

A New Zealand Income Insurance Scheme

Submission to the Ministry of Business Innovation and Employment (MBIE)

26th April 2022

1. Summary

- 1.1. The Salvation Army *Te Ope Whakaora* does not support introducing income insurance in the form proposed. The changes proposed represent a major shift in our social security system. Further work is needed to develop the design of an income insurance scheme that would be better aligned to and augment the current overhaul of the welfare system.
- 1.2. Women, younger people, people living with disability and Māori and Pasifika workers are bearing the impact of the economic shock of the Covid pandemic on top of enduring inequities in outcomes. The scheme as proposed in the discussion document does attempt to provide as wide a coverage as possible but does not show enough evidence of substantive benefits to improve equity of outcomes relative to the estimated \$3.5 billion annual cost of the scheme.
- 1.3. The proposed scheme introduces further complexity to the income support system and will result in a two-tiered approach to welfare that is more likely to increase inequalities than reduce them.

2. Background

- 2.1. The mission of The Salvation Army *Te Ope Whakaora* is to care for people, transform lives and reform society by God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.
- 2.2. The Salvation Army employs almost 2,000 people in New Zealand, and the combined services support around 140,000 people annually. In the year to June 2021, these services included 70 centres providing around 88,000 food parcels including more than 33,000 families and individuals as well 19,000 to other agencies, 4,000 people with transitional housing, almost 600 in social housing, over around 4,000 families and individuals were supported with whanau support/social work, around 7,600 people received help with addiction services, over 800 assisted with prison reintegration services, almost 4,400 families and individuals were helped with financial mentoring.
- 2.3. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's Aotearoa New Zealand Fiji Tonga and Samoa Territory.

- 2.4. The Salvation Army works for a fair and just society founded on faith in God’s compassionate love and justice. This includes seeking change to the national level policy and structural issues that cause poverty and exclusion. The social and economic system should be able to provide a modest but decent standard of living for everyone who is able and prepared to work while income support and labour market policies should provide the means for people outside the workforce to find employment or an adequate income when they cannot.
- 2.5. These comments do not address all areas of the consultation document questions, as we believe the questions on detail of design are not relevant at this point when the alternative options have been set aside without evidence of detailed assessment of their comparative costs and benefits.

3. Objectives of Income Insurance

- 3.1. The three objectives of the scheme as set out in the discussion document (p.8) are to minimise the immediate financial impact of losing income, support workers back to good jobs, and support the economy to adjust more rapidly to shocks. We view these objectives from the perspective of the effectiveness of these proposals to help reduce poverty and hardship and benefit those on the margins who TSA works with. The experience of the two years of the Covid pandemic is that the costs of the social and economic ‘shock’ have been born disproportionately by those on lower incomes and in more vulnerable communities. Women were particularly affected by the initial wave of job loss in the March – September 2020 period, with their unemployment rate rising faster and many leaving the workforce altogetherⁱ. Young peoples’ employment was also more impacted and unemployment rates for young people were still higher than pre-Covid levels at the end of 2021ⁱⁱ. The shock of Covid pandemic has shown that the main burden of social and economic impacts is for those at the lower end of incomes who will not benefit as much from the proposed scheme. This scheme will provide generous benefits to many who hold significant wealth and savings, have been receiving relatively high earnings, who may already have private income protection insurance, and will allow them to take time to seek employment at similar pay rates. There is no urgent need for a scheme designed in this way.
- 3.2. There is a case for social insurance closely partnered with full reform of the welfare system could help socially anchor an overall more adequate social security system. It has been argued that if everyone is paying in and sees themselves as having a stake in the system, then it becomes more widely accepted, the ‘contributory principle’ helping to achieve a social consensus on welfare supportⁱⁱⁱ. The proposed scheme is framed as addressing important gaps in the welfare overhaul process and intended to compliment the ‘welfare safety net’ (p.45). Yet the proposals create a new category of ‘displaced worker’ who will have different entitlements based in the reason why employment was ended (p.27-8). The proposals expand access to individualised entitlements to support, in direct conflict with the current welfare system that assesses eligibility based on household income. A continuing lack of coherence between the welfare and income insurance systems will remain.

4. Te Tiriti o Waitangi

- 4.1. The proposed scheme does not demonstrate sufficient evidence that it has been developed in a way that is shaped by the Government’s obligations as a partner under Te Tiriti o Waitangi

(discussion document p.49-52). The Waitangi Tribunal^{iv} has set out the five principles of Tino Rangatiratanga, Partnership, Active Protection, Equity, Options and Participation in respect of the health and disability system and is it reasonable to expect that these principles be addressed in the process of planning a major social policy change such as income insurance. Honouring Te Tiriti involves including Māori in the process of problem definition and development of proposals before moving to the stage of public consultation.

- 4.2. The question to be asked is has a tikanga-based framework been applied in developing the proposal? The Welfare Expert Advisory Group *Kia Piki Ake Te Mana Tāngata* framework or *He Ara Waiora* used by The Treasury as a Te Ao Māori approach to the living standards frameworks are existing frameworks available to support work in this area. The discussion paper references the work of He Ara Mahi Maori working group (p.126) which has recommended embedding a tikanga Māori based framework in employment policy^v but does not appear to reflect the application of this approach in the proposed system.
- 4.3. In the face of the level of inequity in income and employment outcomes that Māori experience, is this the kind of scheme that would have emerged from a tikanga based approach to help workers and their whānau improve income security? The discussion document (p.49) rightly identifies that Māori not in employment and receiving welfare will not benefit from the scheme. Māori as well as other workers who leave the workforce to care of others will also not benefit from the scheme.
- 4.4. The Salvation Army State of The Nation 2022 Report includes analysis of wellbeing outcomes for Māori interpreted through the He Ara Waiora framework. The income and employment outcomes included in that analysis are official unemployment, personal incomes, income distribution, and youth unemployment, and all show either worsening equity or no change^{vi}. An equity approach to the design of the proposed scheme would be focused on ensuring that those most disadvantaged benefit proportionately more from the scheme. The proposals do not appear to address specific pathways to improving income and employment outcomes for Māori.

5. Health Conditions and disabilities

- 5.1. Extending the coverage of the ACC scheme to illness and disability is an option that needs active consideration. There is a discrepancy between the way people currently covered by ACC are compensated compared to people who cannot work because of illness or disability. The proposed scheme does attempt to address this unfairness in access to support in the event of job loss through illness or disability. While the level of coverage is similar (discussion document p.33), differences in the entitlements under the proposed scheme (e.g. time limit on payments) mean that a degree of inequity will remain and further complexities in the boundaries with the welfare system are introduced. The question is whether it would be simpler to focus on extending the existing ACC scheme to include coverage of illness and disability, and not attempt to couple this with a wider income insurance approach incorporating job displacement.
- 5.2. People losing employment through disability or illness are the group most likely to benefit from the proposals. The proposed support is closer to that offered through the Accident Compensation Scheme (ACC). However, the result of this is to shift the boundary of discrimination from cause of impairment (injury compared to illness) to reason for ending employment. Disabled people outside of employment will not benefit at all from the proposed

scheme.

6. Integration with 'Overhaul' of the Welfare System

- 6.1. The interaction of the proposed scheme with the welfare system is directly addressed in the discussion document (p45ff). It is described as filling in gaps in the current welfare system. This is a problematic assertion to make when the government is still far from completing its 'overhaul' of the welfare system based on the 2019 Welfare Expert Advisory Report recommendations.
- 6.2. It has been pointed out that the proposed scheme is in fact a major shift in the basis of the welfare system from poverty alleviation to income replacement for low- and middle-income workers^{vii}. Such an approach is at odds with the objective of the WEAG report and welfare overhaul to aim for adequate incomes to enable participation in society.
- 6.3. More than three years after report of WEAG welfare was released, the welfare overhaul is still largely incomplete. Yet these latest proposals for a major change in our social security system are proposed to be developed, finalised and implemented in the space of 18 months. Given the lack of public discussion of the issues to date, such a major shift in social policy needs further time for debate and consideration and gathering of evidence.
- 6.4. The urgent policy focus needs to be on completing the implementation of the 'Welfare Overhaul' to modernise the welfare system based on the recommendations of the Welfare Expert Advisory Group (WEAG) report 2019. It has been pointed out that our current "Antipodean model" of welfare that does not rely on social insurance is a sensible and inclusive framework that with careful reform can be made to work well in the 21st Century^{viii}.
- 6.5. Fully implementing the WEAG recommendations would address some of the issues identified in the Income Insurance Scheme proposals such as adequacy of income after job loss and entitlement to support for those whose partners are still earning. WEAG recommendations were focused on delivering welfare support based on achieving income adequacy for participation in society and moving towards individualising entitlements (WEAG p.118).

7. Distributional Issues – reducing inequality

- 7.1. The proposed scheme introduces further complexity to the income support system and will result in a two-tiered approach to welfare that is more likely to increase inequalities than reduce them.
- 7.2. Women are already disadvantaged in employment and earnings, with Pasifika and Māori women most impacted. A contributory scheme that pays out based on prior earnings has major "distributional" implications as the discussion document recognises (p.42). Even if the scheme manages to achieve broad coverage of women's circumstances, it is hard to see how it can be designed to deliver more equitable outcomes.
- 7.3. The discussion document (p.9) defines equity in relation to the effectiveness of the scheme as "ensuring people are treated fairly and improving outcomes for the most disadvantaged". Equity is about more than simply "improving outcomes", it requires measurable progress to reduce disparity in outcomes. Even with wide coverage of workers in non-standard employment and part-time workers, the fact remains that 80 percent of not very much is still not very much.
- 7.4. The continuing disparity in earnings between women and men meaning they will receive less from such a scheme. Women's average hourly earnings are around 89% compared to men's

wages^{ix}. Pasifika and Māori workers will benefit less from this scheme also because on average they have lower incomes from employment.

- 7.5. The flat contribution rate does not appear to promote equity of outcomes. People earning the minimum wage will be paying the same contribution rate as those earning \$130,000 per year but will receive far smaller pay-outs in the event of job loss. The additional costs to workers of the levy (discussion document p.44) are to be paid out of already low earnings. The rationale for not including a levy-free threshold (p.140) needs to be reconsidered. Additional costs to employers through the employer contribution under the scheme may also be passed on into prices for goods and services, which will have a bigger effect on lower income workers.
- 7.6. Wide eligibility criteria that attempt to ensure coverage of those on the margins of the employment market is a laudable goal (p.58). It does mean that risk pooling across the total contributing population gives low-paid and insecure workers some limited level of support. The complexities of establishing what prior earnings or expected earnings are for the purposes of the scheme seem dauntingly high while delivering comparatively little benefit. People in this situation will still most likely need further support through the welfare system on top of the income insurance, leading to further complexities and issues with people not getting correct entitlements from two parallel and not well-aligned systems.

8. Costs of Scheme

- 8.1. The costs of the scheme are estimated at \$3.5billion per year. This cost would be far more effectively applied to welfare changes to address income adequacy for all those without employment and not simply those 'displaced' from existing employment. Direct assistance through further improvements to the welfare system would provide better outcomes for those who need it the most and a better way to manage future social and economic shocks.
- 8.2. It appears that the cost estimate includes the costs of funding active labour market programmes (ALMP, p.34) with ACC purchasing services from MSD at full cost (p.125-7). There is no further information provided on estimates of the costs of the ALMPs that would be funded through the scheme. Current MSD programmes are already not sufficient to be effective in helping those on income support to find work (p.125). Scaling up well-designed programmes to meet the needs of currently unemployed as well as displaced workers is crucial for the future wellbeing of our country regardless of whether an income insurance scheme goes ahead.
- 8.3. The discussion document does not include a detailed cost benefit analysis that assesses the proposed scheme against other alternatives. Increased direct assistance through further improvements to the welfare system would provide better outcomes for those who need it the most. A more robust comparison of costs and benefits both financial and to social wellbeing of alternatives to income insurance is needed before proceeding further with the scheme.

ⁱ *State of the Nation Report 2021. Disturbed Present, Better Future? Whakararu o ināiane e pai ake kia anga whakamua*, Social Policy and Parliamentary Unit, The Salvation Army, February 2021 (p.24ff)

ⁱⁱ *State of the Nation 2022 Navigating the Rapids Whakatere Ana I Ngā Tere*, (2022), Social Policy and Parliamentary Unit of The Salvation Army Te Ope Whakaora (p.20f)

ⁱⁱⁱ Boston, J., (2019) *Transforming the Welfare State. Towards a New Social Contract*, (2019), BWB Texts.

^{iv} Waitangi Tribunal (2019), *Hauora: Report on One of the Health Services and Outcomes Kaupapa Inquiry*, WAI2575

^v Te Ara Mahi Māori (2022) *Recommendations for the Māori Employment Action Plan*, Ministry for Business, Innovation and Employment

^{vi} *State of the Nation 2022, op. cit.*; <https://www.salvationarmy.org.nz/research-policy/social-policy-parliamentary-unit/state-nation-2022/m%C4%81ori-wellbeing>

vii Chapple, M. and Fletcher, M., (2021), *A Critical Consideration of Current Social Insurance Policy Developments in New Zealand*, Policy Quarterly, Vol.17 No.4 <https://ojs.victoria.ac.nz/pg/article/view/7311>

viii St John, S. *Some questions about income insurance*, <https://www.newsroom.co.nz/ideasroom/some-questions-about-income-insurance>

ix *State of the Nation 2022*, op. cit., p.22