MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

# AIDE MEMOIRE

## Social Unemployment Insurance – draft Discussion Document for 29 June SUIGG pre-meet

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| **Date:** | 24 June 2021 | **Priority:** | High |
| **Security classification:** | In Confidence | **Tracking number:** | 2021-4366 |

| **Information for Minister** | |
|---|---|
| | **Deadline** |
| Hon Grant Robertson<br>**Minister of Finance** | 29 June 2021 |
| Hon Chris Hipkins<br>**Minister of Education** | |
| Hon Carmel Sepuloni<br>**Minister for Social Development and Employment** | |
| Hon David Parker<br>**Minister of Revenue** | |
| Hon Stuart Nash<br>**Minister for Economic and Regional Development** | |
| Hon Michael Wood<br>**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 | ✓ |
| Francis van der Krogt | Principal Policy Advisor, Skills and Employment Policy | | |
| Diane Anderson | Principal Analyst, Ministry of Social Development | | |

| **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☐ Overtaken by Events ☐ See Minister's Notes ☐ Withdrawn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**

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## Purpose

The purpose of this note is to provide Social Unemployment Insurance Governance Group (SUIGG) Ministers with the first draft of the Social Unemployment Insurance (SUI) discussion document from the SUI Tripartite Project Team. The draft discussion document will be considered by SUIGG Ministers at the SUIGG pre-meeting 3.30-4.00pm, Tuesday 29 June 2021.

Privacy of natural persons

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

24 / 06 / 2021

## Background

1. The third and final SUIGG pre-meet will be held on 29 June, with the third and final full SUIGG meeting on 5 July. The purpose of these meetings is for the SUI Tripartite Project Team to seek Ministers' and the wider SUIGG agreement to the proposed settings of a Social Unemployment Scheme for the purposes of consulting with the public, and to present a draft discussion document for feedback.
2. Attached to this briefing as Annex 1 is a cover note setting out the key recommendations of the Project Team for specific policy parameters for which it seeks SUIGG's agreement.
3. This includes the draft discussion document that reflects the collective recommendations of the Project Team about the settings of the scheme for the purpose of consultation. This has also been informed by the SUIGG's two exploratory policy sessions. The Working Group is seeking SUIGG's agreement to the proposed settings for inclusion in the discussion document.
4. SUIGG Ministers have also been provided with a separate briefing on joint advice from officials and social partners represented on the SUI Tripartite Project Team. The briefing advises where views diverge, where officials consider there are significant risks and trade-offs, and alternative options to consider, to inform the SUIGG Ministers meeting on 29 June 2021 (2021-4319 refers).

Annex 1 provides the cover note for the draft discussion document.

**To:** Social Unemployment Insurance Governance Group

**From:** Social Unemployment Insurance Project Team

**Date:** 24 June 2021

**Briefing:** Draft discussion document

## Purpose

1. This note seeks Social Unemployment Insurance Governance Group (SUIGG) agreement to the proposed settings of a Social Unemployment Scheme. We also present a draft social insurance discussion document for feedback (Annex 4).

## Executive summary

2. The draft discussion document reflects the collective recommendations of the Social Unemployment Insurance Tripartite Project Team (the project team) about the settings on the proposed scheme. This has also been informed by the SUIGG's policy discussions. We seek the SUIGG's agreement to the proposed settings for inclusion in the discussion document

3. The draft discussion document provides an articulation of the rationale for the scheme and the various proposed settings. It also provides some commentary on alternative options that have been considered by the project team. The draft discussion document is very much a work in progress. Additional work is needed on presentation, formatting, and editing. We seek any feedback the SUIGG has on the general presentation of the issues in the discussion document.

4. Annex 1 provides a summary of the key recommendations of the project team. We seek SUIGG's agreement to the specific parameters as set out in Annex 1.

5. This briefing also includes commentary on key policy issues covered in the discussion document that require further discussion with ministers and the wider SUIGG:

    a. Timing and options for phasing further work

    b. Costings for the scheme

    c. Duration of entitlement and extension

    d. The inclusion of cover for health conditions and disability

    e. The treatment of contractors within the scheme

  f. Employers providing a four-week bridging payment at the beginning of social insurance entitlement.

6. It also covers a number of issues where the project team considered there was merit in additional commentary or further clarification of the proposals included in the discussion document. These include:

  a. Eligibility for workers who have experienced unjustified dismissals including those who leave their employment due to harassment, bullying or discrimination

  b. Eligibility for visa holders

  c. Partial loss and abatement

  d. Sanctions/ consequences for non-compliance with obligations

  e. Information collection – transition, timeliness for audit function

  f. Establishing ACC as the scheme administrator

  g. Implications for the labour market and economy

  h. Implications for the welfare system

  i. Treaty considerations

7. The Project Team will take the SUIGG's feedback to revise the discussion document, and provide a further draft by 8 July.

8. There are a number of issues, not addressed in this memo, such as transitional arrangements that will need to be decided by the SUIGG prior to the discussion document being formalised. The Project Team will provide advice on these further issues alongside the next iteration of the discussion document.

## Recommendations

The Social Unemployment Insurance Project Team recommends that you:

a **Note** that this briefing provides a draft discussion document for feedback, summarises the discussion document, and notes key issues for further discussion with the SUIGG;

b **Agree** to the proposed settings included in Annex 1 for the purposes of consulting on the introduction of a Social Unemployment Scheme

Agree / Disagree

c **Provide** feedback on the draft discussion document by 5 July.

Privacy of natural persons

Jivan Grewal
**Lead, Social Unemployment Insurance Project Team**
24 / 06 / 2021

Hon Grant Robertson
**Minister of Finance**

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Hon Chris Hipkins
**Minister of Education**

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

Hon Carmel Sepuloni
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Hon Stuart Nash
**Minister for  Economic and Regional Development**

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Hon Carmel Sepuloni
**Minister for Workplace Relations and Safety**

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Richard Wagstaff
**President, New Zealand Council of Trade Unions**

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Kirk Hope
**Chief Executive, Business New Zealand**

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## Background

9. The Future of Work Tripartite Forum has agreed consult with the public on a proposal to introduce social unemployment insurance in New Zealand.

10. The consultation will begin in late August or early September this year. Consultation will be informed by a discussion document presenting a proposed insurance scheme.

11. Annex 4 sets out a draft of that discussion document. The draft discussion document reflects the collective recommendations of the Social Unemployment Insurance Tripartite Project Team (the project team) on the settings for the scheme for the purposes of consultation. This has also been informed by the SUIGG's policy discussions. We seek the SUIGG's agreement to the proposed settings for inclusion in the discussion document.

12. The draft discussion document provides an articulation of the rationale for the scheme and the various settings. It also provides some commentary on alternative options that have been considered by the project team. While we note that the draft discussion document is very much a work in progress with significant work needed on presentation, formatting, and editing, we seek any feedback the SUIGG has on the general presentation of the issues in the discussion document.

## Overview of the policy settings presented in the discussion document

13. Annex 1 provides a summary of the key recommendations of the project team.

14. At a summary level, the discussion proposes consulting on the introduction of social unemployment insurance scheme, with the following features:

    a. Covering job loss arising from economic displacement for all employees and certain types of contractors

    b. Covering incapacity to work as a result of a health condition or a disability

    c. Providing a financial entitlement of 80% of pre-displacement wages for a period of between 6 and 9 months. There may also be the possibility of extension if in approved training or rehabilitation

    d. Providing tailored case management services to support people back into work, including by linking to existing support services

    e. Placing time limited obligations on employers to support the worker in the event of a displacement

    f. Placing obligations on claimants to look for work or engage with training or rehabilitative services

    g. Is administered by the Accident Compensation Corporation (ACC) to leverage off existing systems and processes

h. Is funded primarily through an equal levy on workers and firms

15. We seek SUIGG's agreement to the specific parameters as set out in Annex 1.

## Key policy issues

16. The draft discussion document outlines the rationale for the policy parameters set out in Annex 1. The project team, however, would like to bring a number of additional matters to the attention of the SUIGG that require further discussion.

### Timing and options for phasing further work

17. The Future of Work (FOW) Forum stated that it wished to implement the scheme by May 2023. At a high level, this would require Cabinet agreement to the final policy settings by February 2022, with legislation to be introduced in the 3rd quarter of 2022 and passed by April 2023. Implementation work on the scheme will need to begin as soon as policy decisions are made.

18. We note that, if ACC is able to begin work on the implementation of the scheme in February 2022, at best, they will only likely be able to deliver the implementation of the financial support dimensions of the scheme by May 2023. ACC has advised that case management services and some of their levy collection functions could take up to the end of 2023 to be in place. More work is being done on the timeframe required to build these functions.

19. In addition, to begin work on implementation in February 2022, ACC would require additional funding in this financial year and would require further legislative authority. While both could be done under urgency when policy decisions are sought, this is likely to require out of Budget funding and increase perceptions that the scheme is being implemented at speed. In order to implement both schemes, a 24-month lead time would be required at a minimum. To meet the proposed implementation timing, implementation would already needed to have begun.

20. An alternative option the SUIGG may wish to consider is phasing the design and the implementation of the scheme. This option could, for example, involve implementing those aspects of the scheme that are more straightforward and delaying the design and/or implementation of various dimensions of the scheme. There are a number of potential options for phasing that we seek feedback from the SUIGG on.

21. The FOW Forum expressed a clear expectation that both job loss due to economic displacement and health conditions were within the scope of the social unemployment insurance scheme. As the work has progressed, it has become clear that there are parts of the scheme that may not feasible to implement within the anticipated 2023 timeframe. There are considerable complexities in covering job loss for both economic displacement and health conditions, and the risk of poor policy design is heightened should both be progressed contemporaneously.

22. We seek feedback from SUIGG on its preferences on implementation timing.

## Costings for the scheme

23. We are continuing to refine the modelling assumptions, and the cost estimates for the scheme. These numbers are likely to change, and an updated peer reviewed costing will be provided at the next report back by 8 July.

24. Due to existing data constraints, estimating the cost of the proposed schemes is difficult. We do not have accurate estimates of current underlying rates of redundancy or job loss for health conditions that would qualify for this scheme. For instance New Zealand's data does not pick up people made redundant who then find a job quickly, or are made redundant from one job but continue to earn from other jobs, or how many people reduce hours but continue to work despite a severe health condition.

25. New Zealand has never had social unemployment insurance schemes like these before, and consequently do not know exactly how much employer and employee behaviour might change in response to the scheme. We are relying on international literature and expert support to estimate likely insurance take-up. There are high levels of uncertainty around our estimates of a behavioural response, which could be either too low or too high as our labour markets are not the same as other countries, our health profiles differ, the schemes vary, how the scheme is administered will matter, and the international estimates are based on changes to existing schemes rather than the introduction of a brand new scheme.

*Initial cost estimates for the proposed social insurance scheme*

26. 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 a levy of approximately $644 per annum (for a median wage earner). It would also involve employers paying levies, for instance an employer with five median wage earners would pay a levy of $3,215. For an eight month scheme the workers' levy would be $811 per annum (for a median wage earner), and the employers' levy for five median wage earners would be $4,055.

| | Duration 6 months (plus one month bridging payment)<br><br>*% combined payroll levy*<br><br>*Billions* | Duration 8 months (plus one month bridging payment)<br><br>*% combined payroll levy*<br><br>*Billions* |
|---|---|---|
| Economic displacement | 1.2%<br><br>$1.7 billion | 1.6%<br><br>$2.1 billion |
| HCD | 1.0%<br><br>$1.4 billion | 1.3%<br><br>$1.8 billion |
| **Total levy costs** | **2.3%**<br><br>**$3.1 billion** | **2.9%**<br><br>**$3.9 billion** |
| Employer bridging payment economic displacement | $0.4 billion | $0.4 billion |
| Employer bridging payment HCD | $0.3 billion | $0.3 billion |
| Fiscal offset - at this stage this excludes the taxation offset, and only includes some direct forms of benefit, excluding all forms of secondary support (i.e. accommodation supplement) | $0.1 billion | $0.1 billion |

27. These numbers are an initial costing using aggregated information and a range of assumptions. They currently exclude GST which could be added (as per the approach to ACC). We have been unable to cost a scheme identical to what is currently proposed:

    a. Current costings do not allow for pay-outs past the age of 65, this may significantly under-estimate payments for workers with health conditions:

    b. The modelling does not currently allow for partial loss due to a health condition or job loss for economic displacement when other jobs are held,

    c. The modelling has tighter employment eligibility requirements than what is proposed and only includes employees.

28. In aggregate these differences are likely to increase the costs, particularly for job loss due to a health condition. Similarly, if the levy income cap ($134k) were to be removed, it would reduce the costs of the scheme. These numbers will be adjusted for

the next version of the discussion document on the 8th of July, as the assumptions are further tested and as the numbers undergo further quality assurance.

29. Treasury is also currently preparing costings to support this work using its TAWA model. This costing will be able to test the impact of many of the proposed scheme elements more accurately, will be able to provide full information on fiscal offsets (current modelling includes MSD benefit offsets but not income tax impacts), and provide information on distributional impacts. Differences are further discussed in Annex 3.

30. TAWA costings are unlikely to be ready to inform the discussion document that will be lodged for the 8 August FOW Forum. However, officials should be able to provide an update on the costings at the Forum. We will advise Ministers and social partners in July if material differences look likely.

31. International benchmarks are also being developed. International evidence on scheme costs for both job loss arising from health conditions and economic displacement vary significantly depending on country labour market characteristics, scheme generosity, and risk mitigation, including the intensity of case management and active labour market policies. The costings for job loss arising from health conditions are particularly uncertain. This is partially because the literature on behavioural responses to insurance schemes is far less developed and partially because difficulties assessing the veracity of health claims, and uncertainty about the take-up potential within the New Zealand workforce.

*Administrative costs*

32. The ongoing costs of administering the scheme, including some case management is estimated at around $100 million per year ($850 per claim). The proposed scheme does not cover any additional employment or health services, or intensive case management required to support claimants return to work.

33. The start-up implementation costs for ACC are estimated at $150-200 million. These are expected to be covered by the Government and have not been included in the levy costings.

*Levy rates*

34. Over time, the initial costings may be revealed to be too high or too low – as is the case when any policy is introduced involving a fee. This may mean that levy rates could need to be adjusted to reflect the actual cost. We expect to look through any initial surge of claims. Any initial surge of claims could be driven by businesses holding redundancies until the scheme is in force and unwell employees continuing to work until the introduction of the scheme covering health conditions.

35. The cost of the redundancy scheme is expected to vary significantly over the economic cycle, with lower redundancy rates when the economy is in a growth phase, and higher redundancy rates during an economic downturn. The cost of the scheme covering workers with health conditions is also expected to be cyclical (lagging behind the cycle), but to a lesser extent.

36. The schemes are proposed to operate under a Save as You Go (SAYGO) funding model where they build up a level of pre-funding to offset spiking costs in an economic downturn. The cost ranges set out above allow for an average over the last economic cycle. In addition, this would allow for a level of prudence if costings are revealed to be lower than eventual scheme costs.

37. The Government will be separate from the fund, however, under exceptional circumstances it may act as a lender-of-last-resort. This is more likely in the first few years as the fund is built up and costs are better understood. We would expect that funding to be lent in such a way that it would be paid back to avoid the scheme posing a fiscal risk. It will be important to clearly communicate this, as being in keeping with the principle that the scheme is to be funded by employers and workers; and build in appropriate funding policy parameters to ensure that any such shortfalls are spread across an appropriate number of years to be manageable for levy payers (similar to ACC's funding policy). The Crown could also choose to use the scheme as a further mechanism for providing economic stimulus during severe economic downturns, as is currently the case in Canada and Denmark – which it would fund itself. The Crown has a choice about how to treat funding short-falls in the introductory period, but if they are funded we would want to avoid setting a precedent.

38. The introductory period of the levy could be expansionary or contractionary, depending on the point of the economic cycle, final policy settings, the degree of initial Crown funding versus levy funding, and the amount of the SAYGO premium to build up the fund. Macroeconomic impacts should be considered as a timing and policy consideration in final decisions.

39. In the event that funding becomes an issue, Ministers will have choices to address this, including changing insurance benefit settings.

## Duration of entitlement and extension

40. While most international schemes typically measure generosity of unemployment insurance by the replacement rate and duration, both perform different functions. The replacement rate reflects the adjustment that the displaced worker needs to make while displaced. The higher the replacement rate, the less adjustment the individual will need to make to their ongoing consumption. Duration, on the other hand, reflects the length of time a person needs to reconnect with a job (including undertaking training where needed) or adjust to a 'new normal.' The combined effect of both together can help support people to find jobs that are less likely to create ongoing scarring effects, but durations that are too long can undermine work search incentives and good re-employment outcomes and increase scheme costs.

41. It is difficult to ascertain with any certainty an optimal replacement period for individuals and schemes. This is primarily because needs vary considerably between those losing jobs, and the nature of different countries' labour markets. Currently, the average time spent on the Jobseeker Support benefit following a displacement event is just over four months. Internationally, schemes also vary in the duration of cover from just three months in some jurisdictions to multiple years in others.

42. The project team has considered a variety of options, including 6 and 8 months (noting that the transition grant provided by the employer would provide additional support for a further month). Shorter durations would increase incentives to look for and accept work and manage the costs of the scheme, while longer periods may enable displaced people to engage in training or other support services and ultimately make better matches.

43. A further option considered by the project team was to introduce an ability for a case manager to agree to a time limited extension (for example a three month extension) where an individual was engaged in appropriate training or rehabilitation. This could encourage a person to re-train following a displacement event, but without suitable advice could result in people engaging in sub optimal training to access the extension (and creating deadweight costs for the scheme).

44. The project team has not considered options for step downs in the replacement rate during the course of entitlement.[1] While this could manage some of the perverse impacts of a longer duration, if the step downs are significant they could result in increased financial pressure on claimants, which could in turn lead to them opting to take jobs that create an ongoing scarring effect.

45. We seek feedback from SUIGG about their preference:

    a. For a base duration of 6 or 8 months (in either case in addition to the employers one month transition payment)

    b. For including a 3 month extension to enable the base duration to be extended for approved training or not.

### The inclusion of cover for job loss due to health conditions or disability

46. The draft discussion document proposes introducing cover for people who find their work capacity reduced either fully or partially because of a health condition or disability. This will help meet the scheme's income smoothing and wage scarring objectives. It will also help address issues caused by ill-health in the workplace (including issues such as presenteeism and absenteeism) and go some way to addressing inequities in support provided to workers who have reduced work capacity arising from an injury compared to a health condition.

47. The relationship between chronic ill health and labour force participation systems of income support (e.g. SUI) are complex. The obligations on employers and incentives created by the settings of social insurance need careful consultation and consideration.

[1] Note the Dutch scheme steps down from a 75% replacement rate to a 70% replacement rate after 200 days.

48. There are challenges to including workers with health conditions and disabilities within the scheme. As a number of health issues are non-observable, and as the screening imperfect, determining who is genuinely in need is more difficult than the case for unemployment insurance eligibility. This may mean:

    a. Their work incapacity and need to leave employment is overstated to qualify leading to an overall increase in scheme costs.

    b. Employers may be less inclined to improve practices that undermine worker health and wellbeing in the knowledge that a scheme is available to support those unable to work (although Health and Safety at Work obligations will somewhat mitigate this).

    c. Long-term outcomes for those with health conditions and disabilities could be poor if other parts of the system are not supportive. However, social insurance is unlikely to be different to the status quo in this respect.

49. There are also additional operational complexities for inclusion of job loss due to health conditions and disabilities including the engagement with treatment providers, seeking second opinions, managing cover boundaries and disputes, and the need for more intensive case-management to support return to work. Many of these claimants are likely to be in vulnerable situations which provides additional risk to credibility and reputation if not managed well, as well as the potential for adverse claimant outcomes.

50. While these issues add complexity to the design of the scheme, they are not in themselves insurmountable. The discussion document proposes a number of scheme design features (including a tighter assessment process and additional obligations on employers and claimants) to manage this moral hazard risk. While it would be impossible to eliminate all such risk, these will go some way to managing the potential risks. As noted above, some of the risks associated with these complexities could also be mitigated in part, with additional time to work through the policy and implementation challenges associated with including job loss due to health conditions and disabilities.

*Covering partial loss of work capacity due to health conditions and disabilities*

51. The working group recommends that the scheme should also cover those who face a partial loss of work capacity (e.g. 50%) due to a health condition or disability. This would support these workers to maintain attachment to their employer rather than leaving work fully.

52. Most European countries cover workers for full and partial loss of work due to a health condition or a disability at entry. Allowing partial payments to be made where the person has lost hours rather their job is associated with shorter sickness absence and higher work participation. Where the only choices are remaining in work or leaving work completely this may undermine efforts to sustain people in work. Some will leave when they have remaining work capacity, while others will remain in work when this may not be best for their health or workplace productivity. Working and claiming partial benefits slows skill and earnings deterioration and work has positive benefits for health, especially mental health.

53. Returning to work is more difficult once workers have severed their connection with their employer. It is also less costly for social insurance schemes to award partial benefits as opposed to full benefits. For these reasons several European social insurance schemes have actively pushed partial benefits for workers with health conditions and disabilities.

54. In New Zealand we do not know the number of workers with health conditions or disabilities who would take up partial benefits which makes it difficult to ascertain the costs of inclusion. However, international experience suggests that the greater share will take up full benefits. Several countries award partial benefits to claimants at entry. The share of partial benefits varies. In Sweden partial loss made up about 33% on spells with more than 6 weeks duration in 2018. In Finland in 2018, 13% benefits covering sickness absence spells of 6 weeks or longer were partial benefits.

*Funding job loss due to health conditions or disabilities*

55. The project team is recommending a 50:50 split of the rate between employee and employers since it is simple and shows that this is a scheme where both the employer and employee are expected to contribute – and benefit – from a social insurance scheme covering job loss associated from displacement.

56. Further work is needed but, options could be explored on a different levy split for a scheme covering job loss due to health conditions and disabilities e.g. 50 percent employee, 25 percent employer and 25 percent government.

57. A Crown contribution to the levy for job loss due to health conditions and disabilities recognises the wider societal benefits of workplaces that are supportive of health and well-being. However, removing all costs to business could send a message that they have no role to play in the health and wellbeing of their employees. There is a strong evidence base for the role employers can play in the health and wellbeing of their employees and the subsequent benefits a healthy, diverse and engaged workforce brings to businesses.

58. Internationally most sickness insurance schemes require employee and employer contributions. The split varies. In some schemes the split is the same or broadly similar (e.g. Austria, Finland). In other countries only employers' contribute (e.g. the Netherlands). In some jurisdictions employees contribute more (e.g. Czech Republic). In other countries the split is between employers, employees and the state (e.g. Norway).

## The treatment of contractors within the scheme

59. The discussion document proposes that for the purposes of compensation for economic displacement, the scheme would not include all self-employed people, initially at least (eg. Plumbing contractors who service multiple clients would not be included).

60. However, some self-employed contractors would be covered, for instance those who have a high degree of dependence on a single or small number of clients (eg. a cleaning contractor). The proposed rules for inclusion are that contractor would have

five or fewer counterparties (clients), and that the contractor can show they have lost 20% of their income from the “no-fault” loss of a contract. We are still working through how best to configure an efficient approach to levying this group of contractors, and avoid incorrectly levying contractors not eligible for the redundancy scheme.

61. For the purposes of job loss due to health conditions or disability, it is proposed that all self-employed are covered as eligibility would be clearer to determine.

62. This is aimed at ensuring that contractors who are highly dependent on a few clients for income will be covered. This is particularly important for lower paid and the more vulnerable contractors (and particularly where their relationship with their client has some resemblance to an employment relationship) where the loss of income could have severe impacts on their ability to meet their ongoing living costs.

63. Key considerations in providing such cover include:

    a. Ensuring those who need financial support following such income loss are able to access it

    b. Minimising the risk that employers seek to re-categorise employment relationships as contracting relationships to avoid paying levies

    c. Minimising incentives for highly paid employees to seek to be re-categorised either as employees or contractors to either avoid the levy or to avail themselves of entitlement

    d. Minimising the integrity risks that might arise where self-employed either to minimise their levy liabilities to the scheme or maximise their returns from the scheme following a displacement event.

64. Without covering contractors, particularly where those contractors resemble employees, there is a significant risk that firms may seek to re-categorise their workers as contractors. There are already some incentives for firms to do that (as employment law and PAYE obligations generally do not apply to contractors), the exclusion of such contractors would strengthen that incentive (as such workers would not then be subject to a levy). As such, the proposal in the discussion document aims to minimise this risk. However, the proposed approach is also not without risk.

65. We note that covering a subset of contractors rather than all self-employed may distort the labour market.

    a. By covering some self-employed and not others (and therefore making some pay the levy and not others), the contractors who do not need to pay the levy will become cheaper relative to other contractors and standard workers. This may be seen as an incentive for employers to pressure employees into these types of contracting arrangements.

    b. This design could also push more contractors into sham contracts to get over the five contract limit (if you have five contracts, adding one more small contract will remove your obligation to pay the entire economic displacement levy).

66. In addition, even with some limitations (such as the requirement for contractors to have fewer than five counterparties), integrity risks remain. For example, unlike in employment relationships, there are limited legal requirements around the termination of a relationship with a contractor. This increases the risks of sham contracts being created and cancelled to enable eligibility for insurance.

67. While these risks could be managed through stricter re-entry requirements for self-employed relative to standard employees, this would also negatively impact the vulnerable dependent contractors, who are also potentially more likely to suffer displacement.

68. We also note that there are likely to be significant administrative challenges, which while not insurmountable, will create increased complexity in the scheme. For example, some contractors could game the limit on the number of contracts they have either to minimise their levy liability, or to make them eligible for the scheme.

69. We also note that there is a concurrent stream of work being undertaken to consider the issues around contractors more generally.

70. The project team recommends that the discussion document include an option for the scheme to cover dependant contractors, on the basis that the Forum wishes to include such contractors within the scheme but recognises the complexity of such inclusion and notes that final decision will depend on public feedback on the feasibility and desirability of including them within the scheme.

## Employers providing a four week bridging payment at the beginning of insurance entitlement

71. The discussion document proposes that employer-funded bridging payments would cover the first four weeks of an employee's unemployment spell prior to their social insurance entitlements. The working group consider bridging payments preferable for a number of reasons including mitigating the risk of unnecessary or sham redundancies.

72. The notion of bridging payments may have implications for existing redundancy provisions. In the short term, those with redundancy provisions in their contract would have access to their redundancy payment, the bridging payment and, following the bridging payment, social insurance. The project team's view is that redundancy payments have been negotiated as part of employees' total remuneration and therefore should not affect entitlements to social insurance or initial bridging payments.

73. There are also questions about how the bridging payment applies for those with health conditions and disabilities. The discussion document currently proposes the same four week period applies for both redundancy and health condition. However, consideration could be given to alternate approaches for health conditions and disabilities such as making the period of coverage shorter e.g. two weeks rather than four. Noting this would make it cheaper for employers if employees left due to a health condition rather than a redundancy, which may create perverse incentives.

74. Another option is that the employer could offset the cost of the bridging payment with the payment of sick leave. This would only be possible in the cases where employees

have remaining sick leave entitlements, noting that sick leave entitlements do not follow a person when their employment is terminated, in the way that annual leave does.

75. Further work is required on whether bridging payments are also available to those not eligible for social insurance or whether the bridging payment is tied to social insurance eligibility. Consideration is needed of the potential incentives that either option may create for employers particularly where it may be cheaper for an employer to let go of someone not eligible (e.g. certain visa holders) than someone else.

## Additional commentary on specific issues

76. This section covers a number of issues where the project team considered there was merit in additional commentary or further clarification of the proposals included in the discussion document.

### Eligibility for unjustified dismissals including those who leave their employment due to harassment, bullying or discrimination

77. As currently proposed only involuntary, no-fault job loss would be covered for economic displacement. Circumstances where people are subject to an unjustified dismissal or who resign after being subject to bullying, harassment or discrimination could be considered/defined as having an at fault dismissal or seen to have voluntarily resigned and therefore, they would have no entitlement to social insurance. Inclusion of these circumstances could create risks and add complexity, as it may be difficult for the insurer to distinguish these cases from voluntary resignations.

78. However, not including these circumstances also creates risks – namely that those who leave employment under these circumstances would face a significant drop in income, and may only have access to a welfare benefit (where eligible). This may provide a financial disincentive for employees to leave work for these reasons and may also create perverse incentives for employers, if they are not obliged to make a four week bridging payment in these instances.

79. There are options that could be explored to include coverage for this group in certain circumstances (to mitigate risks and reduce complexity). For example, already established dispute resolution procedures for these situations could be used as a basis for determining eligibility for social insurance. Should the Employment Court deem the dismissal to be unjustified (including constructive dismissals), eligibility for social insurance (including a bridging payment from the employer) could begin from the date of the ruling (if the claimant had not already returned to suitable employment).

80. This option provides coverage for these circumstances but only in a limited way. This is likely to only have positive implications for a small number of people. However, given the court processes are likely to be lengthy, it will mean these people would not have access to social insurance when the income smoothing objective would be most beneficial.

## Eligibility for visa holders

81. The draft discussion document proposes that all residency class visa holders will pay the levy and be eligible to make claims. As redundancy does not affect their ability to stay in the country, these visa holders can look for alternative work efficiently to help prevent wage scarring. This meets the objectives of social unemployment insurance.

82. In order to avoid employer incentives that make migrant workers cheaper to employ than domestic workers, all visa holders will be required to pay the levy but only resident visa holders will be entitled to the scheme. Doing this also provides consistency to the employer to know that they are required to deduct and pay levies for workers irrespective of their visa. There is the risk that this option could be viewed as unfair. However, if the claimant was previously working on another visa before holding a residence visa, their previous contributions would count towards their eligibility to social unemployment insurance as a resident.

## Partial loss and abatement

83. The discussion document proposes that social unemployment insurance would be available to multiple job holders, people who lose a job or who are partially incapacitated as a result of a health condition or a disability. In these cases, this would mean that the scheme would only be compensating the person for the partial loss of income.

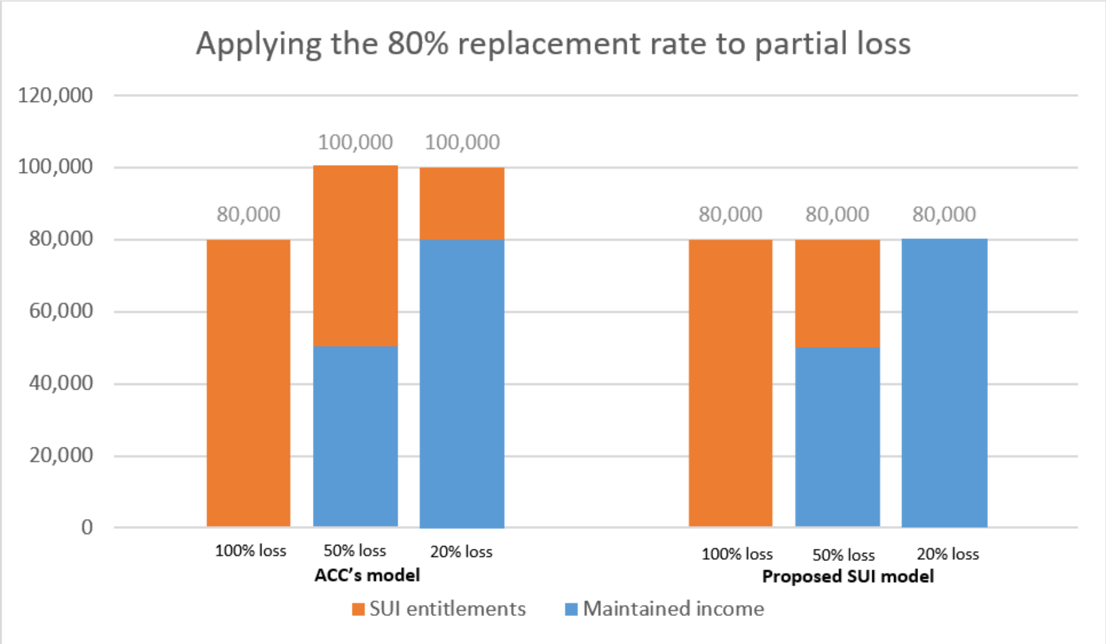
84. When covering partial loss there are questions about how to apply the replacement rate and how the scheme treats any income from new part time jobs or increased hours a person might receive following the displacement event.

*Applying the replacement rate to partial loss of income*

85. In the case of accident compensation, ACC currently consider the individuals pre-displacement earned income as a whole to determine the individual's maximum entitlement. It caps any payment by the scheme to a maximum of 80% of their pre-displacement income (below a cap). This means so long as a person maintains 20% of more of their pre-displacement income, they will have no drop in income whilst receiving support from ACC.

86. The same could be applied to social insurance. However, being able to maintain 100% of your income while dropping your work/hours to 20% or more may reduce the financial incentive for people to look for work. The discussion document currently proposes instead, that social insurance entitlements be able to top an individual up back to 80% of their pre-displacement income. This option maintains a financial incentive to work for those in receipt of social insurance and helps to reduce the costs of covering partial loss of income, although is not as generous as ACC's model.

87. The below graph demonstrates these two options using an example of someone who earnt $100,000 per year prior to their displacement / reduction in hours.




*Abatement rules*

88. Rules around applying the replacement rate to partial loss determine how remaining pre-displacement income affects social insurance entitlements. There are then separate, albeit connected, questions about how any income picked up post-displacement, e.g. through an increase in hours or new part-time work affects entitlements.

89. Weekly compensation from ACC is not abated against any income received through other work (whether the work was pre-existing or new) until the person's total income reaches their pre-displacement income. Any income that exceeds the person's pre-displacement income is abated fully – dollar for dollar (i.e. the scheme payment reduces to ensure the individual never earns more in totality than they would have prior to the displacement event).

90. The discussion document, proposes to apply ACC's abatement system to social insurance for any increase in earned income *following* the displacement event. Retaining the dollar for dollar abatement rate for new work creates an incentive for people to look for part time work following a displacement event. This would have the benefit of encouraging re-attachment to the labour market and helping manage the liability of the scheme.

91. While the discussion document discusses the issue of partial loss and abatement considerations separately, the project team wanted to highlight the interaction of the two issues to the SUIGG. As proposed, the abatement rules would align with ACC for income post displacement but would differ for the treatment of pre-displacement income. This would ultimately provide less generous support with the view to maintain greater financial incentives to work. The project team consider this is justified, given

the larger focus on retaining financial incentives to work in the social insurance scheme than in the ACC scheme.

## Sanctions/ consequences for non-compliance with obligations

92. The discussion document proposes a number of obligations for claimants within the scheme to support return to suitable employment. While people will have incentives to comply with obligations (for example, the time limited nature of the scheme), compliance is likely to be greater, if there are financial consequences for non-compliance.

93. In all international social insurance schemes and both the welfare and accident compensation systems there are consequences for not meeting obligations. In the welfare and accident compensation systems they range from a cessation of payments at the one extreme to a reduction of entitlements of 50-100%. International social insurance schemes also have financial penalties/ suspensions of entitlement when obligations are not met.

94. However, evidence suggests that harsh financial consequences could risk undermining the objectives of social insurance to reduce wage scarring, as while financial consequences tend to increase rates of people returning to employment, they also tend to have a negative effect on post-unemployment job earnings and stability.

95. The project team therefore proposes that light sanctions (for example, at 10% of entitlements) be available within the scheme for non-compliance with obligations. While there remains some risk of non-compliance, our view is that where this is complemented with effective case management including through regular check-ins on a claimants' job search, and reminders about the upcoming end of entitlement, this can minimise this risk.

96. We also note that even light financial penalties to reinforce obligations can have a disproportionate impact on claimants who are highly dependent on the payment. To manage this, we propose that claimants can re-comply with their obligations before the sanction takes effect.

97. We note that some members of the SUIGG had previously expressed a preference for a system without any sanctions. The project team seeks your feedback on the proposal for inclusion in the discussion document.

## Information collection – transition, timeliness for audit function

98. To support the operation of the scheme, there will need to be more information sharing and information collection to implement the proposed scheme design than is currently in place. Administrative agencies (including Inland Revenue (IR); and Ministry of Social Development (MSD) and potentially health providers) will require the authority and capability to share information with each other, and to obtain information from working people and employers, including insurance claimants. Once information sharing agreements are in place, there are still specific issues related to information collection.

99. Some of these issues are basic administrative costs. For example, IR may be required to collect additional information on job displacement from employers which could require changes to resourcing of the department. Other issues are transitory. For example, any collection of new displacement information will be subject to teething problems and will lack sufficient historical information to evaluate what issues there are and how they can be solved.

100. However, there will be long-run costs. Much of the required information is not collected due to historical concerns about imposing compliance costs on individuals and businesses. For a social insurance scheme such information will be necessary to collect for the operation of the scheme, but this will place an additional burden on these groups to report this information – and will place pressures on the information collection agencies to verify and where necessary investigate the collected information. Any decision to try to increase the timeliness of information would also have administrative and compliance costs which will need to be considered.

101. The magnitude of these costs, and design decisions that will help to minimise them, is still under investigation.

## Establishing ACC as the scheme administrator

102. The Tripartite Future of Work Forum's indicated starting point was that "the scheme should be provided by ACC and include tripartite and Māori representation" and that it should be implemented in 2023.

103. ACC has a number of institutional features and functional capabilities which a social insurance scheme could leverage (administration of levying, separate fund management, claims assessment, payment, case management, actuarial expertise, data management and analytics, dispute resolution systems and capabilities).

104. However, social insurance will require additional operational processes and additional capacity investment, as well as focus on an additional set of strategic objectives.

105. Using ACC to deliver social insurance brings both potential risks for ACC's current delivery of the AC scheme as well as potential strengths. Likewise using another entity to deliver a social insurance scheme could have benefits, but also risks for ACC's delivery of the AC scheme given the overlapping features and capabilities required to deliver the schemes (eg. ACC staffing could be drawn to a new entity, undermining ACC's capability and performance).

106. Using ACC is likely to be the most cost effective approach to establishing the social insurance scheme (for example, one-off establishment costs of approximately \$150M to \$200M over a 12-24 months period versus a \$350M to \$400M over a 24-36 month period for a standalone entity). ACC would also likely provide ongoing cost efficiencies, although these savings would be modest against a shared services model. Annex 2 sets out a comprehensive discussion on the project team's considerations in coming to its preferred option.

107. In considering the practicalities of implementing the scheme, and to minimise the impact on ACC's operations and performance, ACC would need:

a. sufficient lead-in time to develop policy and processes, recruit the required workforce, and build the required technology platforms leveraging off existing systems (estimated 12-15 months for a basic scheme involving income replacement only, and 18-24 months to include more complex functions such as levy collection and case management)

b. sufficient start-up funding to effectively implement the technology and workforce to operationalise the scheme (estimated at $50m-$100m for income replacement only, and an additional $100m for more complex functions including levy collection and case management)

c. appropriate legal authority as soon as possible to provide necessary resource for the design and development of the scheme outside ACC's statutory functions.

108. Where the scheme design parameters differ from ACC (for example in the approach to contractors, partial loss or sanctions for non-compliance) this is likely to increase the administrative complexity of implementing the scheme in the requisite timeframes

109. We note that in order to meet the implementation timeframes, additional funding for ACC would need to be approved for the 2021/22 financial year when final policy decisions are made. This would provide ACC with the necessary resources to begin work on the implementation as soon as the policy decisions are made. Equally, urgent legislative authority would be needed to allow ACC to begin work on the scheme. Currently ACC can only exercise its powers (including its powers as a legal entity to hire staff and enter into transactions) in relation to its statutory functions. This would need to be done through a short standalone piece of legislation that would empower ACC to undertake all necessary steps to implement the scheme by May 2023. This statutory authority would be time limited and expire when the full legislation for the scheme is enacted.

## Implications for the labour market and economy

110. The project team are continuing to work on the potential macro-economic impacts of introducing social insurance. This work includes consideration of the role of social insurance as an automatic stabiliser in times of economic shock as well as the broader implications of social insurance for the labour market and economy. Officials will provide advice on this to the SUIGG in the coming weeks.

## Implications for the welfare system

111. The introduction of the scheme will have a number of implications for the welfare system.

112. At an operational level, there will be impacts on MSD. The scheme will need to work with MSD to access both the employment and broader supports that are available to support people to return to work. This could include contracting some of the more intensive case management to MSD where it may be appropriate to do so. This will have an impact on the demand for services MSD has and may require trade-offs for who services are prioritised for. Regardless, MSD will likely need to develop systems and processes to facilitate the referral from the scheme into its services.

113. There will also be a number of social insurance recipients who will need to interact with both systems. There will be low-income earners who may be eligible for support from both the welfare system (including support under the Social Security Act 2018 and Working for Families) and social insurance at the same time[2]. There will also be those who require support from the welfare system following the end of their social insurance entitlement. In either case, prioritising system settings that focus on a good client experience and smooth transitions will be paramount, whether that be using information sharing to reduce the burden on clients or ensuring clients are advised of their full and correct entitlements across both systems.

114. The scheme, however, will have a broader impact on the welfare system more generally. Most notably, difference in treatment of beneficiaries and claimants under the scheme are likely to raise concerns about the equity of those differences. Specifically, the individualised nature of the scheme, the comparatively more generous entitlements and lighter obligations and sanctions may create pressure to greater align the scheme and welfare entitlements or to justify the differences within the schemes.

115. These equity issues are likely to be largest when considering who benefits from social insurance and who does not. Those who need financial support who do not qualify for social insurance (for example, sole parents who require income support after a relationship breakdown or those with health conditions or disabilities that have prevented them from entering the workforce to begin with) will still rely on the welfare system as their sole safety net and will not benefit from the introduction of a social insurance scheme.

116. The project team remains of the view that the welfare system and a social unemployment insurance scheme serve different purposes. The Social Unemployment Insurance Scheme serves as a mechanism to smooth income through an individuals' job loss with the aim of facilitating a return to jobs without wage scarring, while the welfare system serves as a more enduring safety net for households who are unable to meet their costs of living. Both play a key role in a modern functioning economy (and both are common in international jurisdictions). Their distinct purposes necessitate a different approach to the design of each system.

## Te Tiriti o Waitangi/ Treaty of Waitangi considerations

117. A key consideration when introducing a Social Unemployment Scheme in New Zealand relates to how such a proposal would interface with the Crown's obligations under Te Tiriti o Waitangi/ Treaty of Waitangi.

118. While the number and profile of displaced workers varies from year to year, depending on the nature of economic shocks faced, since 2007, data suggests that Māori have been disproportionately likely to face displacement (either because of economic displacement or health conditions or disabilities).

119. Māori workers are generally overrepresented in lower paid work and in non-permanent forms of employment. A higher proportion of people who are displaced work in lower

[2] This also has implications for IR as the main delivery agency for Working for Families tax credits.

paid jobs. The median monthly income of a person prior to displacement, for example, was just above the minimum wage in March 2021.

120. If a scheme is introduced as broadly proposed along the lines suggested in the draft discussion document, this could have a positive impact for the Māori workforce. For those workers who are displaced, they will be able to access higher levels of support, which in turn will likely result in improved outcomes from work when they re-attach to the labour market.

121. We do note that the current welfare system already provides a relatively higher replacement rate to some low-income households. In addition, the imposition of a levy would likely be disproportionately felt by lower income households. This could counterbalance some of the positive impact the scheme may have for Māori.

122. The proposal to include Māori representation in the Governance of the scheme is also aimed at demonstrating a commitment to partnership and that the scheme is able to take a Kaupapa Māori lens in the delivery of the scheme. While, such governance in and of itself would not be sufficient to demonstrate complete partnership with Māori, it is also a practical step towards such partnership.

123. There is limited time for comprehensive engagement with iwi and Māori more generally. However, within these timeframe constraints, it will be important for the Crown to undertake practical steps to engage with Māori. To that end, the project team proposes to engage with experts in the Māori labour market through the course of the consultation. It also proposes to run a small number of regional hui to engage with the broader Māori and iwi population.

## Next steps

124. The Project Team will take the SUIGG's feedback to revise the discussion document, and provide a further draft with updated costings by 8 July 2021.

125. We expect to provide SUIGG with the following briefings:

| | |
|---|---|
| Near-final discussion document and supporting Cabinet paper | 8 July 2021<br>(for discussion at 12 July FOWGG meeting) |
| Final discussion document and supporting Cabinet paper | 26 July 2021 to Ministers<br>(for Cabinet Committee consideration on 4 August) |

### Communications Plan

126. Planning is underway for a broad engagement and communications campaign.

127. We envisage in-depth focus groups and hui with key organisations and individuals representing Māori, Pacifica, unions, industry bodies, employment lawyers and economists, medical providers, disability support organisations, the financial service sector, and vocational education bodies. In most instances, engagement has already begun, or will begin before the discussion document is released.

128. Māori, in particular are a key audience as Te Tiriti/ Treaty partners. The discussion document will include a dedicated section on compatibility with Te Tiriti o Waitangi/ the Treaty of Waitangi, and pose open questions on ways to achieve this.

129. Our intention is to ensure the discussion document is as accessible as possible, and expect to translate a summary version into five languages and five accessible formats (Braille, audio, Large Print, Easy Read and sign language). This will require up to four weeks to achieve, and we recommended launching the consultation only when these versions are ready – which may be in late August or early September, depending on the progress of the discussion document. We are investigating the feasibility of a full Te Reo Māori translation.

130. For broader reach, we will take a dual approach, equipping representative organisations with resources (both digital and physical) to distribute, and targeting harder-to-reach audiences with paid marketing (including social media and traditional media advertising (the latter will focus more on rural communities and ethnic minorities).

131. We expect to provide both a detailed submission form, for organisations and individual with the resources to complete, along with a shorter survey option, for time-constrained individuals. We are investigating pre-paid mail surveys for rural communities.

132. To ensure accessibility and broad awareness needed to achieve proper engagement and understand the social license for a social insurance scheme, we expect a budget of around $200,000 is needed. This will cover translations and alternative versions, printing and distribution, and paid marketing costs.

**Annex 1:** Summary of proposed policy setting draft discussion document

**Annex 2:** Entity Choice

**Annex 3:** Costing methodologies and assumptions

**Annex 4:** draft discussion document

## Annex 1 - Summary of proposed policy setting

**ECONOMIC DISPLACEMENT**

| Parameter | Proposed setting for inclusion in the Discussion Document | Agreement |
|---|---|---|
| ***Coverage*** | | |
| Working arrangements | • Cover for full and part time employees.<br>• Cover for fixed term for premature termination (and only for residual period).<br>• Seasonal employees covered similarly (pattern of work) for remainder of shortened season.<br>• Casuals covered by break in pattern of employment. | *Yes / No* |
| | • Not all self-employed covered.<br>• Cover for sole contractors as per fixed term employees.<br>o Contractor defined by reliance on a single counterparty for at least 20% of their income and no more than 5 counterparties in any one year for all personal exertion income.<br>• Fixed term and contractors who can demonstrate that they had a regular pattern of work should be treated as permanent employees for the purposes of scheme eligibility<br>• There is further work underway in a separate process to define dependent contractors, and SUI should take that definition when it is ready. Look further into the complexities of including contractors – and set out a proposal in the discussion document that is more exploratory | *Yes / No* |
| Visa holders | • All persons working in NZ to pay levy.<br>• But to claim, people must be NZers or resident class visa holders.<br>• Payments stop if a person leaves New Zealand with no right of return. | *Yes / No* |
| Trigger | • Redundancy (i.e. the disestablishment of a role) or loss of job as a result of insolvency for employees. Does not cover reduction of hours.<br>• For fixed term, seasonal and casual employment, cover would only be provided for residual fixed term period or season.<br>• Loss of part time work must at least account for 20% of total pre-displacement income.<br>• For contractors:<br>o displacement must involve premature termination of contract and cover would only be provided for residual period of the contract<br>o Terminated contract must at east account for 20% of total pre-displacement income.<br>• For fixed term, seasonal and casual employment; and for contractors; the loss of expected work must offset a minimum level. | *Yes / No* |
| Evidence required | • Redundancy notice or business failure<br>• Evidence of previous income and expected future income (in the form of employment agreement plus pattern of income).<br>• Proof of ID, visa status, bank account number.<br>• Some information may be obtained from agencies via information sharing agreements (eg. Inland Revenue). | *Yes / No* |
| Contributions requirement | • 3 months or more contributions over the 12 months immediately preceding the claim<br>• Periods of parental leave to count towards contributions requirement | *Yes / No* |
| ***Entitlements*** | | |
| Duration | • 6 months covered by scheme and 1 month covered by employer bridging payment, OR | *Yes / No* |
| | • 8 months covered by scheme and 1 month covered by employer bridging payment, OR | *Yes / No* |
| Extendibility | • Base period to be extendable (either by a set timeframe or to be linked to approved training), OR | *Yes / No* |
| | • No extendibility | *Yes / No* |
| Multiple claims | • If base duration is 6 months, a maximum of 6 months once every 18 months or, if 8 months, a maximum of 24 months (but could be spread over multiple claims. Timeframe runs from initiation of first claim). | *Yes / No* |
| Replacement rate | • As for ACC – capped 80% of total pre-displacement income, with rate for partial loss not exceeding 80% with combined insurance and remaining income | *Yes / No* |
| Abatement of SUI | • Any personal exertion income bringing total income and insurance above 100% pre-displacement income to result in insurance being abated dollar for dollar<br>• No abatement of payment for any personal exertion income bringing total income below 100% pre-displacement income<br>• Non personal exertion income and assets have no impact on entitlements | *Yes / No* |

| Parameter | Proposed setting for inclusion in the Discussion Document | Agreement |
|---|---|---|
| Replacement cap | • 80% of ACC maximum leviable income, currently set at $104,729 (80% of $130,911), with periodic/annual indexation | *Yes / No* |
| Replacement floor | • 80% of minimum wage | *Yes / No* |
| Impact on main benefits, supplementary and hardship assistance from MSD | • Social Insurance will be treated as income in the same manner the income it replaces was for benefit purposes.<br>• Social insurance would also be income for student support income tests | *Yes / No* |
| Working for families | • Social Insurance will be income for Working for Families entitlement e.g. Family Tax Credit and Best Start Tax Credit.<br>• A claimant would be able to get the In-Work Tax Credit and Minimum Family Tax Credit while on Social Unemployment Insurance (as with ACC weekly compensation) – subject to meeting the requisite income tests for the relevant entitlement. | *Yes / No* |
| Impact on NZ Super | • Both NZS and social insurance could be received at the same time so long as eligibility criteria was met for both | *Yes / No* |
| Impact on PPL | • Based on ACC's approach - Paid Parental Leave could not be received at the same time as SUI client could opt to take one or the other or take both one after the other (if eligible for both)<br>• Parental leave would not be counted as income when calculating entitlements to SUI. | *Yes / No* |
| Impact on ACC weekly compensation | • ACC weekly compensation and social insurance could be received at the same time so long as there the claimant qualified for both in their own right<br>• Entitlements to social insurance would not cover entitlements already covered by ACC (or vice versa)<br>• Those entitled to both would have one treated as income for the other – depending on the circumstances of grant and what was in the claimants best interests. | *Yes / No* |
| ***Obligations*** | | |
| Employer obligations | • 4 weeks notice prior to displacement to both scheme and employee in the case of redundancy<br>• 4 week transition grant by paid for by employers as wages (to cover first 4 weeks following displacement)<br>• Scheme to refund amount of transition grant paid by employers if claimant returns to work within the 4 week transition grant period, and this is to be capped at no more than 4 weeks of the maximum entitlement.<br>• Both of these should be sequential<br>• Where firm has ceased trading in an insolvency event, liquidator or administrator to notify the scheme of displacement as soon as possible following appointment. N.B. the liabilities to pay the bridging payment will be incorporated into the general prioritisation for insolvency. The worker will be paid by the scheme in the interim and the amount will be reclaimed by the scheme from the liquidator.<br>• Employer has redeployment obligations where possible<br>• Consider impact on principals in a contract as an open question | *Yes / No* |
| Claimant obligations | • Claimants obliged to:<br>o inform the insurer of any change in circumstance that may affect the eligibility for or rate of Social Insurance<br>o actively search for work (and demonstrate job search activity)<br>o accept suitable offers of employment that offer at least pre-displacement wages and other terms and conditions<br>o complete a return to work plan (where required).<br>• Work obligations could be deferred for those undertaking approved training.<br>• Eligibility based on being in New Zealand - no more than 14 days overseas, unless exceptional circumstances apply and payment ceases if no evidence of expected return | *Yes / No* |
| Sanctions and penalties | • Soft sanctions with small (e.g. 10%) reduction in payments until compliant, and possible increased case management where needed<br>• Elicit feedback through discussion document on what levels and if they need to be graduated | *Yes / No* |
| ***Administration of the Scheme*** | | |
| Scheme Administrator | • Scheme administered by ACC as a ring fenced scheme within ACC | *Yes / No* |
| Governance | • Governance of scheme to include some form of tripartite and Māori representation. Details not included in Discussion Document. | *Yes / No* |
| Case management | • Delivered by the insurer funded from levies<br>• Case management level depending on need<br>• Where needed, will include a mutually agreed development of return to work plan<br>• At a minimum will include: triaging function, job search assistance, and referrals to other available services<br>• Will also include regular case management for those in need (including regular monitoring of obligations). But start with client driven case management.<br>• Focus on return to non-wage scarred job | *Yes / No* |

| Parameter | Proposed setting for inclusion in the Discussion Document | Agreement |
|---|---|---|
| Additional services to be funded from scheme | • Initially, no additional services funded out of levies (other than brokerage arising from case management). Could be looked at as scheme matures (particularly those that reduce incidence of future displacement – and consequent levy liability)<br>• Crown to continue addressing gaps in existing services with the objective of being available when the scheme starts. | *Yes / No* |
| Dispute Resolution | • Multi step DR system:<br>• Will be on expedited timeframe<br>o Internal review– ACC undertakes an internal review of a review request, which may result in the original decision being overturned.<br>o Mediation– For outstanding review requests a mediation may be offered<br>o Formal review– Unresolved disputes are referred to a contracted third party review, which is subject to a legislatively defined process.<br>o Appeal to the courts– A review decision is appealable to the District Court, and from there to the High Court and Court of Appeal.<br>• Timeframes for completion of each stage to be prescribed | *Yes / No* |
| Enforcement | • Enforcement function for collection of levies and misrepresentation to the scheme<br>• Active auditing on the basis of general anti-avoidance rules for the administering agency. | *Yes / No* |
| Information Sharing | • The administrative agencies (including Inland Revenue; and MSD and health actors) will require the authority and capability to share information with each other, and to obtain information from working people and employers, including insurance claimants. | *Yes / No* |
| ***Funding the Scheme*** | | |
| Rates and Levy Structure | • 50/50 split between employer and employee and/or contractor levies<br>• Covers administration costs and entitlements liability.<br>• Maximum leviable income set at ACC rate ($130,911), with periodic/annual indexation<br>• Flat employer levy on total payroll including labour income of covered contractors<br>• Crown contribution to set up costs<br>• No levy free threshold for employee levy<br>• No risk rated employer levies<br>• Could eventually align frequency of levy-setting with ACC, but 3 yearly levy setting may not be appropriate at the outset. | *Yes / No* |
| Levy setting | • Cabinet, on recommendation of scheme and policy agency (as with current ACC settings)<br>• Embedded requirement that levy setting be based on actuarially fair methodology (to account for changing demand through business cycle).<br>• Align with ACC to extent possible | *Yes / No* |
| Fund | • Creation of a standalone fund (separate from the AC scheme's accounts and HCD)<br>• The scheme will be fully funded to meet its annual liabilities<br>• Crown is funder/lender of last resort when required, but this would be repaid via levies (spread over time so as to maintain manageable, stable levies)<br>• Crown may contribute under exceptional circumstances, and would be expected to fund any temporary scheme extensions introduced in these circumstances. | |

**HEALTH CONDITIONS AND DISABILITY**

| Parameter | Proposed setting for inclusion in the Discussion Document | Agreement |
|---|---|---|
| General | Broadly, the settings for Economic Displacement will apply to the scheme, unless varied by the recommendations below | |
| ***Coverage*** | | |
| Working arrangements | • All working arrangements including self employed (differing from the approach to redundancy where specified types of self-employment are covered) | *Yes / No* |
| Trigger | • Loss of income arising from reduction of capacity to work of at least 50% caused by ill health or a disability that is expected to last for no less than 4 working weeks<br>• Covers any health condition or disability that results in a reduction of capacity to work | *Yes / No* |
| Evidence required | • Where the loss of income is triggered by the reduction (either fully or partially) in work capacity from a health condition or disability<br>o Assessment by claimant's medical practitioner at entry with subsequent independent assessment as needed<br>o Independent opinion in conflict and will take precedence (employee chooses list of accredited practitioners). This could also be used for ongoing assessments<br>o Evidence from employer of capacity to undertake work<br>o Excludes incapacity covered by ACC<br>• Where dismissal initiated by employer due to a health condition or disability, evidence of dismissal from employer is sufficient | *Yes / No* |

| Parameter | Proposed setting for inclusion in the Discussion Document | Agreement |
|---|---|---|
| ***Obligations*** | | |
| Employer obligations | • Where a medical practitioner has determined a worker has a decreased capacity for work, the employer will be obliged to make an assessment about the worker's ability to work.<br>o If the employer comes to the view the employee cannot undertake at least 50% of the level of work, then they notify the scheme.<br>o If they come to a view and the worker contests that view, the worker can lodge an application directly with the scheme, but where the scheme accepts that application, bridging payments will be required from the employer.<br>o *To undertake reasonable steps to support worker to continue working (including workplace accommodations or redeployment where possible) prior to the worker ceasing work*<br>• If employer initiated dismissal, then 4 weeks' notice.<br>• 4 week transition grant by paid for by employers (to cover first 4 weeks following displacement)<br>• Scheme to refund amount of transition grant paid by employers if claimant returns to work within the 4 week transition grant period, and this is to be capped at no more than 4 weeks of the maximum entitlement.<br>• Both of these should be sequential<br>• *To undertake reasonable efforts to protect the job where there is a reasonable prognosis of return to work within 6 months*<br>• Employer has redeployment obligations where possible<br>• Consider impact on principals in a contract as an open question | *Yes / No* |
| Claimant obligations | • Claimants obliged to:<br>o inform the insurer of any change in circumstance that may affect the eligibility for or rate of Social Insurance<br>o the requirement to provide subsequent medical certificates should a work capacity reassessment be required by their health practitioner within the entitlement period<br>o the requirement to undertake any assessments related to returning to work<br>o requirements to prepare to return to work where appropriate. This could include engaging in rehabilitation activities.<br>o actively search for work (and demonstrate job search activity) where their capacity to work increases<br>o where the capacity to work increases, accept suitable offers of employment that offer at least pre-displacement wages and other terms and conditions<br>o work with the insurer to prepare and update and follow a rehabilitation and return to work plan (where such a plan is appropriate).<br>• Requirement to limit time overseas (no more than 28 days overseas, unless exceptional circumstances apply) and payment ceases if no evidence of expected return<br>• Work obligations can be deferred | *Yes / No* |

# Annex 2 - Entity Choice

1. This section considers what is the most appropriate entity for the establishment and ongoing delivery of a scheme

## Options and criteria

2. This section provides the details of the pros and cons of delivering the social unemployment insurance (SUI) scheme either via:

    a. ACC – involving ACC levering organisational capabilities (eg. corporate), adapting relevant systems (eg. levy, claims management, funds management) and building additional capabilities (eg. Job placement focused case management)

    b. a new crown entity – involving a complete corporate and delivery build (eg. levy, claims management, information sharing systems, case management)

    c. a new crown entity with shared services with ACC – involving a corporate and capability build, and the establishment of a shared services agreement for ACC to adapt and provide the new entity with delivery functions (eg. levy, funds management)

    d. an existing department with shared services with ACC – eg. MSD would lever its organisational capabilities (eg. corporate), build on its job placement focused case management, and establish a shared services agreement for ACC to adapt and provide delivery functions (eg. levy, funds management)

    e. a departmental agency with shared services with ACC - eg. established within MSD, the entity would lever and build upon MSDs organisational capabilities (eg. corporate, job placement focused case management), and establish a shared services agreement for ACC to adapt and provide delivery functions (eg. levy, funds management).

3. The entity choice is considered against criteria broken down according to short term/transitional considerations and ongoing/long-term considerations

| | **Transitional / start up considerations** | **Ongoing delivery / long-term considerations** |
|---|---|---|
| **Public trust and accountability** | Maintaining public perception/trust and confidence.<br>Independence for maintaining separation of levy funding from general taxation and other funding streams, and managing claims in the most efficient and effective available manner, free from undue interference.<br>Accountable to:<br>• the Executive to drive performance, and calibrate to changing contexts; supported by departmental policy and monitoring functions, legislative settings, annual letters of expectation and service agreements etc. | |

| | Transitional / start up considerations | Ongoing delivery / long-term considerations |
|---|---|---|
| | • the public<br>• employers and workers – reflecting a sense of ownership in the scheme.<br>• Māori to fulfil Treaty obligations for partnership, enabling Māori to achieve aspirations and for ensuring equity | |
| **Effective delivery** | Entity has leadership capability and focus to drive performance.<br>Organisational, and technical capacity (systems and staff) to deliver scheme entitlements in an efficient and effective manner | |
| **Feasibility and timing** | Timely scheme establishment<br>Avoids destabilising existing services (eg. impact on ACC performance, client outcomes) | Functions consolidated in agencies with comparative advantages in delivering those functions<br>Leverage existing functions/capacity where possible, including cross-agencies |
| **Cost** | Costs of start-up | Costs of ongoing delivery of the scheme |

## Discussion

*Public trust and accountability*

4. To be trusted from the outset the delivery of the scheme would need to:

   a. have financial and operational independence so that levy payers can trust that their levy funding will be used for the specific purposes of the scheme (and not cross-subsidise other services), and that claims will be managed in a neutral and competent way

   b. be accountable to appropriate Executive influence, providing assurance that the scheme is democratically accountable to the public

   c. involve tripartite and Māori representation (a preference expressed by the Tripartite Future of Work Forum); this would support ongoing buy-in from employers and working people into scheme's performance, and fulfil Treaty obligations for partnership, enabling Māori to achieve aspirations and for ensuring equity.

5. In terms of providing independence, either ACC (a crown agent), or a new crown agent would be preferable to using a department (eg. MSD) or departmental agency (eg. housed within MSD) as Crown entities tend to have higher hurdles for Executive influence than departmental forms. However, it would be possible to use a

departmental form with sufficient legislative protections, and robust systems for maintaining separation of funding streams.

6. Using either ACC or a new crown entity would be preferable in that it would enable more meaningful social partner and Māori involvement (eg. via Board membership). A department or departmental agency form would enable straighter forward Executive influence over the scheme. However, the Executive (supported by its monitoring and policy agency/agencies) would maintain levers of influence over the crown entity (eg. legislation, Ministerial performance expectations via the Service Agreement, and Board appointments).

7. Trust is easily lost, and can take time to gain. Whilst ACC is generally regarded as an effective administrator of the ACC scheme, there are some who may be concerned about ACC as the administrator of a new scheme. A new crown agent would not have any preconceptions based on history.

8. However, ACC is more likely to sustain trust. If the new entity does not operationalise the scheme well, quickly and deliver in a credible manner, any trust advantage over ACC could be quickly lost. ACC is likely to be able to more quickly get a SUI scheme up and running and is the option most likely to provide credible delivery of the SUI scheme in areas which are most immediately discernible (claims assessment and payments and administration of levies).

*Effective delivery*

9. For effective delivery, the entity will need to have leadership capability and focus to drive scheme establishment and performance, and ideally during set up avoid disrupting existing organisational performance.

10. Having a new standalone entity administer the new SUI scheme is likely to be less complex to set up in that the new entity would have a dedicated focus on SUI scheme performance. It would also have a clean slate to incorporate social partners and Māori representation into its governance arrangements from the outset without risking undermining the ACC Board's expertise. It would also avoid shifting ACC's focus from securing benefits realisation from its transformation programme and rehabilitation performance.

11. Free and frank opinions The SUI scheme will require many similar system and staff capabilities to ACC, for instance technology platform and development capabilities in levy administration, fund management, claims lodgement and payments, case management, dispute management, data analytics.

12. This would particularly be the case if another entity was to rebuilding this capability from scratch, which could result in a large degree of movement of ACC staff to the delivery entity and significantly undermine ACC's performance.

13. The challenge of stretched resources would remain if ACC implemented the new scheme, or built the platforms for shared services with another entity, but the management team in ACC would have more control over distributing resources

effectively across the needs of both schemes than if resourcing simply moved to a different entity.

14. ACC however, could offer strengths in developing and delivering the SUI scheme.

    a. the ACC Board and its leadership has strong knowledge and capability in system development given its transformation programme

    b. While the SUI insurance provision focus would be different to ACC's management of the AC Scheme, a stronger labour market focus could strengthen ACC's delivery of the AC scheme. Effective return to work is an important driver of rehabilitation performance. Introducing the SUI scheme to ACC could enable ACC to develop this capability to the benefit of the AC scheme.[3]

15. Risks could be mitigated via:

    a. Ensuring the current ACC Board skills mix remain a priority, given ACC's substantial investment fund and the complexity of managing a long-term scheme; social partner and Māori representation could be introduced via advisory functions or as part of membership criteria or consultation requirements, or incorporated over time

    b. Ensuring that governance arrangements for the respective schemes operate in a joined-up way and do not compete with one another. One approach could be to establish ACC Board sub-group with delegated responsibility for establishing the SUI scheme.

    c. Appropriating adequate resourcing to departmental policy and monitoring functions at the outset

    d. Appropriating adequate start-up funding for establishing the SUI scheme

    e. Establishing well focused performance expectations for the development, initiation and ongoing operation of the scheme.

*Feasibility, timing*

16. Generally, the test of whether to establish a new entity is that existing entities do not have the capability to deliver a new service. For feasible delivery, the entity will need to have organisational, and technical capacity (systems and staff) to undertake a system and organisational build and deliver:

    a. establish and administer reasonably stable levies

    b. manage funds separate from other funding streams

    c. assess and pay claims in an accurate and low compliance manner

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[3] This is in line with a Treasury commissioned review of ACC's case management that suggested that it was too medico-legal oriented and needed to take a broader perspective in order to support better rehabilitation outcomes.

d. provide employment focused case management

e. be able to respond to levy payers and other stakeholders demands for more sophistication (eg. Perceived equity is a significant driver of satisfaction for levy payers in the AC scheme).

17. Moreover, the Tripartite Forum intends that the SUI scheme be operational in 2023.

18. ACC and MSD each have existing but differing capabilities that could be built upon and/or shared to deliver a SUI scheme, whereas a new entity would need to either build a full service model or rely on a much more complex shared services arrangement.

| **SUI functions** | **ACC** | **MSD** | **New Crown entity/Departmental agency** |
|---|---|---|---|
| **Establish and administer reasonably stable levies** | Has expertise to determine funding requirements<br>Has existing levy platform, and information sharing arrangements with IR<br>Has ability to evolve levy platform to respond to stakeholder demand | Build a full service model or rely on a shared services arrangement with ACC or IR | Build a full service model or rely on a shared services arrangement with ACC or IR |
| **Manage funds separate from other funding streams** | Has well established investment function<br>Has mature accounting systems to manage separate funding stream income and outgoings | Build a full service model or rely on a shared services arrangement with ACC or IR | Build a full service model or rely on a shared services arrangement with ACC or IR |
| **Receive, assess and pay claims in an accurate and low compliance manner** | Has claims lodgement system to build on<br>Has earnings assessment system, information sharing platform with IR to build on<br>Has payment system to build on | Has claims lodgement system to build on<br>Has payment system to build on | Build a full service model or rely on a shared services arrangement with ACC or IR |
| **Provide return to work planning and case management** | Has return to work ability planning, and case management function that could be adapted to be more work oriented<br>Or develop a shared services arrangement with MSD for complex case management and employment services | Has work oriented case management and employment service functions that would need to expanded | Build a full service model or rely on a shared services arrangement with MSD |

19. A shared services arrangement would be possible, but would add considerable complexity. Free and frank opinions

Free and frank opinions [redacted] A departmental agency arrangement would be particularly challenging in this regard, as it would need to negotiate prioritisation of and cost sharing for services with both ACC, and a department, both of which would be managing alternative funding streams.

20. Using MSD would be possible. This option could capitalise on MSD's development of employment services. However, this option would either rely on shared levy services provided by ACC or a very basic service provided by IR, and would require the development of funds management, robust accounting systems, and pre claims earnings assessment capabilities for instance. This could be challenging given MSD is currently undertaking a transformation programme.

21. ACC would be the most feasible option for initiating a SUI scheme within the Forum's desired timeframe. A SUI could utilise many of the same platforms that ACC uses for the AC scheme enabling platform and licence costs to be shared. This approach would allow ACC's current systems to be duplicated and then modified to meet the needs of the new scheme.

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 progressive implementation approach be adopted, a scheme which administers income replacement for redundancy could possibly be operational within 9 months of set-up commencing. Further elements of the scheme could then be implemented in a progressive way. This approach would also spread implementation cost and risk, including better allowing ACC to balance the performance and delivery of the ACC scheme along with the new SUI scheme in parallel.

23. ACC is likely to have longer run advantages in that it has:

    - a levy platform that can be adapted to improve equity and performance as understanding of experience in the scheme improves (eg. risk or experience rating)
    - strong data analytics capabilities, case management model (both of which would need to be adapted to focus on return to work outcomes) and good linking with other services and employer networks that could support good return to good work outcomes over time
    - Medical expertise and data that could strengthen its delivery for HCD claimants and take a system-wide view to rehabilitation and return to work outcomes.

*Costs*

24. Using ACC is likely to be the most cost effective approach to establishing the SUI scheme. ACC would also likely provide ongoing cost efficiencies, although these savings would be modest against a shared services model.

25. The high level estimate of technology set-up costs for a basic scheme which pays entitlements for economic displacement is $50-$100M if developed using ACC's

platforms and existing systems. The timeframes would be nine to twelve months from commencement of the technology build. Developing the further technology support including case management, self-service, automated claims assessment, etc is likely to require a further investment of $100M over the following 18-24 months post commencement.

26. This compares to high level estimates for a new Crown agent that are likely to be ~$200M greater than leveraging ACC's technology platforms and existing capabilities. Implementation timeframes using a new Crown agent are also likely to be 12 months longer.

27. Once the new scheme is operational, there are likely to be some synergies and/or economies of scale in having ACC run both the SUI and ACC schemes. These will be mostly in the technology area. Whilst some of these synergies/economies of scale could be achieved with a separate Crown entity with shared services, the added complexity that would be introduced by managing shared services arrangements may negate these benefits. The synergies/economies of scale are estimated to be relatively minor, in the order of $10M per annum.

# Annex 3 – Costing methodologies and assumptions

28. There are high levels of uncertainty around the costings, primarily driven by uncertainties about the extent of the behavioural response to the schemes. The general approach used here is to use current New Zealand redundancy and sickness displacement data and welfare settings as a base and then applying a behavioural response to the increase in generosity.

29. We are also developing costings using an international scheme as the base (Canada for economic displacement and Finland for HCD) and applying behavioural estimates from the literature to differences to what is proposed to New Zealand, which will be provided at the next costing iteration for 8 July.

**Policy being costed**

30. Limitations of the current model and time constraints mean that the models do not exactly match proposed policy parameters. Current modelling does not allow for pay-outs past the age of 65, this may materially under-estimate HCD payments, we are conducting further sensitively analysis. The model based on the New Zealand scheme does not: currently allow for partial loss for HCD; job loss for economic displacement when other jobs are held; has tighter employment eligibility requirements than what is proposed; and only includes employees. In aggregate this changes are likely to increase the costs, particularly for HCD. We will be conducting further sensitivity analysis for the next costing update, and Treasury's TAWA can cost many of these elements more accurately.

**Modelling parameters and limitations**

(Those that differ from proposed scheme parameters are shaded grey)

| | **New Zealand base** |
|---|---|
| Generosity | 80% replacement rate capped at a maximum income aligned with ACC of approximately $130k |
| Maximum duration | 6 months plus 1 month bridging or 8 months plus 1 month bridging |
| Employment eligibility and income payment calculation | Income in the previous three calendar months determines both eligibility and income for pay-out. Immigrants are included. Only employees are included in levy and payment costings. TAWA costings will better be able to incorporate wider coverage, **may increase costs** |
| Age | Payments only to 16-65 year olds, but levy applied to all employee income. **Understates estimates, may be material for HCD** |
| Employment type | Non-employees (self-employed, any form of contractor) are excluded from both levy and payment). Extent and direction of bias will depend on final policy design but not considered material |
| Partial loss for HCD | **Partial loss for HCD is not modelled** |
| Economic displacement | Full income loss (TAWA will model job loss). **Will increase estimates** |

| | New Zealand base |
|---|---|
| coverage for multiple jobs | |

**International literature on behavioural estimates**

31. A key driver of the cost of the scheme is behavioural change. Some of the behavioural changes we might expect to see are:

    a. People who are working with significant health conditions being able to partially or fully cease to work, or take longer off after an illness;

    b. People who are made redundant taking longer to search for the right job;

    c. People being more willing to take voluntary redundancy or work for a higher risk employer, for example, a start-up;

    d. Employers being more willing to make staff redundant, knowing those staff will have cover, or less willing to make staff redundant to avoid the bridging payment;

    e. Employees adjusting their working patterns to become eligible for the scheme, for example, working for a month longer. We expect this effect to be small for redundancy as the scheme is designed to cover everyone who needs it. The effect may be larger for health and disability as it provides an additional incentive for those with chronic conditions to return to work;

    f. Those currently unemployed due to redundancy or health or disability are, on average, on fairly low incomes. The support of the scheme allows those on higher incomes to take time off work for job search or health recovery; and

    g. There is a small risk of fraud, but the schemes are being designed to minimise fraud and those who commit it may be subject to criminal charges.

32. The modelling approach uses estimates of elasticities of these behavioural responses to scheme settings based on an international literature by Motu.

**Motu estimates of behavioural response to social insurance scheme settings**

| Social insurance cost component | Synthesis of unemployment insurance literature | Synthesis of sickness insurance literature |
|---|---|---|
| Generosity of benefits | On claim numbers ~0.5<br>On claim duration 0.5-1 | On claim numbers ~0.5 (range 0.3-0.7)<br>On claim duration ~0.3 (range 0.2-0.2 with possible range 0-1) |
| Maximum duration | Elasticity of unemployment duration 0.1-0.5 | |

33. The estimates in the table above are from a synthesis review by Krueger and Meyer (2002).[4] It should be noted that the literature is much less developed on the behavioural responses to sickness insurance so we have less confidence in our estimates for HCD.

**Applying behavioural estimates to the New Zealand data and existing policy settings**

34. One way we have modelled possible behavioural changes is to start from the Jobseeker Work Ready benefit – as the current unemployment scheme – and then applies the behavioural elasticities to current displacement rates to move from this scheme to the more generous schemes proposed.

35. This approach assumes that all displaced workers can access this benefit, which is more generous than actual settings. However, those on the benefit will often be receiving additional payments such as an accommodation supplement or additional payment for dependent children. It is assumed these two impacts net out. Note this is only being used to estimate a behavioural baseline, we do use the numbers of those who currently do access a benefit (around 33% do).

36. An increase from job seeker (around $250 per week) to 80% of the median income for HCD (~$860 per week)[5] represents an increase in generosity of almost 250% per week. Using the Motu estimated elasticity of 0.5 for economic displacement implies we would observe a 125% increase in observed displacement.

Levy rate per $100

| Estimating potential changes by using Jobseeker as a baseline | 7 months | | | 9 months | | | 12 months | | |
|---|---|---|---|---|---|---|---|---|---|
| | Redundancy | HCD | Total | Redundancy | HCD | Total | Redundancy | HCD | Total |
| **Baseline - no behavioural changes** | $0.7 | $0.5 | $1.1 | $0.8 | $0.5 | $1.3 | $0.9 | $0.7 | $1.6 |
| Increased number of claims | $0.8 | $0.2 | $1.1 | $1.0 | $0.3 | $1.3 | $1.2 | $0.4 | $1.5 |
| Increased duration (base = 7 months) | | | | $0.1 | $0.0 | $0.1 | $0.3 | $0.1 | $0.3 |
| Admin costs ($850) per claim | $0.1 | $0.0 | $0.1 | $0.1 | $0.0 | $0.1 | $0.1 | $0.0 | $0.1 |
| **Potential levy** | $1.6 | $1.3 | $2.8 | $1.9 | $1.5 | $3.4 | $2.4 | $2.0 | $4.4 |
| First 4 weeks paid by the employer | $0.3 | $0.2 | $0.6 | $0.3 | $0.2 | $0.6 | $0.4 | $0.2 | $0.6 |
| **Remaining Levy** | $1.2 | $1.0 | $2.3 | $1.6 | $1.3 | $2.9 | $2.1 | $1.8 | $3.8 |

Levy cost

| Estimating potential changes by using Jobseeker as a baseline | 7 months | | | 9 months | | | 12 months | | |
|---|---|---|---|---|---|---|---|---|---|
| | Redundancy | HCD | Total | Redundancy | HCD | Total | Redundancy | HCD | Total |
| **Baseline - no behavioural changes** | $0.9b | $0.6b | $1.5b | $1.0b | $0.7b | $0.0b | $1.2b | $0.9b | $0.0b |
| Increased number of claims | $1.1b | $0.3b | $1.5b | $1.3b | $0.4b | $1.7b | $1.6b | $0.5b | $2.1b |
| Increased duration (base = 7 months) | | | | $0.1b | $0.0b | $0.2b | $0.4b | $0.1b | $0.4b |
| Admin costs ($850) per claim | $0.1b | $0.0b | $0.1b | $0.1b | $0.0b | $0.1b | $0.1b | $0.0b | $0.1b |
| **Potential levy** | $2.1b | $1.7b | $3.8b | $2.6b | $2.1b | $4.7b | $3.2b | $2.7b | $6.0b |
| First 4 weeks paid by the employer | $0.4b | $0.3b | $0.7b | $0.4b | $0.3b | $0.8b | $0.5b | $0.3b | $0.8b |
| **Remaining Levy** | $1.7b | $1.4b | $3.1b | $2.1b | $1.8b | $3.9b | $2.8b | $2.4b | $5.2b |

37. The proportion used for the first 4 weeks assumes that the proportion paid in the first 4 weeks before allowing for behavioural changes remains the same once behavioural changes have been allowed for. This is applied excluding administration costs. The actual proportion will depend on how behavioural changes flow through. For example,

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[4] Krueger, A. B., & Meyer, B. D. (2002). Labor supply effects of social insurance. *Handbook of Public Economics, 4,* 2327-2392.

[5] Current incomes of those economically displaced is close to the median income, this is what we use in our costings. Current incomes of those displaced due to health or disability is below the median income. We assume the median income in our costs as: the scheme allows access by people across the income distribution; take-up will be higher amongst older and lowest amongst younger workers; and the low rates in the current data may indicate that people have reduced their hours over time in response to their incapacity.

if additional increases in claims tend to be shorter in duration then this proportion will increase.

**Fiscal offset**

38. The TAWA costing will estimate the full fiscal impact. The current modelling is unable to calculate full tax impacts. The scheme will save some benefit costs as some people who join the scheme would have gone onto a benefit. This creates a fiscal benefit of approximately 0.1% of payroll, which offsets some of the overall costs and is assumed to be contributed by the Government to the scheme.

# Annex 4 – Draft Discussion Document