



AIDE MEMOIRE

Ministerial discussion on financial security for displaced workers, 18 February 2020

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|---------------------------------|------------------|-------------------------|---------------|
| Date: | 13 February 2020 | Priority: | Medium |
| Security classification: | In Confidence | Tracking number: | BR 2320 19-20 |

Information for Minister(s)

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister for Economic Development

Hon Iain Lees-Galloway
Minister for Workplace Relations and Safety

Contact for telephone discussion (if required)

| Name | Position | Telephone | 1st contact |
|-----------------------|-------------------------------------|----------------------------|-------------|
| Jivan Grewal | Manager, Skills & Employment Policy | Privacy of natural persons | |
| Francis van der Krogt | Principal Advisor | | ✓ |

The following departments/agencies have been consulted

The Treasury, Ministry of Social Development

Minister's office to complete:

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 Withdrawn |

Comments



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Purpose

This aide memoire provides context for the 18 February Ministerial discussion on financial security for displaced workers, and provides an A3 paper to inform that discussion.

Privacy of natural persons

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13 / 02 / 2020

Developing a work programme on financial security for displaced workers

1. Displacement or redundancy is a regular feature of dynamic, productive economies. Ideally, displaced workers are re-employed promptly, and in work that makes best use of their skills. But there can also be a risk of long-term unemployment, and/or reduced earnings in subsequent employment ("wage scarring"). The latter appears to be a greater problem in New Zealand than other OECD countries.
2. There is work underway that will contribute to supporting displaced workers more effectively. This work includes the welfare overhaul, Reform of Vocational Education, Careers Strategy, and industry transformation plans.
3. Financial security is one important element of supporting displaced workers, since it can enable a longer and more successful job search, especially when combined with active labour market programmes. Relative to other countries, New Zealand generally offers displaced workers less financial support, such as access to "income smoothing" arrangements.
4. A policy programme for enhancing support for displaced workers should therefore consider options for specifically enhancing financial security. This would also contribute to a Future of Work Tripartite Forum priority.
5. Officials have completed an initial scan of options¹. There are now key questions for Ministers to consider, concerning:
 - the range of financial security instruments to analyse further (if any), and
 - whether to extend the analysis beyond displaced workers to include other groups, such as workers with health conditions and disabilities.
6. At the Future of Work Ministers meeting on 12 March, officials will seek direction on these scope questions. Based on Ministers' scope choices, officials could deliver a further tranche of more detailed analysis by June. Any subsequent analysis after June could focus on those options with a reasonable prospect of being implemented.
7. The purpose of the 18 February meeting is to hold an initial discussion with officials. No decisions will be sought at this meeting. By holding an initial discussion, Ministers will be well-placed for the subsequent Future of Work Ministers discussion on 12 March, at which officials will seek direction on the scope for the work programme to June.
8. Attached to this aide memoire is an A3 paper that provides context for the 18 February discussion, and summarises a range of work programme choices.

Annexes

Annex One: Financial security for displaced workers: Work programme choices

¹ *Exploring social insurance and other options to enhance financial support for displaced workers*, 1954 19-20 refers

Annex One: Financial security for displaced workers: Work programme choices

1 Purpose

- For Future of Work Ministers to **provide direction about the ambition and scope** for a policy programme on financial security for displaced workers.
- Officials could provide an indicative cost-benefit analysis of a selection of the options (overleaf) by June to inform next steps.

2 Context

- The Government aims to **help workers find and keep decent jobs**, and to identify priorities to support workers who are displaced or at risk of displacement. This is especially relevant in a future of work context, where displacement may become more common.
- "**Displacement**" usually describes when workers lose their jobs due to economic or structural reasons (ie redundancy).
- Displacement is one of many reasons why people involuntarily cease work. Other reasons can include poor health, disability, the completion of temporary, seasonal, or fixed-term contracts and trial periods, and dismissal. Self-employed people can also find themselves without work.
- A key objective is **reducing the effects of "wage scarring"** - the reduction in wages that workers often experience upon re-employment. Wage scarring appears to be a relatively greater problem in New Zealand than other OECD countries.
- **Income smoothing** is a further objective that may also help reduce wage scarring. Income smoothing provides a wage-related replacement income while workers search for work.

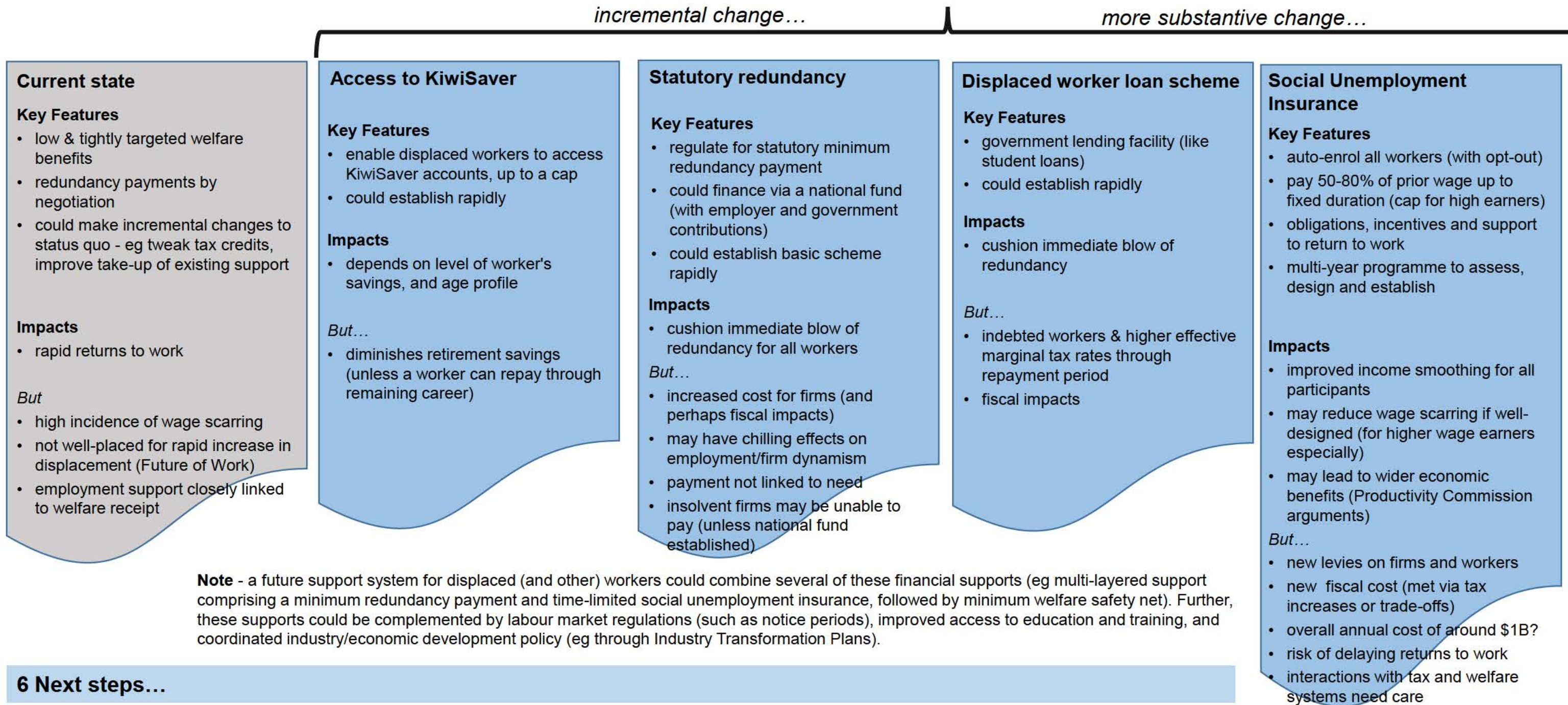
4 What would effective financial support look like?

- Effective financial support for displaced workers needs to:
 - smooth incomes through a period of unemployment,
 - help minimise wage scarring effects,
 - complement active labour market programmes and education and training,
 - share costs fairly between government, workers, and employers, and be fiscally sustainable,
 - support, not undermine, labour market dynamism,
 - avoid unduly extending unemployment spells.
- The scoped options are presented on the following page, with suggestions for further work.

3 Key elements of a system for supporting displaced workers

- Effective support for displaced workers needs to include access to:
 - employment opportunities,
 - advice and brokerage services,
 - education and training,
 - financial support.
- The **Government can play an important role** in each of these areas to help displaced workers resume good employment. One rationale for government intervention is that "market failures" mean that purely private provision creates inequitable population coverage gaps (eg - gaps in income insurance markets, gaps in private employment services).
- This suggests that the Government's role could be to ensure better coverage by market-based services (eg - ensuring better access to income insurance for displaced workers, complemented by employment support from recruitment firms). Government-provided services are possible too.
- The RoVE, Careers Strategy, welfare overhaul, and industry transformation plans are making important contributions to help displaced workers resume good employment.
- This advice on **financial security** addresses a gap in this work programme (MBIE's December 2020 report: *Exploring social insurance and other options to enhance financial support for displaced workers*, 1954 19-20 refers).

5 Work programme choices to consider, depending on Ministers' appetite for change and cost...



6 Next steps...

Further work

- Officials propose that Future of Work Ministers identify which of the options above warrant further analysis.
- This analysis would include providing a sharper problem definition, and indicative cost-benefit analysis. With support from relevant agencies, this work could be completed by June 2020.
- Better understanding the full economic and social costs of wage scarring will be an important aspect of the proposed further work.

Population scope choices

- Work so far has focussed on displaced (redundant) workers. The proposed additional work could also consider other groups of workers who involuntarily cease work - such as people who develop health conditions and disabilities not covered by the ACC scheme.
- Do Ministers wish to expand the scope of work? This would increase the scale and complexity of the policy work (and potentially delay further advice), but allow for a much more comprehensive consideration of support for workers at risk of job loss.