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Re: New Zealand Income Insurance Scheme

- We do not support the Income Insurance Scheme as proposed.
- It as an unnecessary financial burden on employers and employees and will not increase productivity or adequately protect employees.
- New Zealand has an existing social income benefit scheme for those that lose their incomes.
- A concern is that this proposed scheme is a kneejerk reaction to the effects of Covid on employment markets over the last 2 years.
- It is not stated but does the salary cap of $130,911 also come with a levy cap?
- Has the government considered an option for employees to opt out?
- Has the government considered an option for employees to opt out if they have existing insurance covers in place?
- Has the government considered whether those drawing government superannuation, still in paid employment, can opt out?
- Small employers with 2 or 3 staff and many new businesses, often have very tight cashflows. The increased tax (cost) and the need to pay an additional 4 weeks for any genuine redundancy e.g., could mean the difference between business survival and failure.
- We note that the proposed maximum cover is equal to the ACC maximum and I'm sure it's no coincidence that the income levy is the same as the ACC earner's levy at $1.39. It seems very unfair that the benefits between the two covers aren't equitable. Under ACC cover you can receive a benefit to age 65, whereas the income insurance scheme is only for a maximum of 6 months. Take a scenario whereby an individual that engages in higher risk activities such as skydiving or motor racing, and gets seriously injured, they are eligible to receive a benefit of 80% of pre-disability income to age 65 but an employee who suffers from a debilitating illness and can no longer work, will only have 6 months cover before moving to a Supported Living Payment benefit.
- It is a concern that no supporting data has been provided to assist in understanding the quantum of those leaving employment due to redundancy or illness & disability, nor the actuarial data for pricing of the risk and therefore the proposed levy.
- The proposed scheme needs to be considered in two parts, loss of income due to redundancy, and loss of income due to ill health and disability. Redundancy is an employment issue relating to a role and is employer led. Stopping work due to poor health or a disability is a personal medical issue.

Redundancy Insurance

- It would be good to understand the long-term data on the average number of redundancies by industry to determine where the issue lies, before making a blanket decision to cover all workers and add additional costs (tax) to employers and employees.
- One of the principles of Insurance is that it is designed to indemnify for loss from unexpected risks or events. In the case of redundancy, it is an unexpected risk for the employee but not necessarily for the employer. Redundancy is an employment issue, and the costs should lie with businesses. The 4 weeks payment at 80% on top of 4 weeks' notice is insufficient deterrent for employers not to make employees redundant. Some less scrupulous employers may be of the mindset that they want a return on a compulsory levy, and/or feel less of an obligation to try and retain staff knowing that there is a redundancy insurance support package.
- Some employers have no history of redundancies and are unlikely to ever make employees redundant. They will effectively be financially penalised and be cross subsidising poor employers who may make new or speculative employment decisions, safer in the knowledge that there is a redundancy scheme to support employees.
- If the proposed scheme was to be implemented then in the interests of fairness to employers, any form of redundancy compulsory redundancy insurance paid by employers should be risk rated by industry and/or previous redundancy history, similar to ACC levies.
- Another option would be to legislate that employers must have a minimum, mandatory redundancy payment clause in employment agreements. Insurance markets may then respond and develop products for employers but ultimately the risk would lie with the employer.
- Employees can currently access redundancy cover under various insurance products, including Income Protection and Mortgage Protection policies.
- Employees who have existing covers should be able to opt out.
- The issue for some people trying to access redundancy covers through traditional insurance products is that they sometimes can't access those products due to occupation or pre-existing conditions. However, if the Government is trying to provide a universal scheme to insure the "uninsurable" then why is health insurance not being considered in the proposed scheme?
- *"These payments aren't affected if someone has assets (such as property they own), or if they receive money from other sources (such as government support), or if others in their house (like their partner) continue earning."* Does this mean someone who has been made redundant can also claim the Jobseekers Support, Accommodation Supplement Health & Disability Support payments or other payments? Surely this is double dipping.
- How will people receiving the insurance benefit be actively case managed to assist them in returning them to employment? Where is the incentive for employees made redundant to seek a new job in earnest? For some employees made redundant, knowing that they can easily get another job, may be happy to receive 80% of their pre-redundancy income and actively maximise the benefit period.
- The ability for claimants to have their obligations to seek employment waived, if they enrol in an approved training programme, should be removed. It is an unfair burden on taxpayers to fund people into training for an occupation whereby they may generate a higher income and not have to pay back insurance benefits received. The student loan scheme allows people to receive a loan to enable training and is required to be paid back. Anyone receiving

an income insurance benefit and receiving an exemption from looking for or taking employment due to training, should have to pay it back.
- I note that people can receive superannuation as well as the proposed insurance benefit. Some employees working whilst collecting superannuation do so without financial necessity. This potentially creates an area for manipulation.
- Self-employed people have a greater ability to create a situation of "redundancy" and could manipulate the scheme. It may be seen as unfair to exclude them from the proposed scheme but there are existing insurance products that cater for self-employed people.

Illness and Disability

- Losing employment due to Illness and disability is an unforeseen risk and therefore an insurable event. Current market products are well designed to provide comprehensive protection.
- It has long been a contentious issue that New Zealanders could receive an income replacement benefit due to bodily injury, via ACC, but not be covered for illness or disability not caused by their employment.
- It should be noted that some illnesses are self-induced, e.g., alcoholism or drug addiction.
- Income protection policies have exclusions and generally do not cover any loss, caused wholly or partly, directly or indirectly or resulting from:
    - any intentional, self-inflicted injury or sickness, or any attempt at suicide or self-destruction while either sane or insane; or
    - alcoholism, drug or substance abuse; or
    - violation or attempted violation of the law or resistance to lawful arrest

  It would seem logical that these exclusions should also apply to the proposed scheme if it was implemented.

- Under the proposed scheme there is no ability for employees to take out extra cover. There is a risk that some younger healthy employees could think they are adequately covered and not take out private cover. The danger is that as they age and increase their income, they could find themselves with developed conditions that would be underwritten when they go to market and try to insure their income over and above the government scheme limits.
- A total of 6 months insurance cover via the proposed scheme does not adequately cover those who may need to be off work for longer periods. Existing insurance policies in the market, such as Income Protection provide an optional benefit period of 2 years, 5 years, or to age 65 or age 70. The issue for some people trying to access redundancy covers through traditional insurance products is that they sometimes can't access those products due to occupation or pre-existing conditions.
- However, if the Government is trying to provide a universal scheme to insure the "uninsurable" then it carefully needs to consider the impact on existing market participants, products available, impacts on those currently insured and how it may lead to greater rates of private underinsurance as some would totally rely on the state without understanding the limitations of the scheme.
- The scheme proposal only provides 6 months of cover every 18 months. It is not inconceivable that someone may be unlucky enough to have multiple claimable events in an 18-month period that could be related or unrelated to each other, i.e., made redundant and off work for 4 months on claim, returning to work and then sometime in the next 12 months

suffering an illness but only being able to claim for 2 months of benefit. Current market products such as Income Protection polices treat someone who suffers from the same sickness or injury within six months of a disability claim ending as being recurring, so they can only claim to the maximum of their benefit period, however, if they suffer a different illness unrelated to the first illness they were on claim for, then they can claim again up to the maximum benefit period.

- The scheme proposed is too simple and will lead to many people being underinsured.
- An unintended consequence may be that some insurers may withdraw from the market or seek to reduce their exposures, resulting in less competition in the market.
- If the Government is serious about providing illness and disability insurance it should be working with existing market providers to ensure that there is a competitive market, properly rated to risk that allows employees to insure up to 75-80% of all their income and with the benefits of more comprehensive wordings currently available.