of Finance** 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**	**Agree**	29 June 2021

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Jivan Grewal	Policy Director, MBIE	Privacy of natural persons	✓
Amy Hamerton	Principal Policy Analyst, MSD		

The following departments/agencies have been consulted

Minister's office to complete:	☐ Approved	☐ Declined
	☐ Noted	☐ Needs change
	☐ Seen	☐ Overtaken by Events
	☐ See Minister's Notes	☐ Withdrawn

Comments

BRIEFING

Title

Date:	24 June 2021	**Priority:**	High
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Purpose

To provide joint officials' advice on the Social Unemployment Insurance proposal.

Executive summary

This briefing accompanies the draft Social Unemployment Insurance (SUI) discussion document and cover report. It provides joint advice on aspects of the design parameters from the Ministries of Business, Innovation and Employment, and Social Development, Treasury, Inland Revenue and ACC.

This briefing identifies where officials and social partners' views diverge, areas where officials consider there are significant risks and trade-offs, and alternative options to consider. It is intended that this briefing will inform the joint Ministers' meeting on 29 June 2021.

The areas discussed in this briefing are:

- timeframe for implementation
- duration of entitlement and extensions
- coverage for self-employment arrangements
- ACC as the delivery agency
- costings
- financial implications for Government and the economy
- interface with other significant programmes of work and overall integrity.

Timeframe for implementation
Ministers have committed to a May 2023 implementation date and indicated a desire to have a full scheme for health and disability and economic displacement by May 2023, As work has progressed on the development of the scheme, officials have identified some implications of implementing a full scheme by May 2023, including limitations on implementation and risks to the quality of policy design, and difficulty in undertaking public consultation in a meaningful way. From a practical implementation standpoint, key functions such as case management at best will not be in place until the end of 2023, and income replacement for disabled people and people with health conditions may need to be phased in later.

At this stage, costs of the scheme remain highly uncertain with concerns from social partners that the costs are overestimated and officials considering the costs to be underestimated. This is of particular concern with respect to analysis of the distributional impacts of SUI.

Treasury's Tax and Welfare Analysis (TAWA) modelling will provide more certainty of the potential costs and distributional impacts, but it will not be available until late July. Based on the current timeframe, this means Cabinet will consider a discussion document in early August that does not include the TAWA modelling. The TAWA modelling will still represent a range of estimates with high degrees of uncertainty.

Ministers have indicated a desire to have a full scheme for health and disability and economic displacement by May 2023. This option cannot be implemented within this timeframe. There are three other options to consider:

1. May 2023 implementation date with income replacement only (for economic displacement and HCD). Case management would be phased in, and the scheme would start with limited claims assessment capability.

2. May 2023 implementation date for economic displacement, health and disability and some operational dimensions, e.g. case management to be phased in. Covers income replacement for economic displacement, signals further work on health conditions and disabilities, and case management would be phased in.

3. February 2024 or May 2024 for implementation of a full scheme that covers health and disability and economic displaced.

Duration of entitlement and extensions
Social partners prefer a duration of at least nine months (inclusive of a one month bridging payment) with the option to extend the duration for training. Officials prefer a maximum duration of six months plus a one month bridging payment (total seven months duration) and no option for extensions.

Officials consider a total of seven months is sufficient time for a claimant to look for and return to work, and that a seven month duration mitigates against risks of reduced job search effort, diminished work incentives and further detachment from the labour market.

Coverage for self-employment arrangements
Including or excluding self-employment arrangements in the scheme has complexities. Workers in these arrangements have more control over their work arrangements. This means there is no clear equivalent to a ‘no-fault redundancy’ event and it can be difficult to distinguish from standard business risk. However, not including these workers may incentivise more workers into contracting arrangements and - due to the nature of the future of work - the size of this group is likely to grow.

The Project Team’s option to cover self-employment arrangements proposes that only contractors who depend on one client or counter-party, and who have no more than five counterparties in a year, be covered under the scheme. While this option strikes a middle ground to deal with the complexities, officials are concerned it narrows the scheme’s levy base. As a result, new boundaries are introduced and integrity risks created.

There are two potential alternative options for self-employment arrangements. All self-employed workers could be included with stringent conditions to protect the scheme’s integrity, or all self-employment arrangements could be excluded to remove all risk related to under-writing business risk, but this would exacerbate the reclassification risks.

Accident Compensation Corporation (ACC) as the delivery agency
ACC has been identified as the preferred delivery agency. ACC has a number of functional capability sets to deliver the SUI scheme, but there are risks and trade-offs to consider, including additional operational and capacity investment, shifts in focus for ACC from its current delivery function of injury and rehabilitation and away from the substantial work on its Integrated Change and Investment Portfolio Programme, and trade-offs with other policy work.

Costings
There is significant uncertainty around the cost of the SUI scheme. The Project Team is continuing to refine the modelling assumptions, and the cost estimates. These numbers are likely to change, and an updated peer reviewed costing will be provided at the next report back by 8 July 2021. These updated costings are based on MSD data and not the TAWA modelling

expected in late July. The current iteration of the costing indicates the schemes could involve a combined levy across employers and workers of $3.1 billion or 2.3% of payroll for a six month scheme, and $3.9 billion or 2.9% of payroll for an eight month scheme. International benchmarks are also being used to calibrate the costings. The international benchmarks are currently indicating higher costs, but officials are still working through this.

Financial implications for Government and the economy
The costs to Government will be in the form of increased costs to payroll through payment of the levy for public sector workers and set up and transitional costs. The overall cost of providing ongoing funding to the scheme would be between $2b and $4b per annum, if the current cost estimates are accurate (noting the considerable uncertainty about these estimates and noting that these are likely to change).

To date the work on SUI has been funded within the agency baselines. Officials will report back to Ministers with a plan for the next phase of work, including any additional funding to support the next phase of work, notably for ACC.

Interface with other significant programmes of work and overall integrity
Because the scheme has been developed at pace and in the context of significant related system reform there are risks that it may interface with more comprehensive system redesigns without fully resolving the genuine challenges within the underlying systems.

As proposed, the scheme has several features that make it both generous and easily accessible by international standards. While each of these features on their own has individual merit, taken in totality, they could present significant moral hazard and gaming risks.

Recommended action

The Ministries of Business, Innovation and Employment, and Social Development, Treasury, Inland Revenue, and the Accident Compensation Corporation recommend that you:

a **Note** that Ministers have committed to a 2023 implementation date for the SUI Scheme

Noted

b **Note** that the current 2023 implementation timeframe for implementation of a full SUI scheme that covers health and disability and economic displacement brings significant risks and joint officials recommend that consideration is given to extending this timeframe

Noted

c **Note** that there are the three options for timeframes for implementation:

1. May 2023 implementation date with income replacement only (for economic displacement and HCD). Case management would be phased in the scheme would start with limited claims assessment capability.
2. May 2023 implementation date for economic displacement, health and disability and some operational dimensions, e.g. case management to be phased in. Covers income replacement for economic displacement, signals further work on health conditions and disabilities, and case management would be phased in.
3. February 2024 or May 2024 for implementation of a full scheme that covers health and disability and economic displacement.

Noted

d **Note** that if the 2023 implementation date remains a binding constraint, the Ministry of Business, Innovation, and Employment's preferred option is option two

Noted

e **Note** that the Ministry for Social Development and Inland Revenues prefer option three

Noted

f **Note** that ACC prefers option two or three but further work is required to confirm the ability to deliver the operational requirements of the scheme within the estimated timeframes

Noted

g **Note** that joint officials recommend a short base duration of six months plus one month bridging payment with no option to extend for training or rehabilitation purposes

Noted

h **Note** that social partners prefer a longer duration of at least eight months plus a bridging payment with the option to extend

Noted

i **Note** that there complexities in including or excluding self-employment arrangements and to address these complexities the Project Team proposes to cover only contractors who depend on one client or counter-party (20 percent or more of their income), and have no more than five counterparties in any one year

Noted

j **Note** that the alternative options identified by officials to cover self-employment arrangements are:

1. include all self-employed workers to keep the levy base as wide as possible, and set stringent trigger conditions
2. exclude all self-employment workers

Noted

k **Note** that Inland Revenue's preference is to have the same levy base as ACC (include all personal exertion income) and does not support the SUI Project Team's proposal because it introduces complexity and integrity risks

Noted

l **Note** that ACC is the preferred delivery agency but there are a number of risks and trade-offs to consider

Noted

m **Note** that there is significant uncertainty around the cost of the SUI scheme and the numbers are likely to change

Noted

n **Note** there will be fiscal implications for government and direct costs to the broader economy

Noted

- o **Note** that officials will report back to Ministers with a plan for the next phase of work, including any additional funding to support the next phase of work

Noted

Paul Stocks
Deputy Secretary
Labour, Science, and Enterprise, MBIE
24 / June / 21

Simon MacPherson
Deputy Chief Executive
Policy, MSD
24 / June / 21

Privacy of natural persons

Privacy of natural persons

Vicki Plater
Director
Growth and Public Services, The Treasury
24 / June / 21

Kerryn McIntosh-Watt
Policy Director
Inland Revenue
24 / June / 21

Privacy of natural persons

Sharon Champness
Chief Talent Officer
Accident Compensation Corporation
24 / June / 21

Hon Grant Robertson
Minister of Finance

..... / ...... / ......

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

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Background

1. This briefing accompanies the draft Social Unemployment Insurance (SUI) discussion document and cover report. These documents reflect the Social Unemployment Insurance (SUI) Tripartite Project Team's recommendations for the SUI scheme's proposed settings for inclusion in the discussion document. The discussion document and cover report also outline alternative options within some settings for further discussion and decisions.

2. While officials and social partners agree on most of the SUI design parameters, our views diverge on some specific areas. This briefing provides joint officials' (Ministries of Business Innovation and Employment, and Social Development, Treasury, Inland Revenue, and the Accident Compensation Corporation) advice and preferred options on these areas.

3. The Minister for Social Development and Employment has also requested separate advice from the Ministry of Social Development, on implications specific to this portfolio.

There are significant risks with a 2023 implementation date

4. Ministers have committed to a May 2023 implementation for the scheme and the Project Team has been working toward this implementation date.

5. Implementation of a full scheme by May 2023 that covers health and disability and economic displacement has significant risks. The 2023 implementation date brings risks to the quality of policy design and implementation, and difficulty in undertaking public consultation in a meaningful way. ACC have also identified practical implementation issues, that is, due to the complexities associated with the detailed policy design, process design, and technology requirements, it is not feasible to implement all dimensions of the scheme by 2023.

Implementation Constraints

6. ACC have advised that to implement the scheme they will need sufficient lead in time to develop policy and processes, recruit the necessary workforce and build the required technology. This needs to be supported by sufficient start-up funding of an estimated $150 million and legal authority for ACC to begin implementation.

7. It is expected that some of the $150 million will be sought in February along with policy decisions, with the remainder sought through Budget 2022. Officials are working through the empowering legislation required.

8. Assuming ACC receives sufficient and appropriate legislative authority to deliver the scheme, the practical constraints and complexities associated with implementation of a full scheme by 2023 are largely due to technology requirements.

9. The issue is the trade-off in costs, performance and outcomes between delivering large-scale up-front technology, and smaller-scale incremental delivery that allows ACC to test, learn and adapt to different requirements. ACC's experience has shown that an agile delivery model that takes an iterative and incremental approach delivers better value, manages risk more effectively, and allows for effective management of cross-sector interdependencies that need to change at the same time.

10. ACC have also advised that the addition of health and disability provides additional complexity through engagement with treatment providers, seeking second opinions, managing cover boundaries and disputes, and the need for more intensive case-management. Many of these claimants are likely to be in vulnerable situations which provides additional risk to credibility and reputation if not managed correctly, as well as the

potential for adverse claimant outcomes. This may also be the case for some displaced workers.

11. To mitigate the risks identified above and to achieve the 2023 implementation date, ACC have recommended that dimensions of the scheme are phased in, including case management, health and disability and self-employment. At best, case management could be in place by the end of 2023, and further work is needed to ascertain the timing to phase in health and disability or self-employment.

12. A phased approach could create risks that the scheme achieves sub-optimal outcomes if introduction of dimensions are delayed or not implemented. For example, to give most effect, many unemployment insurance schemes, combine active and passive measures. If the scheme only provides an income replacement, it becomes a passive scheme that does little to promote a return to the labour market which could result in people remaining on the scheme longer than necessary, and missing out on the earnings and other benefits of work.

13. Officials also consider there is significant risk in proceeding with implementation at the same time as the legislative process. Without final detailed legislation, there is uncertainty about parameters and a risk that any changes to the legislation will result in the need to remediate issues after implementation.

14. As noted in the cover report, representatives from the disability community and other stakeholders and commentators, have already highlighted inequities across systems for this group.

Policy design constraints

15. Further, officials have concerns that based on the current timeframe, Cabinet will consider a discussion document in early August that does not include the cost estimates of the scheme as modelled by TAWA. At this stage, costs of the scheme remain highly uncertain with concerns from social partners that the costs are overestimated and officials considering the costs to be underestimated. This is of particular concern with respect to analysis of the distributional impacts of SUI.

16. The Discussion Document implies SUI will be particularly beneficial for low income workers given their higher rates of redundancy. However, analysis to date does not account for the net impact of the existing tax and benefit system on displaced workers, nor the effects of SUI income and levies. TAWA modelling will provide a better sense of the potential costs and distributional impacts, but it will not be available until late July. A short delay (for example of 4 to 6 weeks) to account for the TAWA modelling in the publication of the discussion document would likely not compromise the overall timeframe but would increase the pressure on the legislative and implementation process.

17. However, given the significant complexities of the scheme, the uniqueness of the New Zealand labour market, and lack of precedent of an international scheme similar in nature to that proposed to help inform judgments, Ministers should be aware that the ultimate costings will represent a range of estimates with high degrees of uncertainty. Accordingly, introducing a scheme presents a significant degree of fiscal risk and future adjustments are likely to be needed to ensure solvency (either through changes to the levy rates or benefits).

18. Officials also consider there is significant risk in proceeding with implementation at the same as the legislative process. Without final detailed legislation, there is uncertainty about parameters and a risk that any changes to the legislation will result in the need to remediate issues after implementation.

19. In addition, many of the complex questions, warrant further work. For example, the work within the Workplace Relations and Safety portfolio on possibly extending some employment protection to dependant contractors could be significant in informing the coverage of self-employment within SUI. Equally, while the project team has considered how best to

incorporate the loss of income as a result of health condition within the SUI scheme, it has not considered other options (such as the expansion of ACC to cover illness). Taking a broader perspective on the options is particularly important given the broader reform efforts in the health system.

Timeframes

20. Ministers have indicated a desire to have a full scheme for health and disability and economic displacement by May 2023. This option cannot be implemented within this timeframe.

21. In light of the constraints, officials have identified three options for implementation as outlined in table one below.

Table one: Options for timing

	Option one **May 2023 implementation** date with income replacement only (for economic displacement and HCD)	**Option two** **May 2023 implementation** date for economic displacement, with health and disability and some operational dimensions to phased in	**Option three** **February 2024 or May 2024 implementation** of a full scheme that covers health and disability and economic displaced
Implementation date	May 2023 with only income payment (for both economic displacement and HCD)	May 2023 for economic displacement, with health and disability and some operational dimensions to follow	February 2024 or May 2024 From February 2022, 24 months is required to manage the implementation risks. To manage the policy risks the timeframe would need to be extended by three months.
Scope	Only covers income replacement	Covers income replacement for economic displacement. Signals further work to cover HCD and case management for all This would involve introducing legislation for HCD once the scheme for economic displacement is set up.	Includes income replacement for all (health and disability and economic displacement) and case management.
Implementation Constraints	Will not include case management for both HCD and economic displacement Limited assessment capability for HCD claims (which will require a high trust model initially)	Will not include case management for economic displacement by May 2023 At best will be built by end of May 2023.	Risk of implementation and design at the same time. Legislation passed in 2023.

	Risk of implementation and design at the same time.	Risk of implementation and design at the same time.	
Other	Policy design (including consultation) is rushed, and done simultaneously with implementation, could increase risk of errors in scheme design	Could create public perception that HCD is not prioritised. Would create risk that complete costs and dimensions not completed at same time.	May not be preferred because of the longer time frame

22. Ministers have a range of choices to manage both the implementation and policy design risks.

23. If the May 2023 implementation is a binding constraint, then MBIE's preference is option two as it manages some of the risks with the current timelines, but creates some perverse outcomes. MSD and Inland Revenue prefer option three as it manages the policy and implementation risks and ensures a complete and inclusive scheme can be delivered. ACC prefers option 2 or 3 but noteS that further work is required to confirm the ability to deliver the operational requirements of the scheme within the estimated timeframes.

Officials prefer a shorter base duration while social partners prefer a longer duration

24. The cover report seeks feedback on the duration of entitlement and possible extensions on for training or rehabilitation.

25. Social partners strongly prefer a longer duration to facilitate training. Their preferred option is a base period of eight months with a one month bridging payment, and flexibility to extend for three months for training.

26. Officials prefer a shorter duration of no more than six months plus a one month bridging payment (maximum total of seven months duration), and no option to extend. Potentially, training or rehabilitation activities could be enabled within the base period through waiving work obligations in lieu of obligations to participate in training or rehabilitation.

27. Officials prefer a shorter duration for three reasons:

- Based on the average time spent on the jobseeker benefit following displacement (four and a half months), we consider that for most people, a total of seven months is a sufficient period to look for and return to work.
- Longer durations can create risks that people face reduced work incentives and reduce their job search efforts, moving them further from the labour market, particularly if a longer duration is combined with a generous replacement rate.
- A longer duration, with the option to extend, will increase costs, and given the uncertainty around the costs, officials recommend a shorter duration until more is known about the needs of claimants.

28. For people who may need longer to find work due to significant skill gaps or more complex health and social issues, a seven month duration provides sufficient time to adjust to a different income and support to transition into the welfare, health and/or education systems for continued support. This recognises that different systems have different roles to play, e.g.

SUI is a mechanism to replace and smooth income and to support a return to work, while the welfare system provides an on-going safety net to support those unable to meet their costs of living.

There are risks in linking training or rehabilitation to extension of SUI

29. If targeted to individual need and labour market demand, training and vocational rehabilitation can improve employment outcomes. But the infrastructure and services (e.g. good labour market information and careers matching services) needed to target and link claimants to the right services is at various stages of development across the welfare, education and health systems.

30. Several significant reform programmes will help to address these gaps. These programmes include the Reform of Vocational Education, other priority work areas under the Future of Work Tripartite Forum, the Welfare Overhaul, and the transformation to New Zealand's approach to mental health and addiction,. But ahead of changes being embedded under these reforms, there remains some risk that the right type of training or rehabilitation is not available to support SUI claimants.

31. Even if the infrastructure was in place, it is uncertain how many people would need to extend their entitlements for training or rehabilitation, since this would require an assessment at an individual level.

32. Internationally, some SUI schemes allow claimants to train within the base duration, if it does not interfere with a claimant's ability to look for work or accept a job offer. Ideally the type of training or education a person could undertake would be through an approved educational or training provider and linked to skill attainment in areas of demand and job opportunities.

33. Evidence from international jurisdictions suggests that linking training to duration can create incentives to cycle between periods of (UI- compensated) unemployment and programme participation, leading to longer periods of non-employment. In 2001, Sweden removed the possibility to renew UI benefit eligibility by participating in an active labour market programme as some suggested that claimants often entered programmes just to renew the UI.

34. Canada recently launched Skills Boost to support adults return to study. Skills Boost makes employment insurance more flexible to allow for training[1] and tops up student grants. Initial findings suggest most participants would have undertaken training whether the new measures were introduced or not, and of those undertaking training, many already had tertiary level qualifications.

Including or excluding self-employment arrangements brings complexity

35. Self-employed workers are complex to include in a social unemployment insurance scheme as they typically have more control over whether they work at any point in time and how much. Because of this, there is no clear equivalent to a 'no-fault redundancy' type event which can be difficult to distinguish from standard business risk. We also know less about how often, and for what reasons, self-employed workers move in and out of work, compared to standard workers.

36. Covering self-employed workers will make the cost of the scheme more uncertain, and could increase its cost to all workers if self-employed workers move in and out of work more often than other workers. It could also serve to underwrite business risk more generally, which could create perverse incentives for businesses that run unproductive business models (for example, by self-employed engaging in unproductive practices and subsequently phoenixing).

[1] Previously people lost EI eligibility if they returned to school or undertook training.

37. However, the risk of not including this group is that scheme may incentivise more workers into contracting arrangements and the size of this group of workers is likely to grow over time due to the nature of the future of work.

38. To address these complexities, the Project Team has found a middle ground option. This option proposes to cover contractors who depend on one client or counter-party (20 percent or more of their income), and have no more than five counterparties in any one year.

39. While, this option manages some of the risks identified, it narrows the scheme's levy base and introduces new boundaries, which in turn create integrity risks. One option would be to include all self-employed workers to keep the levy base as wide as possible, and set stringent trigger conditions to protect the scheme from gaming and ensure the scheme does not insure against business risks.

40. Inland Revenue prefers the alternative option for the reasons expressed above and to keep the levy collection costs to a minimum. Adding a boundary would create additional complexity, gaming opportunities, and uncertainty for the scheme, and would be inconsistent with existing ACC scheme settings.

41. An alternative would be to exclude all self-employment. This would remove the risk relating to the underwriting of business risk completely – but would exacerbate the risks relating to reclassification of employees as self-employed to avoid paying levies. Further work could be done at a later stage to bring them into the scheme. We note that most jurisdictions currently do not cover self-employed or do so on a voluntary basis. MBIE supports excluding all self-employment initially, with further work at a later stage on their inclusion.

42. Some international jurisdictions have opt-in schemes for self-employed. Officials did consider this an alternative options but it not address the risks outlined to any greater extent and would create additional administrative complexity.

ACC is the preferred delivery agency but there are risks and trade-offs to be considered

43. ACC has been identified as a preferred delivery agency. ACC has a number of functional capability sets which a SUI could leverage (administration of levying, claims assessment, payment, case management, actuarial expertise, data management and analytics, dispute resolution). This will enable a scheme to be established and delivered at less cost, and within a shorter timeframe than establishing a new entity. There are also some potential benefits for ACC's insurance business of picking up a SUI; for instance this could provide an additional impetus for ACC to work more closely with MSD in utilising employment services, and raise ACC's capability in supporting claimants' return to work, an important driver of rehabilitation, however these capabilities are likely to require time and resources to develop.

44. The discussion document also highlights the Tripartite Future of Work Forum's preference that governance of SUI "should be tripartite and include Māori representation." However, there are still a number of issues to work through on how this could best be achieved. The text included in the discussion document on this is therefore less specific than other parts of the proposal to enable more scope for considering how such arrangements would be best configured. ACC is a highly complex institution and the Board skills matrix should be the priority for delivering the AC Scheme.

45. More broadly, using ACC would entail a number of significant risks and trade-offs which require careful consideration and mitigation. A SUI scheme will require additional operational processes and additional capacity investment in ACC. These risks include governance arrangements and clear accountabilities for performance, the shift in focus of ACC as an organisation from its current delivery of injury prevention and rehabilitation, and trade-offs with other policy work associated with the AC Scheme. Specific challenges and risks include:

- A significant implication of ACC being tasked to deliver the SUI scheme is the shift of focus of the organisation. It is a complex policy environment due to the health system reforms and the substantial implementation work on its Integrated Change and Investment Portfolio Programme (with an investment volume of $600 million), and ACC would need to shift resources and focus away from delivering the benefits associated with these reforms and investments.
- Related to the shift of focus of the organisation would be trade-offs with other policy work, including policy work and legislative changes required for the Government's manifesto commitments for the AC scheme.
- Legislative work will be required, including the provision of legal authority for existing information exchange programmes and arrangements to be utilised for the new SUI, in addition to the redesign of current information exchange systems for their broadened purpose.
- As the nature of the claims in the AC system are open ended there is a clearer incentive for ACC to intervene for effective outcomes. The nature of the SUI is likely to be short-term in nature and will spike in response to macro-economic factors. Policy design will need to consider how levy setting will incentivise the management of the risk at the outset.
- Significant further work is required to clarify the governance arrangements and structures to ensure clear accountabilities, and to minimise tensions of performance expectations, monitoring, and resource allocations between the two schemes.

46. Officials also note that based on experiences with ACC, some disability representatives and the National Beneficiaries Advocacy Consultative Group have raised some concerns about ACC as the delivery agency. It is therefore important to ensure the design and implementation does include the voice of the user of the scheme at all levels.

47. Other feasible solutions for a delivery agency such as a new Crown Entity would also involve significant risks and trade-offs.

Costings for the SUI Scheme

48. As mentioned in the cover note, the project team is continuing to refine the modelling assumptions, and the cost estimates. These numbers are likely to change, and an updated peer reviewed costing will be provided at the next report back by 8 July.

49. Ministers should note that the schemes as currently proposed have a number of settings which are at the more generous range of international schemes and could push up costs, such as:

    a. a short contribution period for eligibility

    b. high replacement rates

    c. a high income cap

    d. options for relatively long durations

    e. coverage of over-65 year olds

    f. limited labour market attachment requirements, and active labour market interventions and

g. reliance on a redundancy clause as a primary means of determining eligibility for economic displacement.

50. Some of the proposed settings could offset some cost risks for the schemes. For instance, the requirement for employers to pay the first month of redundancy cover is likely to reduce the number of claims coming into the scheme by dis-incentivising employers from making people redundant, and through helping the scheme avoid a large number of short duration claims. However, some employers could face higher costs than they would currently as the proposed obligation could be more generous than currently contracted provisions.

51. The current iteration of the costing indicates the schemes could involve a combined total levy across employers and workers of $3.1 billion or 2.3% of payroll for a six month scheme, and $3.9 billion or 2.9% of payroll for an eight month scheme. For a six month scheme this would equate to a worker paying levy of approximately $650 per annum (for a median wage earner). It would also involve employers paying levies, for instance an employer with 5 full time median wage earners would pay a levy of $3,260. For an eight month scheme the workers levy would be $820 per annum (for a median wage earner), and the employers' levy for 5 full time median wage earners would be $4,110.

52. International benchmarks are still being worked through as part of the costing. Using take-up rates in other countries and then applying a behavioural response to scheme settings is an alternative way of modelling potential costs. We intend to provide a costing based on the Canadian unemployment insurance scheme on the 8th of July but need to work with Canadian officials to ensure we are using their data correctly. This approach may provide higher estimates. Early calculations applying the take-up of Canadian and Netherlands redundancy schemes to our proposed settings estimated respective redundancy scheme levy rates of 1.9 and 2.3 per 100 dollars (this did not allow for a behavioural response due to higher generosity, and was for a six month scheme with no bridging payment).

53. Earlier Treasury modelling applied a similar approach and showed a broader range which reflected differences in costs across the economic cycle. These costs would equate to a levy rates between $2.1 and $4.0 per $100 (see table below).

Figure 1: Treasury Benchmark Estimates for Economic Displacement Coverage

	Cost of income support ($b)	Necessary levy for income support
1. Applying Canadian take-up rates	2.8-4.7	2.1-3.6%
2. Applying Netherlands take-up rates	3.4-5.2	2.6-4%

Fiscal implications

There will be fiscal implications for the Government and the broader economy

54. The costs to Government will be in the form of increased costs to payroll through payment of the levy for public sector workers and set up and transitional costs. The overall cost of providing ongoing funding to the scheme would be between $2b and $4b per annum, if the current cost estimates are accurate (noting the considerable uncertainty about these estimates and noting that these are likely to change).

55. We also need to consider further the implications the scheme's levy will have for the funded sector and other funding contract arrangements such as Individualised Funding (IF) for disability support funding and where the costs fall, i.e., with the service providers and individuals or whether government will incur the cost by increasing funding.

56. While there is still significant uncertainty around costs, currently it is estimated that the fiscal impact of providing transitional funding to the scheme could be between $2b to $4b per annum (using the current cost estimates and noting that these are likely to change).

There will also be some costs to progress the next phase of the work

57. To date, the work on the SUI scheme has been funded from the baselines of the agencies represented on the Project Team. Following Cabinet agreement to proceed with public consultation on the discussion document from August, MBIE officials will need to seek additional funding to undertake this next phase of work on SUI, including public consultation and analysis.

58. Officials will report back to Ministers with a plan for the next phase of work, including any additional funding needed to support the next phase of work, notably for ACC.

Interfaces with other programmes of work and overall integrity

Introducing SUI may slow, complicate, or prevent more comprehensive system reform

59. Because the scheme has been developed at pace, there are risks that it may preclude or replace more comprehensive system redesigns without fully resolving the genuine challenges within the underling systems. Examples of cross agency work that may share objectives with the introduction of SUI include:

    a. The Disability Support System Transformation

    b. The Health and Disability System Review

    c. Work underway at the Ministry of Health to increase access to mental health and addiction services at the community level

    d. Welfare overhaul

    e. Implementation of ACC's Integrated Change and Investment Portfolio Programme

    f. Work on an enduring Wage Subsidy Scheme

The totality of the design features may pose challenges for system integrity and lead to unexpected labour market impacts

60. As proposed, the scheme has several features that make it both generous and easily accessible by international standards. These include:

    a. High wage replacement rate set at 80 per cent

    b. Generous cap on income eligible for replacement of around $130,000

    c. Modest recent employment test of three months and reliance on employer-attested redundancy clause

    d. Coverage of self-employed workers who have a greater ability to control their income and employment arrangements

    e. Relatively light touch obligations and sanctions and limited activation measures, e.g. case management and employment support.

61. While each of these features on their own has individual merit, taken in totality, they could present significant moral hazard and gaming risks. Moreover, they could contribute to net changes in the New Zealand labour market overall, such as through higher structural unemployment. Features such as the employer-funded bridging payment will help mitigate

these effects, but there remains a risk that the system's generosity and accessibility may lead to more acute risks of negative labour market outcomes compared to overseas schemes.