MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

AIDE MEMOIRE

Supplementary advice on estimating the cost of social unemployment insurance

Date:	3 September 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-0777

Information for Minister	
Rt Hon Jacinda Ardern **Prime Minister**	**Deadline**
Hon Grant Robertson **Minister of Finance**	6 September 2021
Hon Chris Hipkins **Minister of Education**	
Hon Carmel Sepuloni **Minister for Social Development and Employment**	
Hon David Parker **Minister of Revenue**	
Hon Stuart Nash **Minister for Economic and Regional Development**	
Hon Michael Wood **Minister for Workplace Relations and Safety**	

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**		**1st contact**
Jivan Grewal	Policy Director, Employment, Skills and Immigration Policy	-	Privacy of natural persons	✓
Isaac Holliss	Principal Policy Advisor, Social Unemployment Insurance Working Group	-		

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

Minister's office to complete:

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☐ Overtaken by Events ☐ See Minister's Notes ☐ Withdrawn

Comment

AIDE MEMOIRE

Supplementary advice on estimating the cost of social unemployment insurance

Date:	3 September 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-0777

Purpose

1. The purpose of this note is to provide supplementary information to the briefing provided to the Social Unemployment Insurance Governance Group (SUIGG) on 25 August 2021 (2021-0664 refers).

2. The supplementary information relates to updated cost estimates for the scheme, including the estimated cost of removing the bridging payment, and extendibility of the scheme for training or vocational rehabilitation.

3. Cost estimates in this document supersede estimates contained in the 25 August advice.

Privacy of natural persons

[redacted]

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

03 / 09 / 2021

Annexes

Annex One: Briefing to the Social Unemployment Insurance Governance Group

To: Social Unemployment Insurance Governance Group

From: Social Unemployment Insurance Working Group

Date: 3 September 2021

Briefing: Supplementary advice on estimating the cost of social unemployment insurance

Purpose

1. Provide updated advice to assist the Social Unemployment Insurance Working Group (SUIGG) set an indicative levy for the purposes of public consultation.

2. To provide an estimated cost of scheme extendibility and operating the scheme without a bridging payment.

Estimating the cost of social unemployment insurance

3. On 13 August, the Working Group provided you with preliminary cost estimates for the proposed SUI scheme (see table below). These were the first cost estimates based on the Treasury's Tax and Welfare Analysis model (TAWA) outputs, and were based on three different methods, which had different underlying assumptions.

Method	7 month scheme	9 month scheme
1 (New Zealand data plus elasticities)	1.21%	1.57%
2 (NZ data for redundancy and international data for HCD)	1.56%	2.05%
3 (International benchmark applied to NZ data)	2.90%	3.90%

Table 1: cost estimates provided on 13 August excl GST

4. New figures were included in advice provided to SUIGG on 27 August. These costs were derived by the working group based on TAWA results, but were not directly from TAWA. The costs have been revised (relative to the 13 August estimates) due to changes in the working group's assumptions, manual adjustments to the TAWA costs, and ongoing quality assurance of the TAWA model. We also provided advice on a recommended indicative levy based on a fourth method which provided a cost estimate that fell between method 2 and method 3.

Cost method	7 month scheme	9 month scheme
Method 1 (New Zealand data plus elasticities)	1.29%	1.68%
Method 2 (New Zealand data for redundancy and international data for HCD)	1.67%	2.22%

Method 3 (International benchmark applied to New Zealand data)	3.09%	4.16%
Revised Method 3 – using revised international benchmarks applied to New Zealand data	2.16%	2.96%

Table 2: cost estimates provided on 27 August. All figures in this table include GST. Cost estimates in the 13 August advice were presented excluding GST and have been updated here as including GST.

5. Our ongoing analysis of the assumptions and their implications to costings has led to additional changes to better match the assumptions that we have provided to SUIGG.

    a. The relationship between the number of relevant job losses used as an input into the TAWA model and the number of claims is now better understood. For instance, the underlying data suggests that a significant number of potential recipients would not claim any SUI due to subsequent earnings.

    b. The relationship between behavioural adjustments to the durations between jobs and the durations of claims is now better understood, which has led to adjustments in the HCD costings.

6. Due to the pace required to provide timely advice on costs and levies, quality assurance has been ongoing. The latest round of modelling included a revision to the income scaling approach, because previously the average income used to estimate the cost of claims for health conditions and disability (HCD) was lower than it should have been.

The most recent cost estimates have been manually derived by adjusting the most recent TAWA results

7. All of the methods used for estimating potential costs offer variations on three main inputs:

    a. The number of likely claims for either displacement or work loss due to health conditions or disabilities.

    b. The length of time a claimant spends receiving payments on the scheme (using input parameters as at 25 August).

    c. The level of pre-displacement income.

8. There are limits to our ability to accurately model all of the scheme's design parameters. For instance, the proposed scheme imposes a maximum amount of SUI claims that a worker can make in a certain period of time. This means that someone made redundant claims SUI, works for a short spell then is made redundant again, back to employment and then quickly back to SUI may be counted as a claimant by our cost modelling, when in fact they would not be eligible. Although the number of claims used as an input into calculating costs takes some of this into account, it likely doesn't exclude the full effect this may have. In this case this would mean cost estimates are over-counting claims. We expect there are other nuances to the modelling approach that may result in an over or under-count of claims.

9. The table in Annex A sets out updated cost estimates relating to each of the methods, including a comparison with earlier cost estimates which were provided to Ministers and SUIGG previously.

Summary of updated cost estimates[1]

	Previous advice	Corrected rate
Method 1 – 7 month scheme	1.29%	**1.29%**
Method 1 – 9 month scheme	1.68%	**1.67%**
Method 2 – 7 month scheme	1.67%	**1.57%**
Method 2 – 9 month scheme	2.22%	**2.11%**
Method 3 – 7 month scheme	3.09%	**3.74%**
Method 3 – 9 month scheme	4.16%	**4.98%**
Revised Method 3 – 7 month scheme	2.16%	**2.77%**
Revised Method 3 – 9 month scheme	2.96%	**3.66%**

Table 3: Summary of combined HCD and redundancy total levy rates for all methods (i.e. employees and employers would each pay half of the levies shown here), showing figures provided in previous advice and their corresponding corrected rate. All figures include GST.

Cost estimates for a 6 and 8 month scheme without bridging payments

10. Removing bridging payments would result in a 6 month and 8 month scheme with these approximate costs, based on Revised Method 3 approach above.

	6 month duration	8 month duration
Cost of economic displacement	1.53%	2.05%
Cost of health conditions and disabilities	1.36%	1.73%
Total levy (incl GST)	**2.88%**	**3.78%**
Employer/worker share of the levy (incl GST)	1.44%	1.89%

Table 4: Cost estimates for a 6 and 8 month scheme without bridging payments.

11. These estimates assume that even though there is no bridging payment to deter businesses from reclassifying other types of dismissals as redundancies (referred to as 'sham' redundancies), that some other regulatory means is used to achieve a similar effect. If policy settings do not deter such reclassification, then the costs would be higher than what is shown here.

Cost estimates for scheme extendibility

12. The estimated cost of extending the scheme to a maximum of 12 months for individuals engaged in suitable education, training, or vocational rehabilitation would increase the

[1] When estimating the cost of a 7 month scheme, redundancy is calculated as a 7 month scheme and HCD is calculated as a 6 month scheme to account for the different approaches to the bridging payment. Similarly, a 9 month duration scheme uses 8 months as the basis for the HCD cost. The 8 month cost is calculated using an average of 7 and 9 months.

direct cost of the scheme, depending on the proportion of claimants who are approved to extend. We do not have a clear sense of what this proportion may be, although international schemes that offer extendibility, such as Canada may provide a useful reference point. In Canada, just 0.3% of eligible economic displacement claimants took the option of extending. Although this is limited to long-tenure workers, in other ways it is similar to the current proposed criteria for extendibility in the New Zealand scheme (self-funded course costs, and for approved programmes only).

13. There is also research which suggests the proportion of those who may be eligible (and benefit significantly from) vocational rehabilitation may be approximately 10% of HCD claims. The ultimate take-up would depend on the scheme's eligibility requirements and the availability of suitable rehabilitation programmes (noting it is not currently proposed that the rehabilitation itself would be funded by the scheme under current settings).

14. The indicative levies from adding extendibility to the scheme, taking the Revised Method 3 approach above as the base:

	Extension to 12 months from 7 months base scheme		**Extension to 12 months from 9 months base scheme**	
Proportion of claimants who extend	**Levy if no extendibility**	**New levy if extendible**	**Levy if no extendibility**	**New levy if extendible**
2.5%	2.77%	2.90%	3.66%	3.89%
5%	2.77%	3.04%	3.66%	3.99%
10%	2.77%	3.30%	3.66%	4.21%

Table 5: Cost estimates for scheme extendibility from 7 month and 9 months to 12 months.

15. The cost of extendibility is highly sensitive to the uptake of extensions. We have not been able to model the likely uptake based on the proposed policy settings. This means these costs are highly uncertain.

16. Extendibility is likely to have positive economic impacts from workers upskilling and accessing higher paid jobs. We also estimate that extendibility would have a positive impact on fiscal offsets as a result of higher incomes and reduced reliance on the SUI and welfare systems, but cannot quantify this.

Distributional impacts

17. Our assumed behavioural changes have, by design, adjusted the income distribution of potential SUI recipients. Applying these adjustments in TAWA indicates that, in the case of redundancy, recipient families would be more likely to be in the top end of the family income distribution, although there would still a considerable number in the bottom. For health and disability, recipient families would be fairly evenly spread over the family income distribution, although they would be slightly more likely to be at the top end of the distribution. In the absence of these behavioural changes, historical data shows that many people displaced due to health conditions or disability had previous earnings well below average ($2,680 compared to $5,040), and those experiencing economic displacement were below average ($4,210 compared to $5,040).These numbers are based on Household Economic Survey data.

18. There are a number of factors that drive the differences in the estimated distributional impacts between the TAWA modelling and historical data, including:

    a. Historical data tends to be based on the individual income of people displaced from their previous jobs while the TAWA results considers family income net of tax and transfers. The distribution toward higher incomes is in part due to multiple earners in a family and the impact of the tax and transfer system.

    b. The TAWA results consider all New Zealand families, not just employed families. This means that TAWA includes beneficiary families and superannuitants who are at the bottom of the income distribution and are not always included in the historical data.

    c. In the historical data, disabled people or people with health conditions may have reduced their hours prior to leaving work due to the impact their condition has on their ability to work. This has been adjusted in TAWA scenarios, under an assumption that this would not happen if a SUI payment was available. For example,

        i. employed disabled people are more likely to work part time (30.8 percent) than employed non-disabled people and on average work less hours a week than employed non-disabled people (29.2 a week compared to 34.5 hours a week)

        ii. disabled people working for wages and salaries earn less per week than non-disabled people with a median income of $900, while non-disabled people earned $1,016.[1]

19. Regardless of the implications of behavioural changes that may be caused by the introduction of social insurance, the working group preference is to rely on historical distributional data. We expect that people on low incomes will benefit as they are more likely to be displaced. Further investigation would be required to appropriately analyse the distributional impacts. In particular, following agreement to the proposed levy, we could look at the distributional impact of the amount of levy paid in each income decile to the amount of SUI received.

1 Labour market statistics (disability): June 2019 quarter. Stats NZ.

Annex A: Summary of the key inputs and outputs of all four methods used to estimate the costs of social unemployment insurance. These figures are manual adjustments of TAWA outputs

			INPUTS			OUTPUTS			
Method	Maximum duration	Number of claims	Average Duration (months) allows for partials	Average Duration (weeks)	Average annual income	Total scheme costs	Bridging payment costs	Total levy corrected for issues (incl admin and GST)	Levy rate provided in previous advice (excl GST)
Method 1 Redundancy	7	61,500	3.4	14.7	$46,956	$0.65b	$0.13b	0.51%	0.57%
	9	64,500	4.2	18.4	$46,956	$0.86b	$0.14b	0.71%	0.76%
Method 1 HCD	6	83,400	4.2	18.3	$33,370	$0.79b	$0.17b	0.77%	
	7	83,400	4.8	20.8	$33,370	$0.89b	$0.17b	0.71%	0.56%
	8	83,400	5.3	22.9	$33,370	$0.98b	$0.17b	0.97%	
	9	83,400	5.8	25.1	$33,370	$1.07b	$0.17b	0.89%	0.71%
Method 2 Redundancy	7	90,500	4.2	18.1	$46,956	$1.18b	$0.24b	0.93%	0.95%
	9	95,000	5.2	22.6	$46,956	$1.55b	$0.25b	1.29%	1.27%
Method 2 HCD	6	103,400	2.8	12.3	$33,370	$0.65b	$0.16b	0.65%	
	7	103,400	3.2	14.0	$33,370	$0.74b	$0.17b	0.57%	0.50%
	8	103,400	3.6	15.7	$33,370	$0.83b	$0.16b	0.82%	
	9	103,400	4.0	17.4	$33,370	$0.92b	$0.16b	0.75%	0.66%
Method 3 Redundancy	7	138,600	5.0	21.7	$57,072	$2.65b	$0.52b	2.10%	1.73%
	9	144,900	6.3	27.1	$57,072	$3.45b	$0.54b	2.87%	2.39%
Method 3 HCD	6	204,600	2.1	9.3	$57,072	$1.67b	$0.40b	1.64%	
	7	204,600	2.5	10.7	$57,072	$1.91b	$0.39b	1.50%	0.96%
	8	204,600	2.8	11.9	$57,072	$2.14b	$0.39b	2.11%	
	9	204,600	3.0	13.2	$57,072	$2.37b	$0.39b	1.95%	1.23%
Method "2.5" Redundancy	7	112,300	4.9	21.2	$49,488	$1.81b	$0.38b	1.42%	1.08%
	9	117,900	6.1	26.3	$49,488	$2.36b	$0.40b	1.94%	1.57%
Method "2.5" HCD	6	135,300	2.7	11.6	$57,072	$1.38b		1.36%	0.80%
	8	135,300	3.4	14.8	$57,072	$1.75b		1.73%	1.00%

Explanatory note to Annex A

1. In the advice provided on 13 August, the cost for the HCD part of the scheme assumed a one month bridging payment. In all subsequent advice, the costs assumed no bridging payment, as the Working Group is recommending to SUIGG that a bridging payment would only be paid for HCD claims where the worker was made redundant.

2. The updated cost estimates in this table therefore assume there is no bridging payment for HCD claims. This is largely consistent with the proposed scheme design, where an employer would pay a bridging payment for an HCD claimant only if they make that worker redundant (thus the maximum cost of the scheme is 6 months or 8 months, depending on the maximum duration).

3. In some cases, the bridging payment may decrease the cost of the HCD scheme in a way which we have not accounted for here. This is because the highest concentration of claims is in the first month and more and more claimants leave the scheme before the maximum duration is reached. For instance where a bridging payment is paid at the beginning of the claim period and the worker then moves off the scheme in subsequent months, the cost to the scheme will be lower than what we are currently modelling