MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

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List of documents that have been proactively released		
Date	**Title**	**Author**
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Some information has been withheld for the reason of Confidential advice to Government.

In confidence

Office of the Minister of Finance

Office of the Minister for Social Development and Employment

Office of the Minister for ACC

Office of the Minister for Workplace Relations and Safety

Cabinet Economic Development Committee

Cabinet Paper 1: New Zealand Income Insurance – Agreement to Proceed

Proposal

1 This paper seeks Cabinet agreement to introduce New Zealand Income Insurance (NZII). The accompanying Cabinet paper, *Cabinet Paper 2: New Zealand Income Insurance – Detailed Scheme Design*, sets out the detailed design of the scheme.

Relation to government priorities

2 This proposal for a social insurance scheme for people who lose work due to displacement or a health condition or disability arose out of the Government's work with its Future of Work Tripartite Forum partners[1] and our shared commitment to a more productive, sustainable, and inclusive economy.

3 With income insurance, working New Zealanders and their families would be better prepared for the unpredictable economic and health shocks that can reduce their ability to earn through no fault of their own.

4 We want working people to be confident of their place in the future of work and open to taking jobs in dynamic but potentially risky sectors. This confidence would be enhanced by the proposed income insurance scheme, which provides meaningful replacement of lost income while people search for good work. Effective income replacement could help address New Zealand's relatively high levels of wage scarring (the lower wages that displaced workers often experience when they return to work).

5 The scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work. Income insurance would allow people to put their health needs first.

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1 Business New Zealand and the New Zealand Council of Trade Unions.

6 We also seek a support system that is easy for employers to participate in, through clear expectations and predictable and reasonable costs, and that improves employers' access to skilled workers. Improved skills matching would also help to improve New Zealand's productivity.

7 Other significant reforms are underway to ensure we are better placed to respond to the challenges and opportunities posed by the future of work. These include the welfare overhaul, the reform of the health and disability system, reforming the vocational education system, and improving active labour market programmes. Our proposals for an income insurance scheme would be a valuable addition to these reforms.

Executive Summary

8 Every year over 100,000 people in New Zealand lose their employment either from economic displacement or the impact of health conditions and disabilities, with significant impacts on individuals, their families, their communities, and the wider economy.

9 Despite the risks associated with job loss, many people do not have access to effective income replacement, leading to financial hardship and stress, and damaging long-term employment and health outcomes.

10 To respond to gaps in income protection, the Government has run a tripartite process with business and union representatives to design an income insurance scheme.

11 Introducing an income insurance will minimise the immediate financial impact of losing income and work, support people to return to good jobs, and support the wider economy to adjust more rapidly to economic shocks and downturns.

12 These benefits must be weighed against the potential costs of the scheme. We estimate that NZII will cost $3.54 billion per year, though the precise costs are difficult to determine.[2] We expect that the benefits of the scheme will outweigh these costs.

13 While individual savings, welfare support, and redundancy payments remain important, an income insurance scheme would achieve a higher level of income protection across the workforce.

14 *Cabinet Paper 2: New Zealand Income Insurance – Detailed Scheme Design* sets out who would be covered, entitlements, obligations and how the scheme would be funded and delivered. At a high level, we propose to cover workers who are economically displaced or who lose work due to health conditions or disabilities. NZII will provide a replacement income of up to 80 percent of prior earnings for up to six months, up to a maximum cap of $136,544. We have requested further advice on whether changes to the scheme's replacement

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[2] This is based on 2018 data, and the cost will increase from year to year with wage growth and increases in the labour force. The Treasury estimates the scheme cost will increase to $4.7 billion in 2025/26.

rate could help fund a reduction in the levy rates or offset the cost of a progressive levy rate.

15 Claimants would be required to meet a reasonable set of obligations. Employers would have new obligations to provide workers with a notice period before redundancy, and to provide a four-week bridging payment of 80 percent of prior income. The scheme would be administered by the Accident Compensation Corporation (ACC) and funded through a levy shared equally by employers and workers, with each paying an estimated 1.39 percent of wages and salaries.

16 We seek Cabinet's agreement to introduce NZII. This would be a major and important addition to New Zealand's social security architecture and sit alongside the Social Security Act 1938 and the Accident Compensation Act 1972 as major advances in social protection in Aotearoa-New Zealand.

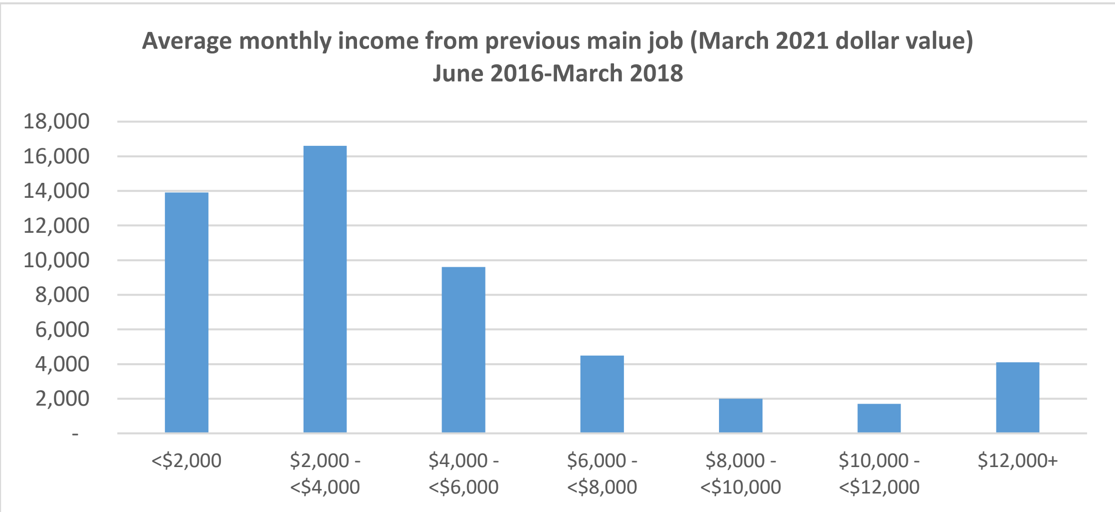
New Zealand workers need greater support when they lose work due to economic displacement or health conditions or disabilities

Better support for displaced workers

17 In Opposition, we led the Future of Work Commission (the Commission), a major exercise to understand the risks and opportunities posed by possible changes in the nature of work for New Zealand. The Commission identified significant opportunities, especially to support workers through economic transitions.

18 On forming a government, we continued the Commission's work by forming the Future of Work Tripartite Forum (the Forum), a partnership between the Government, business, and unions. A key priority for the Forum has been support for displaced workers. The problem definition was clear: every year over 100,000 people in New Zealand lose their employment either from economic displacement or the impact of health conditions and disabilities, with significant long term economic impacts.

19 People who are economically displaced tend to be on lower incomes. The chart below illustrates the income distribution of those economically displaced:



20 Māori, Pacific peoples, and young people are disproportionately affected by economic displacement and are over-represented in vulnerable parts of the labour market. For example, casual workers are more likely to be women (55 percent) and are generally younger (44 percent are aged 15-24 years). Māori are over-represented as a proportion of casual workers (18.4 percent), as are Pacific peoples (9.8 percent). Economic displacement can compound existing labour market disadvantage for these groups.

21 Workers losing employment often return to lower-paying jobs (referred to as wage scarring). The future of work megatrends, especially technological and climate change, could lead to higher levels of displacement in the future.

22 There is a wide consensus that we need to enhance support for displaced workers. This is reflected in reports by the Public Advisory Group on Redundancy and Restructuring, the Organisation for Economic Development and Cooperation, the Welfare Expert Advisory Group, and the New Zealand Productivity Commission.[3]

23 The gap in support for displaced workers was further highlighted by the labour market disruption arising from the COVID-19 pandemic, which made the risks of economic displacement more prominent and put greater pressure on the shortcomings of existing financial and non-financial support.

24 As the Government had done in the wake of the Canterbury Earthquakes, we put in place ad hoc schemes[4] to respond to the economic impacts of COVID-19. These schemes were useful for those who used them but were temporary and not comprehensive. Ad hoc responses do not provide the kind of certainty and stability that individuals, families and whānau, and businesses need, as well as requiring government to establish bespoke responses under urgent timeframes. Neither do they support those affected by job loss outside of emergencies. An enduring response is needed.

Better support for disabled people and people with health conditions

25 Workers with health conditions and disabilities who experience partial or full loss of work capacity may also face significant drops in income and re-employment earnings.

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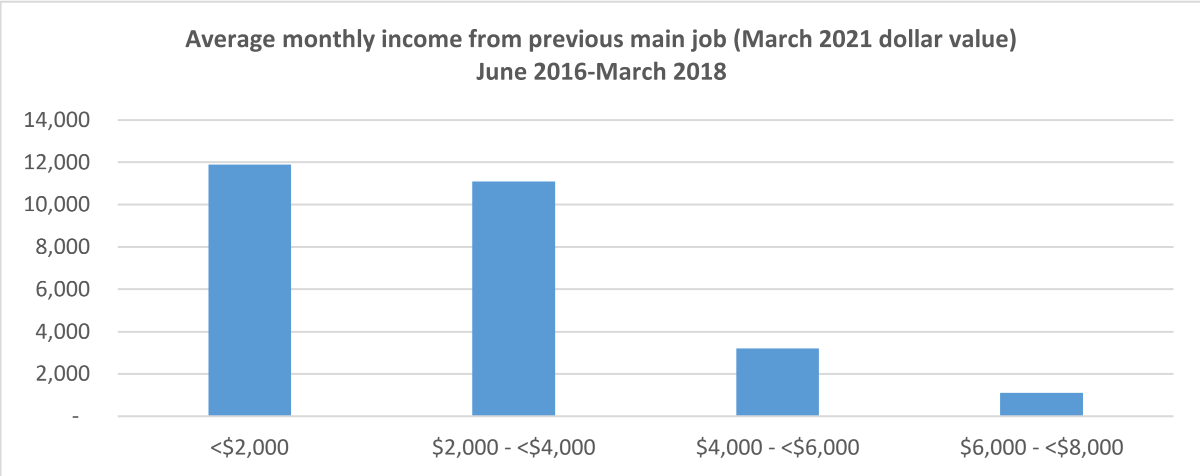
3 Public Advisory Group on Redundancy and Restructuring *Report of the Public Advisory Group on Redundancy and Restructuring* (2008), OECD *Back to Work New Zealand* (2017), Welfare Expert Advisory Group *Whakamana Tāngata* (2019), Productivity Commission *Inquiry into Technological Change and the Future of Work* (2020).

4 Including the Wage Subsidy Scheme, COVID Income Relief Payment, and the COVID-19 Leave Support Scheme.

26 A disabled person or person with a health condition may find it more difficult to return to or find new work due to additional barriers they face in the labour market. These barriers can include inaccessibility of the workplace, additional costs of employment due to their health condition or disability, lack of support for the role, and fear of a potential employer's perception around their ability to do the job.

27 Most workers who lose work due to health conditions or disabilities were previously on very low incomes. For this cohort, the median average monthly income from the previous main job was below the full-time adult minimum wage, suggesting a higher proportion were in less than full-time work.



28 People with impairments resulting from an injury receive support from the ACC while those with similar impairments arising from an illness or disability not caused by an injury may receive support from the welfare and health systems.

29 The help people receive from ACC is often greater than health or welfare assistance for the same level of incapacity. This is particularly so for financial support because the accident compensation scheme operates as a social insurance model.

30 This gap in support can mean that disabled people and people with health conditions must make a trade-off between their health treatment and income (to remain in work too long or return to work too soon), even if this compromises their longer-term health and employment prospects.

31 Overall, the lack of support for disabled people and people with health conditions can result in long-term unemployment and underemployment, and loss of earnings.

There is a particular gap in financial support for those who lose jobs due to economic displacement or health conditions or disabilities

32 Many of those who lose jobs due to economic displacement or due to health conditions or disabilities face a range of risks and need a corresponding suite of support to get back to good work. This suite of support includes income replacement, help to find work, and help to train or rehabilitate.

33 Loss of income is an immediate and significant impact, suggesting that income replacement should be an important part of this suite of support.

34 However, many people do not have access to effective income replacement, creating financial hardship and stress and pressure to return to work quickly, or to remain in work despite worsening health conditions or disabilities. If reduced spending is widespread, the impact of job losses can cascade to further job losses through longer and deeper recessions.

35 Lack of adequate income replacement can arise due to:

35.1 insufficient worker bargaining power to negotiate sufficient redundancy payments as part of their employment agreements. There are no legislative mandates that require employers to pay compensation for redundancy; these are determined through provisions in employment agreements. Such provisions are mostly contained in collective employment agreements, with less coverage in individual agreements. People working under non-standard employment contracts (e.g. temporary or casual workers) generally have no entitlement.

35.2 market failures in the provision of income protection insurance. Income protection insurance, especially for displacement, is subject to the well-known market failure of ‘adverse selection’ whereby those expecting to need insurance opt-in, while others opt-out. This leads to high premiums, and very low coverage. Income protection for loss of work due to health conditions is further prone to exclusions for common conditions, exclusions of pre-existing conditions, and often lengthy stand-down periods. This is why most developed countries provide social income insurance. The Financial Services Council suggests that only 11 percent of households have adequate income protection or mortgage repayment insurance.[5]

35.3 lack of ability to save sufficient income to sustain workers’ living standards until they secure another job. Recent survey data suggests that over half of households have savings of less than six months’ income and would need to borrow if their incomes fell by a third for six months.[6]

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5 Financial Services Council (2020), *Gambling on Life: The Problem of Under-insurance.*

6 Retirement Commission (2021), *New Zealand Financial Capability Survey*.

35.4 ineligibility for, or only limited financial support from, the welfare system. Only around a third of workers access unemployment benefits following displacement.

36 The exposure faced by workers to large income drops following job loss suggest there is a role for government in enabling further financial support for those who are economically displaced or who lose work due to health conditions or disabilities. Internationally, New Zealand is almost alone in the developed world in not having some kind of mandatory, nationwide income insurance scheme or other protection, such as mandatory redundancy payments, for people who lose employment.

To respond to gaps in income protection, the Government has run a tripartite process with business and union representatives to design an income insurance scheme

37 The Government is determined to support workers facing loss of employment more effectively. We have a range of reforms and reviews underway to promote this goal, but a gap remains in providing effective financial support. The Future of Work Tripartite Forum had been discussing this issue for some time, and in early 2021 Business New Zealand and the New Zealand Council of Trade Unions jointly wrote to us asking us to go ahead with developing a social unemployment insurance scheme.

38 To address the gap in financial support, we have identified three key objectives:

38.1 minimise the immediate financial impact of losing income and work for workers and their families and whānau

38.2 provide a sufficient opportunity for workers to engage in a considered search for a good job, to upskill, or to rehabilitate

38.3 support the economy to adjust more rapidly to shocks or downturns.

39 The Forum considered a range of options to help meet these objectives and invited the Government to consider an income insurance scheme as part of our work towards a more productive, sustainable, and inclusive economy.

40 On 15 March 2021, Cabinet agreed to work with business and union representatives to design an income insurance scheme for public consultation [CAB-21-MIN-0069 refers].

41 A Tripartite Working Group (Working Group) was formed to develop the proposal over the following six months. The Working Group reviewed international literature, consulted experts, estimated costs, examined design choices, and developed a comprehensive proposal for an income insurance scheme. The result was a tripartite developed discussion document.

42 The Working Group concluded that establishing an income insurance scheme was viable, affordable, and had a real chance to meet the objectives of minimising the immediate financial impact of losing income and work, supporting people to return to good jobs, and supporting the wider economy to adjust more rapidly through economic shocks and downturns.

43 On 4 October 2021, Cabinet agreed to consult on the proposed income insurance scheme by releasing the discussion document developed by the Working Group [CAB-21-MIN-0397 refers]. Consultation on the discussion document closed on 26 April 2022.

44 Working with Iwi has been an important part of our approach. Since November 2021, officials have also worked closely with the National Iwi Chairs Forum's Pou Tangata Skills and Employment Iwi Leaders Group (Pou Tangata S&E ILG), within the National Iwi Chairs Forum on the income insurance proposal. The Pou Tangata S&E ILG identified the development of the income insurance scheme as one of their key priorities and worked with officials on the impacts of the scheme on Māori, as well as working through key policy issues and co-designing an engagement plan.

45 This paper reflects the work of the Forum and the Working Group, the work with the Pou Tangata S&E ILG, and what we have heard through engagement. Below we synthesise this work into the case for introducing NZII.

Income insurance could be a critical part of a better support system for workers who lose jobs through no fault of their own

Minimising the immediate financial impact of losing income and work

46 The most immediate adverse economic impact of job loss is loss of wages or salaries. Loss of salaries or wages can cause hardship (relative to established standards of living) and make it difficult to meet fixed costs such as mortgages and other obligations. This in turn can create pressure to accept poor quality job matches rather than spending the time searching for a better match or retraining and upskilling. Disabled people and people with health conditions may persist in a job that is a poor fit with their work capacity or to return to work too soon, in both cases risking worse health outcomes.

47 From a worker's perspective, effective financial relief largely replaces lost wages or salaries, and thereby "smooths" income from displacement until they return to work. The principal purpose of income protection insurance is to provide this smoothing function.

48 The welfare system can help to offset income loss. Whilst the Government has made significant investments into improving income adequacy, the welfare system provides modest financial support where family incomes fall below specified levels. Welfare payments do not relate to a person's previous income from employment (if any); rather they aim to help meet essential living costs and alleviate hardship and poverty.

49 Further, family income testing means many people who lose their jobs are not eligible for welfare (such as Jobseeker Support or Working for Families). A high proportion of people who are displaced have an earning partner so are less likely to be eligible for welfare support. Therefore, many people face significant drops in income following job loss.

50 Income insurance would more effectively smooth incomes by providing generally higher payments to a greater number of people who lose their jobs, than the welfare system. It does this by linking payments to lost wages and salaries and individualising entitlements. Individualised entitlements means that payments are determined on the basis of an individual's income and are not affected by the earnings of a spouse or partner.

51 We developed example families to illustrate the increase in support under NZII compared to the status quo. This tests 'income continuity' by comparing total family income pre- and post-displacement (including partner income and welfare support[7]) for the status quo and with income insurance in place:

Family circumstances				Income continuity	
Composition	**Income**	**Living situation**	**Job loss**	**Status quo**	**With NZII**
Single person	Earns $22 per hour, 40 hours per week	Living in Auckland paying rent of $380 per week.	Loses job	69.8% (-$249.53 per week)	90.0% (-$82.34 per week)
Dual income couple with two children	Both earn $22 per hour • principal earner works full time • other works part time	Living in Auckland paying rent of $550 per week	The principal earner loses their job	83.7% (-$233.15 per week)	92.7% (-$105.24 per week)
Sole parent with two children	Earns $22 per hour, 30 hours per week	Living in Auckland paying $498 per week in rent	Loses job	80.3% (-$228.64 per week)	96.9% (-$36.19 per week)
Couple without children	Both earn $50 per hour, 40 hours per week.	Living in Wellington with a mortgage of $800 per week	One person loses their job	50.0% (-$1,459.02 per week)	92.7% (-$212.40 per week)

52 Overall, having an income insurance scheme in place will increase the level of financial assistance available for all family types following economic displacement or job loss due to health conditions or disabilities.

[7] This includes partner income and welfare support, including support under the Social Security Act and tax credits. The example families assume full eligibility for all welfare assistance, including Accommodation Supplement and Temporary Additional Support.

53 By avoiding large and sudden drops in income, workers losing employment may also suffer less damage to their health from worrying about work. Schemes with higher payments can provide a protective buffer against the adverse health-related consequences of unemployment and income reduction.

54 Financial support will also help to reduce the pressure for people with health conditions and disabilities to stay in work when unwell (presenteeism) or leave completely when working part-time would promote recovery and maintain their connection to the workplace. By staying in full-time work, some health conditions and disabilities will worsen, ultimately leading to a longer time away from work.

55 Income insurance is likely to be most valuable for people and their families who have less savings, both in terms of supporting job search and general wellbeing. This support is particularly important during an economic downturn.

56 Even with income insurance in place, a welfare system is still essential to support people who are not eligible for insurance or for people with relatively low insurance payments. The Government remains committed to continuing the overhaul of the welfare system to ensure people have an adequate income and standard of living, are treated with, and can live with dignity, and are able to participate meaningfully in their communities. This commitment has seen substantial investment in financial support, which has benefited hundreds of thousands of New Zealanders. The proposed NZII will be a valuable addition to this Government's vision.

Provide a sufficient opportunity for workers to engage in a considered search for a good job, to upskill, or rehabilitate

57 People who lose work due to economic displacement or health conditions and disabilities risk loss of wages and/or conditions when they return to work. This can lead to an individual's lifetime earnings being permanently reduced.

58 For some, some loss of wages or conditions may be inevitable and not everyone can return to work. But it is desirable to minimise loss of wages and conditions for the wellbeing of working people, and so the economy can make best use of their skills.

59 The causes of wage scarring are complex and are likely to have a range of causes, including (but not limited to):

59.1 the significant costs of searching for a job that workers may not be able to bear for extended periods of time

59.2 inability to find work that makes use of job-specific skills and knowledge which commands a wage premium

59.3 skills obsolescence due to a decline of their industry

59.4 health conditions and disabilities that affect work capacity.

60 The breadth of potential causes highlights that wage scarring cannot be reduced by one intervention alone. The proposed NZII needs to be part of a wider system that helps people to find and keep good jobs. Building that wider system will take time, but this work is underway across the welfare, labour market, health, and education sectors.

61 An income insurance scheme would be a valuable part of this system response. Insurance would help displaced workers to return to good jobs in two ways. First, income insurance can reduce the financial pressure people feel to accept poorly matching jobs, allowing more time to find a job or retrain for a job that is a good match to their skills. A disabled person or person with a health condition that reduces their work capacity could afford to reduce their hours of work, creating an opportunity to recover, and potentially resume their usual level of work and earning.

62 Second, income insurance could support economically displaced workers and those losing work due to health conditions or disabilities to participate in Active Labour Market Programmes (ALMPs) or vocational rehabilitation. This would occur through the provision of case management services which can connect workers to such programmes. ALMPs, including active case management, help with job search and career advice, and educational and training programmes.

63 There is strong evidence that many aspects of vocational rehabilitation, in the form of work-focused healthcare in combination with accommodating workplaces, improve labour market outcomes for disabled people and people with health conditions. The accompanying Cabinet paper includes further information on case management, services, and the ongoing review of New Zealand’s ALMPs.

64 There are gaps in the availability of services such as ALMPs for displaced workers, and those losing employment due to health conditions or disabilities. We are exploring how to address these gaps through the review of ALMPs.

65 A range of scheme design choices will help return to good work and reduce wage scarring, including work obligations, length of entitlement, and access to wider support services. These are addressed in the accompanying Cabinet paper.

66 Some disabled people and people with health conditions may not be able to return to work in the medium and long term. An income insurance scheme would facilitate a considered and dignified exit from the labour market, allowing people time to adjust their circumstances before transition onto welfare support, if they are eligible.

Income insurance could support the economy to better weather shocks or downturns

67 Income insurance could also have a positive effect in helping stabilise the economy through recessions. New Zealand's existing policies which provide automatic stabilisation to the economy are considered slightly above the OECD average. Countries with larger and more effective automatic fiscal stabilisers need less discretionary change in public spending and revenues to stabilise the economy for a given shock. Analysis on introducing income insurance suggests a small-to-moderate contribution to New Zealand's automatic stabilisers. Introducing income insurance is unlikely to completely remove the need for other policy responses.

68 In addition, we would also expect flow-on effects from the automatic release of expenditure into the economy to holding up consumption spending and employment. Such effects would then help to maintain the tax base and reduce the need for other forms of government expenditure, such as welfare payments. In this respect, an income insurance scheme would help reduce the severity of a downturn, and to sustain employment.

69 Income insurance will also support local economies. Widespread job loss can affect whole communities and families and whānau, especially communities reliant on a major employer. When major employers shut down, displaced workers have little money to spend, which means other businesses suffer and the community can go into a long-term economic decline lasting for generations. An income insurance scheme would cushion workers and communities from such abrupt income losses, allowing more time to adapt.

We estimate that the scheme would cost approximately $3.54 billion per year, funded via a levy

70 Overall, an income insurance scheme would bring significant benefits to New Zealand through minimising the immediate financial impact of job loss, supporting workers to retain or get back to good work, and supporting the economy to better weather downturns.

71 These benefits must be weighed against the potential costs of the scheme. We estimate that a New Zealand Income Insurance scheme will cost $3.54 billion per year, based on 2018 data. We propose that this will be funded from compulsory levies on wages and salaries of 2.77 percent, with employers and workers sharing the levy equally, with each contributing 1.39 percent.

72 There would also be costs to the Crown, including establishment costs, ongoing interface costs between NZII and other schemes (e.g. tax and welfare), and the requirement to pay the levy as an employer. Further information is provided in the financial implications section of this Cabinet paper.

73 The discussion document provided an estimated cost of $3.54 billion per annum based on 2018 data. The Treasury's *Budget Economic and Fiscal Update 2022* estimates that this will increase to $4.7 billion per annum in 2025/26, reflecting projected wage growth. Given that wage growth affects both the costs and the levy base, the estimated levy rate remains the same as was proposed in the discussion document.

74 We expect the benefits of introducing an income insurance scheme to outweigh these costs. Against the status quo, the proposed scheme would generate substantial benefits, including:

74.1 helping a large number of people avoid large income drops, financial stress and impacts on health and wellbeing

74.2 reducing the pressure for people with health conditions and disabilities to stay in work when unwell or leave completely, with consequent improvements in health and employment outcomes

74.3 helping to improve longer term wage and employment outcomes

74.4 supporting the economy to better weather downturns and support local economies.

74.5 spreading the costs of economic dynamism more broadly, and improving equity amongst people with health conditions and disabilities who are and are not currently able to access ACC.

Individual savings, welfare support, and redundancy payments remain essential parts of the system

75 Income insurance is not the only way to promote financial security, but it is the best way to ensure a high level of income replacement across the workforce, at a reasonably low cost for individuals and employers.

76 As noted earlier, the existing welfare system can help to offset income loss. It provides modest levels of support based on family circumstances, which can make for large drops in income for people who lose work. Income insurance is individualised and based on prior income, which more effectively smooths incomes by providing generally higher payments and to a greater number of people who lose their jobs, than the welfare system.

77 Individual savings accounts (such as KiwiSaver) remain an essential provision for retirement, but there are issues with relying on such individual savings accounts to smooth incomes following displacement. If displaced workers could access KiwiSaver, there is a risk of undermining KiwiSaver's primary goal of financing retirement. Further, the amount of savings available in an individual account would vary substantially depending on a person's age, their contributions history at the time of displacement, and the state of the market at the time of withdrawal.

78 An alternative option is to establish a ring-fenced KiwiSaver account that enables workers to make a personal provision for displacement, alongside their retirement savings. While this would build on the well-established KiwiSaver model, there are drawbacks to this approach. A key issue is that lower-income workers would likely struggle to save enough money to prepare meaningfully for displacement. Those workers in less stable, non-standard forms of work would also receive less support from this form of income smoothing scheme due to reduced time contributing to the scheme because of fluctuations in and out of the labour market. This could see a widening gap between people in low-paid occupations or non-standard work, and others.

79 Further, to meet the objective of smoothing incomes for all those who are displaced, we would need to consider making participation in KiwiSaver compulsory, and no longer allow savings suspensions. Without such compulsion, there is a risk of low participation, undermining our core objectives of helping as many workers as possible through displacement.

80 Insurance schemes avoid the shortcomings of individual savings schemes by pooling all contributions. This means that all eligible people are guaranteed the same replacement rate for the same duration, and individual contribution costs remain low.

81 Some workers are also entitled to a redundancy payment, where this is included in their employment agreement.[8] For a redundancy payment to smooth incomes effectively, for most workers, the payment would need to be both relatively large and compulsory. This is difficult to achieve since:

81.1 redundancy payments are usually linked to tenure in a particular job (and hence provide less support for people who have recently joined an organisation)

81.2 redundancy payments are not available in some types of non-standard employment, and many failing businesses are not in a position to make redundancy payments

81.3 even viable businesses wish to avoid large contingent liabilities, and

81.4 redundancy payments are generally not available for people who lose work due to health conditions or disabilities.

82 For these reasons, we do not view redundancy payments as a satisfactory alternative to income insurance. However, we do consider that a ‘bridging payment’, which has similarities to a redundancy payment, could play a critical role in discouraging unwarranted claims against the scheme. The role of the bridging payment is discussed further in the accompanying Cabinet paper.

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8 Around 90 percent of people on collective agreements have a redundancy compensation entitlement, but most people have individual agreements are these are less likely to include redundancy provisions.

We propose a scheme designed to minimise the financial impact of losing employment, provide an opportunity to return to good work, and to support the economy

83 The accompanying Cabinet paper proposes the detailed design of the scheme. For all scheme settings, there is a range of choices, and the proposed settings reflect careful consideration of what we want to achieve, and the potential risks and unintended consequences.

84 The proposed scheme settings will inform legislative drafting and continued work on the delivery of the scheme. If agreed to, further work will be undertaken on the detailed operational design of these policies. We provide a brief summary of the scheme below. The proposed settings are substantially the same as those consulted on through the discussion document.

Scheme coverage

85 We propose that NZII covers complete job loss due to economic displacement, and any health condition or disability (existing or newly acquired condition) that significantly reduces work capacity (at least 50 percent for four weeks or longer), with health practitioners certifying incapacity. Coverage would depend on a minimum period of contributions.

Scheme entitlements

86 NZII would replace up to 80 percent of lost incomes, up to ACC's maximum payment cap, currently $136,544, for up to six months (as well as a notice period and bridging payment where appropriate), with limits for subsequent claims. Entitlements would generally be treated as income for tax purposes, welfare, and other transfers. Personal exertion earnings would reduce NZII payments, after a threshold. We have requested further advice on whether changes to the scheme's replacement rate could help fund a reduction in the levy rates or offset the cost of a progressive levy rate.

Claimant and employer obligations

87 Claimants would be obliged to search or prepare for work and risk suspension of payments for serious cases of non-compliance. Claimants with health conditions or disabilities would be obliged to participate in work capacity assessments and return-to-work support (such as rehabilitation activities, employment support) where appropriate.

88 Employers would support the scheme's operation through notice periods and by paying workers a 'bridging payment' of 80 percent of four weeks' pay after economic displacement. The bridging payment seeks to discourage unwarranted claims against the scheme. Employers would be encouraged to help claimants with health conditions or disabilities to return to work and to keep jobs open for the length of their claim.

Scheme funding and delivery

89 ACC would administer the scheme, handling claims and helping claimants return to good jobs where they need additional support. The scheme would provide case management services which link to existing services, including ALMPs and vocational rehabilitation, but would not fund any new services. The scheme would handle disputes independently and efficiently and take enforcement action where necessary in response to (alleged) fraud or to ensure levy payment.

90 Employers and workers will share the costs of the scheme through a compulsory levy, although the Crown would contribute in rare situations, such as in response to a severe economic crisis.

Areas of continuing policy work

91 The accompanying Cabinet paper identifies areas of further work on key policy settings. We will report back to Cabinet on the following issues by October 2022:

91.1 detailed guidance on the inclusion of non-standard workers, including casual workers

91.2 whether and how groups of self-employed workers can feasibly be covered

91.3 the provision of flexibility for NZII to provide Crown-funded support during a crisis

91.4 whether to introduce progressivity to the levy. This includes considering whether any increase in cost from this could be offset through changing the scheme's replacement rate.

91.5 information sharing to support the scheme's effective administration.

We have conducted public consultation on the proposal

92 The engagement process on the proposed NZII ran from 2 February until 26 April 2022, with officials receiving 255 submissions, 1,819 survey responses, and holding around 50 targeted engagements with a cross-section of groups, including:

92.1 iwi/Māori representatives

92.2 the business community

92.3 financial sector and economists

92.4 health and disability sector

92.5 vocational education sector

92.6 community organisations

92.7 legal and academic experts.

93 The engagement process also included regular discussions with the Pou Tangata S&E ILG. The ILG supported officials to conduct four regional hui.

94 The number of submissions and survey responses received is relatively low given the significance of this proposal.

95 Findings from the engagement process showed a range of views on the proposal. Survey respondents were mixed on whether New Zealand should introduce an income insurance scheme for people who are made redundant and laid off, with 21 percent strongly agreeing, 13 percent agreeing, 6 percent neither agreeing or disagreeing, 14 percent disagreeing and 46 percent strongly disagreeing with the introduction of the scheme.

96 Targeted engagement suggested that support is strong from those who had experienced redundancy or job loss due to health conditions or disabilities, and who consider the proposal should proceed since it will fill a significant gap in income replacement for people who lose their jobs involuntarily.

97 The cost of the scheme was a major theme emerging from the targeted engagement and written submissions, particularly on low-income families at a time of low unemployment and inflation. We are mindful of the impact on lower-income earners and families, though this needs to be balanced against the significant additional protection the scheme will provide to them.

98 The scheme is proposed to commence when inflationary pressures are expected be declining.[9] It is also important to consider the impact of the scheme over a longer time horizon; unemployment is currently low but this will not always be the case. Whilst the levy is an additional cost for low-income workers, this cost will provide additional financial security in the face of economic displacement and health conditions and disabilities. Overall, taking account of both scheme payments and levies payable, modelling indicates the scheme will redistribute income from higher- to lower-income families.

99 Businesses were also concerned about the overall cost of the scheme, as well as the inclusion of health conditions and disabilities. We consider that businesses would benefit from the scheme through improved skills matching across the labour market, and sustaining consumer demand through recessions, reducing the risk of business closures. The inclusion of health conditions and disabilities brings benefits to both individuals and businesses, as it will provide greater opportunities for disabled people and people with health conditions to stay in work or successfully return to their place of work, reducing staff churn and keeping experienced staff in businesses.

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9 The Treasury's Budget Economic and Fiscal Update 2022 forecasts inflation to reduce to 3.7 percent in 2024 and 2.7 percent in 2025.

100 There were concerns that the proposals might not be effective in supporting a return to good work, especially without sufficient support services. We agree that NZII alone will not achieve the bold objectives we have set out. The NZII will need to be embedded in a wider system which:

100.1 guides claimants back to good jobs

100.2 provides upskilling, retraining, and rehabilitation when needed

100.3 minimises income shocks

100.4 generates good work.

101 Building this system will take time and NZII will form a key part of that system, especially by providing effective income smoothing that creates an opportunity for a considered job search, to retrain, or to rehabilitate.

102 Some submitters also saw insurance as inequitable, and preferred reforms to existing systems (such as welfare, KiwiSaver, or statutory redundancy payments). Our view is that income insurance will make a unique contribution to the objectives we have set out and will complement the welfare system's role in alleviating poverty and hardship for individuals and their families. A collective approach to insurance will improve New Zealanders' protection from the risks of job loss and will make this form of insurance accessible.

103 Some submitters were concerned about the risks of introducing NZII, such as concerns about abuse of the scheme. We have carefully considered such risks and have proposed settings which balance the risk with the benefits of additional support. Continuous monitoring of the scheme will be essential, and adjustments will be made as the behavioural impacts of the scheme become clearer.

104 Others are concerned about the potential for higher than predicted costs. We have therefore taken a conservative approach to levy setting to ensure its sustainability in the early years and to reduce the risk that future levy rounds see significant spikes in costs.

105 Others were concerned about the pace of the scheme's development and implementation. We have known for a long time that support is inadequate and the case for change is well established. We have drawn on local experience by modelling the scheme on the successful ACC scheme, as well the extensive and varied experiences of international countries, with virtually every OECD country having a social insurance scheme for loss of employment.

We seek Cabinet's agreement to proceed with the introduction of NZII

106 We are seeking Cabinet's agreement to introduce the proposed NZII scheme, perhaps the most significant reform of its kind since 1974. This would sit alongside the Old-age Pension Act 1898, the Social Security Act 1938, and the Accident Compensation Act 1972 as the major legislative advances in New Zealand's social security architecture. This would bring us into line with virtually every other OECD nation in providing a government-mandated income insurance scheme.

107 Workers would contribute a modest portion of their wages in exchange for a high level of income protection and the peace of mind that brings, with greater opportunity to find a job that best utilises their skills and experience.

108 Businesses would also contribute and receive the benefits of improved skills matching across the labour market, greater support to workers with health conditions or disabilities to remain in work, and sustaining consumer demand through recessions, reducing the risk of business closures.

109 This is important in a world where the nature of work is already changing. This could mean more frequent displacement and more frequent involuntary career changes. An income insurance scheme would not only enhance support for workers in this situation but could also 'de-risk' some occupational choices. Currently, a worker may be reluctant to change occupations or industries for fear the new employment is insecure. An income insurance scheme could reduce some of this risk, leading to more participation in emerging industries that are more productive.

110 The scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

111 Introducing a scheme of this scale and importance will always come with risks which must be carefully weighed and considered. Such risks were highlighted in the scheme's development and through consultation. One risk is that some workers take longer than necessary to search for work, and potentially become disengaged from the labour market.

112 Given this, the scheme must be designed and administered in a way that supports workers back into good work. The accompanying Cabinet paper sets out how the scheme design aims to mitigate these risks. Wider systems – such as the education and training, health, and wider welfare system – have a crucial role to play in getting the outcomes we want.

Financial Implications

Levy-funded costs

113 The main cost of the proposed NZII will arise from insurance payments for claims, funded by annual levies. The scheme is estimated to cost $3.54 billion, funded by an estimated levy of 2.77 percent, with employers and employees each paying 1.39 percent.

114 The precise cost of the scheme is difficult to determine. The timing and implementation of the scheme, judgements as to the likely take-up and duration of scheme claims, the likely average income of claimants, and behavioural responses are all subject to uncertainty and could have a positive or negative effect on the forecasts. Second-order effects on labour participation, productivity, wage growth and the impact on other social benefits have mixed international evidence and are also too uncertain to forecast at this stage. Whilst informative, international examples are often not comparable with the likely New Zealand experience.

115 We have taken a conservative approach to estimating the levy, using a range of modelled cost estimates. We consider an initial estimate of a 2.77 percent levy to be prudent. By taking this approach, we seek to ensure the scheme is sustainable in its early years and that people can have confidence in its viability. This would help ensure future levy rounds are less likely to see significant spikes. It may be prudent to re-evaluate the levy prior to scheme implementation to ensure it reflects the latest information and data on the likely cost of the scheme.

116 Whilst the nominal rate for the levy is estimated at 1.39 percent, the effective rate may differ for employers and employees. Consistent with the overall framework for the tax system, as well as with the tax treatment of the accident compensation scheme, we propose that employers will be able to deduct the levy from their net taxable income. GST-registered employers will also be able to claim a deduction for the GST paid on the employer levy. The below table outlines the effective levy rates:

	Employer levy (including GST)	Employer levy (GST excluded)	Employer levy (GST excluded) less tax deduction
Effective levy rate	1.39%	1.24%	0.95%

117 For employees, the Treasury's modelling indicates that the effective levy rate differs by tax band. This is because lower-income families draw a greater proportion of income from non-levied sources (e.g. main benefits and Working for Families). For the tax band:

117.1 $0 - 14,000 the median levy is approximately 1 percent

117.2 $14,001 - $48,000 the median levy is approximately 0.80 percent

117.3 $48,000-$70,000 and $70,001-$180,000 the median levy is 1.38 percent, and

117.4 $180,000 + the median levy 1.35 percent.

Crown-funded scheme costs

118 The Crown would be a lender of last resort, both at the outset of the scheme and in a deep recession. It is proposed that the scheme have recourse to a liquidity facility provided by the Debt Management Office in the Treasury. This would be configured as a loan facility and should be cost neutral over time for the Crown. Further information on the levy and funding model is included in the accompanying Cabinet paper.

119 If the decision is taken to include flexibility in the scheme for it to provide additional support during crises, the cost of such additional payments would be Crown-funded (see *Cabinet Paper 2: New Zealand Income Insurance Detailed Scheme Design* for further details). This would be a decision for Government of the day in response to the economic situation at the time.

120 Additionally, there will be upfront and ongoing costs for ACC, MSD, and Inland Revenue to establish and maintain operational systems for NZII that cannot be funded by levies. Confidential advice to Government [redacted]

121 *Cabinet Paper 2: New Zealand Income Insurance – Detailed Scheme Design* seeks agreement to release contingency funding for the establishment of NZII to enable ACC to undertake preparatory design and implementation work, and MBIE to do policy and legislative work.

Changes to tax revenue and costs to the welfare system

122 Introducing an income insurance scheme will have flow-on benefits for the tax and welfare systems, but also costs for the Crown in employment levies, which will impact the Crown's overall expenses and revenue.

123 Officials estimate that the scheme will generate ~$235 million in savings for the Crown per year (~7% of the annual levy costs of NZII) from reduced welfare expenditure and changes in tax revenue. However, Crown agencies[10] will face employer levies and bridging payments (in the case of redundancies), which are estimated to increase Crown payroll costs by up to $450 million per year. Including these costs, it is likely that introducing the scheme will be a net cost for the Crown, of up to $215 million per year.

[10] In the broadest sense, including State Owned Enterprises

124 If all self-employed are included in the scheme, the net cost to the Crown from additional lost tax revenue could increase the fiscal impact by up to ~$127m per year (this estimate is provided for illustrative purposes. The final scheme is not likely to provide coverage all self-employed workers.

Additional demand for other Crown-funded services

125 NZII will impact the Crown in other ways:

125.1 As a provider of services: NZII may highlight gaps in existing employment and health support services, and lead to pressure to increase funding to expand such services. For example, the cost of work capacity assessments and associated medical certificates will be met by a combination of health system funding and any co-payment by claimants required by the health practitioner.

125.2 Costs to other regulatory systems: for example, the creation of minimum employment standards for notice of redundancy and bridging payments will add complexity to the administration of the employment standards system and may increase the number of disputes at the end of employment.

125.3 As funder and contractor of services: the Crown funds or contracts a number of health and social services, including Disability Support Services and Individualised Funding. Organisations funded by the Crown would be required to pay employer levies, and where appropriate bridging payments.

126 Confidential advice to Government [redacted]

Impact Analysis

Regulatory Impact Statement

127 The Regulatory Impact Analysis (RIA) requirements apply and, therefore, a Regulatory Impact Statement (RIS) is required. Two RIS documents are attached to this Cabinet paper:

127.1 RIS One: Proposed Income Insurance Scheme

127.2 RIS Two: Establishing a New Zealand Income Insurance Scheme – Detailed Scheme Design Settings

RIS One: Proposed Income Insurance Scheme

128 A cross-agency, independent quality assurance panel convened by MBIE has assessed the executive summary of RIS One for the Cabinet decision on whether to establish a New Zealand income insurance scheme. The panel considers that this partially meets the RIA quality criteria.

129 In the time available, the panel was not able to review the body of this RIS (which is very extensive) against the RIA criteria and has relied on assurances from the NZII project team that the key elements of the RIA are presented in the executive summary of the RIS.

130 The main reason for the panel's assessment is that there continues to be uncertainty about the assessment of overall costs and benefits of introducing the proposed NZII scheme. Comments from the panel on earlier drafts of this RIS were addressed to our satisfaction (taking into account the uncertainties involved). In particular, these comments involved clarifying the analysis that supports the recommendations in this RIS and this Cabinet paper.

131 The proposed NZII scheme will include substantial costs for employers and workers of levies and bridging payments, with most of those costs matched by benefits received by workers. These costs and benefits (transfers) are clearly identified in this RIS, with the main uncertainties in assessment relating to the quantification of other benefits, which inherently involve judgments based on the best available information, including international comparisons. This RIS identifies the limits to the assessment, including judgments, and clearly presents the key rationale for the benefits of the proposed NZIIS.

132 Further clarity or analysis is also needed on the redistributional impacts of the NZII scheme, to support the claimed equity benefits.

133 A supplementary RIS will be completed before the New Zealand Income Insurance Bill is finalised, including residual decisions to be made by Ministers and potentially incorporated in the Bill. This will allow for the full RIS to be assessed against the RIA quality criteria.

RIS Two: Establishing a New Zealand Income Insurance Scheme – Detailed Scheme Design Settings

134 A cross-agency, independent quality assurance panel convened by MBIE has assessed the executive summary of RIS Two, which sets out design choices and impacts for the proposed NZII scheme. The panel considers that this meets the RIA quality criteria.

135 In the time available, the panel was not able to review the body of this RIS (which is very extensive) against the RIA criteria. The assessment of the design choices involves comparing a range of alternatives against consistent criteria. The number of design choices involved necessarily requires that only key design choices are presented in the executive summary and multiple options are not discussed in depth. The panel was assured by the NZII project

team that all key design choices included in the body of the RIS are presented in the executive summary.

136 Comments from the panel on earlier drafts of the executive summary for this RIS were addressed to our satisfaction.

137 In combination with RIS One, a supplementary RIS will be completed before the New Zealand Income Insurance Bill is finalised, including residual decisions to be made by Ministers and potentially incorporated in the Bill. This will allow for the full RIS to be assessed against the RIA quality criteria.

Better Business Case

138 Work is underway on a detailed business case (Better Business Case), focussing on implementation. This will be completed for Cabinet consideration later in 2022, Confidential advice to

Climate Implications of Policy Assessment

139 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

Māori

140 Māori are expected to benefit from both the economic displacement and health condition and disability side of the scheme, as they face a greater risk of job loss due to displacement or a health condition or disability compared to other groups. With entitlements based on individualised entitlements, eligibility is wider than welfare, so more whānau will be supported following loss of work. If the scheme proceeds, ACC is committed to taking an equity lens with a priority on Māori.

Pacific peoples

141 Pacific peoples also have higher rates (compared with the overall average) of economic displacement and of job loss for health-related reasons. We expect that Pacific peoples will generally benefit from both components of the scheme.

Women

142 Historically, women have been less likely than men to be displaced and suggesting women could be less likely to benefit from this aspect of NZII. However, displacement tends to be unpredictable, and may affect different populations over time as future of work trends such as technological advancement, changing industry composition play out. From the available data, there are no obvious differences in overall prevalence of health conditions or disabilities nor income loss between women and men, so no indication as to relative benefits.

Ethnic communities

143 There is limited reliable data available at the moment on the experience of displacement within ethnic communities in the labour market or the proportion of those identifying as a member of an ethnic community who leave work due to a disability or health condition. The experiences of some segments of ethnic communities within the labour market are likely to closely resemble the experiences of other vulnerable groups but there are also likely to be some idiosyncrasies specific to this sector of the population, including the treatment of temporary migrants.

144 Engagement with ethnic communities over the development of the Former Refugees, Recent Migrants and Ethnic Communities Employment Action Plan has highlighted that members of these communities continue to experience systemic discrimination when trying to find employment that is consistent with their skills, qualifications, and experience. There is the potential for these experiences to be amplified in cases where a member of an ethnic community who has been displaced is trying to secure a 'good' new job within a short timeframe.

145 ACC will need to be aware of these additional challenges and that the delivery of the scheme is accessible and navigable to those who have language difficulties and for whom English is a second language.

Young people

146 Young people (especially aged 15 to 24 years) are more likely to be displaced than older workers, and hence should benefit from the displacement component of the scheme. Six months replacement income could provide a pathway to gain additional skills and qualifications, with benefits to them and potential employers.

147 However, if young people do claim NZII, the amounts paid will be lower than for other people as they are usually on low incomes; and they are much more likely than other ages to be ineligible because of an insufficient contribution history, as many will be not long out of education.

148 Given the current age profile of workers with health conditions and disabilities, with its skew towards older age groups, young people are less likely to benefit from the health conditions and disabilities component. However, this may change in the future, with an increasing prevalence of mental health conditions associated with younger people.

Older people

149 Data indicate that older workers (aged 55 to 64 years and 65 years and older) are the least likely age group to be displaced. However, given the fact that earnings tend to increase with age, they are also likely to receive relatively high replacement incomes if they are displaced.

150 Older workers are more likely to claim for a health condition or disability than their younger counterparts and will disproportionately benefit from replacement incomes.

Disabled people and people with health conditions

151 All health conditions and disabilities not covered by ACC that cause a loss of work of at least 50 percent will be covered by the scheme. This will go a long way to address the current inequity where a person who experiences an accident at work can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

152 A high proportion of claimants are expected to have mental health or other long-term conditions. Currently in New Zealand around 50 percent of people claiming health and disability related benefits have a mental health condition. The high proportion with mental health conditions is similar to international health and disability schemes – both welfare and insurance related.

153 Claimants are most likely to be in couple households, both with and without dependent children. This means they are less likely to be able to access welfare benefits if their partner is earning.

154 Features such as case management will be designed to suit the needs of individuals, to recognise and respect their abilities and aspirations for employment and in the workplace. If the scheme proceeds, ACC is committed to taking an equity lens with a priority on disability.

155 Not all disabled people will benefit from the scheme. Disabled people not in work will not be able to take advantage of the NZII scheme. Employment is significantly lower for disabled people. 42.5 percent of disabled 15–64-year-olds are employed compared with 78.9 percent of non-disabled people in the same age group. Those not in work will not be required to contribute to the cost of the scheme.

Impact on low-income workers and their families

156 As noted earlier in the paper, we developed example families to illustrate the benefit of NZII compared to the status quo. Overall, having an income insurance scheme in place will increase the level of financial assistance available for all family types following economic displacement or job loss due to health conditions or disabilities. This includes those with higher replacement rates from the existing welfare system. This would provide much needed additional support following the loss of work.

157 However, middle- and higher-income families are expected to gain relatively more than lower-income families, as the middle- and higher-income families receive proportionally less from the existing welfare system. This is consistent with the scheme’s intent to ensure a high level of income smoothing for workers.

158 These benefits will be funded by a flat-rate levy. Levies collected from all income cohorts are proportional to their collective incomes because of the flat rate. People with below-average earnings are more likely to lose their jobs because of displacement and health conditions or disabilities, so are more likely to receive replacement income. Therefore, low-income workers are collectively expected to be net recipients through the scheme – i.e. to receive more in replacement income than they pay in levies – and average and high-income earners to be net payers.

159 However, this is funded through a levy which will reduce take-home pay, and this will place additional financial stress on some families (especially but not only low-income families). For example:

159.1 a full-time minimum wage worker ($21.20) would earn $848 per week and pay an $11.79 levy per week

159.2 a full-time worker on median hourly earnings ($27.76) would earn $1,110.40 per week and pay a $15.43 levy per week.

160 This is likely to have the largest impact on those already experiencing in-work poverty and hardship. Around 9-10 percent of households with a full-time worker(s) (under 65) are below standard income poverty thresholds. Around 8 percent of households with a full-time worker(s) (under 65) experience material hardship. This is around 250,000 people.

161 We are mindful of the effect of levies on low-income families, but it is difficult to address the levy's impact without transferring costs to others, either levy-payers or the government. We have sought additional advice on how to make levy collection more progressive. Subject to this advice, it may be desirable to adopt a more progressive levy structure to reduce the levy burden on low-income workers.

Employers

162 Like employees, all employers will bear the cost of the levy. As a result, all costs for businesses will increase and small businesses are likely to particularly feel the effect of increasing costs on earnings.

163 New Zealand has around 135,000 businesses with 1 to 19 employees (which are classed as small businesses). The median annual earnings for each worker of businesses of this size are $51,561. Assuming a business has 19 workers who are each earning $51,561, the levy cost to that business would be $13,617 per year (before deductions, e.g. GST and tax). The cost of a four-week bridging payment for a business making a median income earner redundant would be around $3,400.

164 Consistent with the overall framework for the tax system and the tax treatment of the ACC levy, employers will be able to deduct the cost of the levy from and bridging payment from their net taxable income. Employers who are registered for GST will be able to claim a deduction for the GST paid on employer levies.

Human Rights

165 Access to social security in the event of unemployment, sickness, disability and other circumstances beyond an individual's control is a human right. This is explicitly recognised in the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Culture Rights (ICESCR) [11], as well as a range of other Human Rights agreements.

166 The elements of the right to social security include the adequacy of payments in amount and duration, accessibility of payments, reasonable eligibility criteria and, for contributory schemes, the need for ongoing affordability and sustainability of the scheme.

167 The proposal to introduce the NZII increases the level of security for people who face job loss due to displacement or a health condition or disability, as it adds to the existing provisions made through the welfare and accident compensation systems.

168 The settings proposed for NZII include a generous income replacement level for a reasonable duration, broad coverage of entitlements, and a modest levy to fund the scheme. Ensuring the scheme is accessible, especially to those who experience disadvantage, will be a key focus in the implementation of the scheme.

169 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

170 As noted above, the Government and union and business representatives developed an income insurance discussion document for public consultation.

171 To reflect the Crown's obligations under Te Tiriti o Waitangi and ensure engagement with Māori, the Government has worked with the Pou Tangata S&E ILG on key scheme design elements and on the Tiriti provision including in the Income Insurance Scheme Enabling Bill (further information is included in the accompanying Cabinet paper).

172 As noted above, public consultation on the scheme proposal closed on 26 April 2022, including direct targeted consultation, written submissions, and a public survey.

173 This paper was prepared by MBIE. The ministries of Social Development, Health, Education, Justice, Primary Industries, Women, Pacific Peoples, and Ethnic Communities, the Accident Compensation Corporation, the Treasury, Inland Revenue, Public Service Commission, Te Arawhiti, and the Offices for Disability Issues and Seniors were consulted. The Department of Prime Minister and Cabinet and the Parliamentary Counsel Office were informed.

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[11] Article 9.

Communications

174 We propose to announce the Government's decisions in due course and will liaise with the social partners and the National Iwi Chairs Forum's Pou Tangata Co-Chairs about the announcement.

Proactive Release

175 We intend to proactively release this paper and the accompanying Cabinet paper at the same time as we announce the Government's decisions.

176 This may see the standard 30-day proactive release timeframe extended, if we decide it is preferable to have Cabinet decisions on one or more of the matters identified for further policy work prior to the announcement. (Further information on the areas of continuing policy work is contained in *Cabinet Paper 2: New Zealand Income Insurance – Detailed Scheme Design*).

Recommendations

The Ministers of Finance, Social Development and Employment, ACC, and Workplace Relations and Safety recommend that the Committee:

1 **note** that, whilst Government has a range of reforms underway to improve labour market performance and access to training, there is a still a large gap in the availability of financial assistance that effectively smooths incomes and mitigates large income drops, which can:

   1.1 constrain the opportunities for displaced workers to search for good jobs, to make use of employment services, or to retrain and upskill – increasing the risk that workers take jobs that make poor use of their skills or potential

   1.2 force disabled people and people with health conditions to make a trade-off between their health ability to earn, even if this compromises their longer-term health and employment prospects;

2 **note** that on 15 March 2021, Cabinet agreed that the government would work with business and union representatives to design a social unemployment insurance scheme to address these problems [CAB-21-MIN-0069 refers];

3 **note** that on 29 September 2021, Cabinet Economic Development Committee agreed to undertake public consultation on the proposal to introduce a social income insurance scheme in New Zealand [DEV-21-MIN-0198 refers];

4 **note** that public engagement indicated a range of views about the best mechanism to enhance the financial support available to people losing work;

5 **note** that an income insurance scheme would:

   5.1 reduce the impact of sudden large income losses, minimising the immediate financial impact of losing income and work

5.2 provide a sufficient opportunity for workers to engage in a considered search for a good job, to upskill, or rehabilitate

5.3 better maintain consumer spending through economic shocks and downturns, and keeping people connected to their employers;

6 **note** that, whilst there are a range of mechanisms to fill this gap, income insurance has clear benefits over these alternatives in meeting these objectives;

7 **agree** to introduce New Zealand Income Insurance;

8 **note** that the accompanying Cabinet paper sets out the proposed design of the scheme;

9 **note** that the income insurance scheme based on the design set out in the accompanying Cabinet paper would cost approximately $3.54 billion per annum based on 2018 data, funded through a levy estimated at 2.77 percent of wages and salaries;

10 **note** the introduction of the scheme will have flow-on implications which will impact the Crown's overall expenses and revenues, estimated to be a net cost of $215 million per year (depending on policy decisions), as well as impacting other Crown-funded services, regulatory systems, and contracts; and

11 **note** that we intend to introduce a Bill in December 2022, to be passed by July 2023.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Regulatory Impact Statement: Proposed Income Insurance Scheme

Purpose of Document	
Decision sought:	This analysis has been produced to inform a Cabinet decision on whether to establish an Income Insurance Scheme.
Advising agencies:	This RIS has been produced by the Ministry of Business, Innovation & Employment; with input from the Ministry for Social Development.
Proposing Ministers:	The Ministers of Finance, Social Development & Employment and Workplace Relations & Safety.
Date finalised:	22 June 2022

Problem Definition

While most workers and employers benefit from a flexible labour market and dynamic economy, people who bear its cost each year in the form of job losses due to displacement or health conditions and disability (HCD) go largely uncompensated and can suffer serious consequences.

The number of job losses due to displacement and HCD is large. Each quarter between 140,000 and 190,000 jobs are destroyed (from firm closures and downsizing) but also new jobs are created.[1] Many people who are economically displaced (ie. made redundant) are able to line up a job to go to, but many who lose their job - at least 40,000 New Zealanders in an average year – experience an extended period of unemployment. Similarly, a large number of people are incapacitated to some extent by a health condition or disability (HCD). While many people are able to manage their health and work, at least 20,000 people each year have to stop working.[2]

Such job losses, even those for a short duration, can result in:

- large income drops for households, financial hardship and stress
- longer-term income losses, even after re-employment; and for people with HCDs, a risk of leaving employment altogether
- reduced spending, which if widespread, can cascade to further job losses.

Despite a widespread (and potentially increasing)[3] exposure to risks of job loss, most people are unable to negotiate or afford income protection commensurate with the impacts of job loss (due to bargaining power imbalances and the high cost of insurance options) and have little savings to fall back on. Māori and Pacific people (and some segments of ethnic communities) experience higher rates of redundancy and HCD and more limited income protection and savings than other populations. Many who lose their jobs or need

[1] Statistics New Zealand's Linked Employer-Employee Data (LEED).

[2] Household Labour Force Survey (HLFS) data, 2009-2019. This data counts people who have spent at least a month unemployed, so undercounts the number of people displaced due to redundancy or HCD.

[3] Changes in technology, climate and demographics have potential to increase labour market disruption (refer Future of Work Tripartite Forum, 2019). The number of workers with reduced work capacity due to a HCD is expected to increase as the population ages.

to reduce their hours due to a HCD are either ineligible for, or only receive minimal support from, the welfare system, particularly people in couple households.

The large gap in income protection in New Zealand (compared to other developed countries) means that the immediate income loss after job loss is substantial. Re-employment rates in New Zealand are high compared with many OECD countries but immediate and ongoing wage effects are more pronounced (OECD 2017a).

Indicative estimates of the net-present value of wages lost as a result of displacement are between $3.3 billion in a year of economic upswing) and $15.4 billion in a year of very severe economic downswing (Hyslop et al. 2021). There are also productivity losses to workplaces associated with workers with HCD, for instance presenteeism (OECD, 20018).[4] Many of the people who are disproportionately affected already experience labour market disadvantages, which are compounded by job loss and poor health.

Executive Summary

Our objectives for intervention / introducing the proposed scheme are that:

- living standards of workers and their families and whānau would be maintained in the period after job loss
- workers would be supported back to good jobs and other sustainable outcomes
- the economy would adjust more effectively to structural change, shocks or downturns
- equity would be improved
- regulatory costs would be proportionate to intended outcomes.

A range of options were presented to Ministers early in the policy process (see annex 1 for details). Ministers directed officials, alongside social partners, to develop a proposal for an income insurance scheme, which was subsequently consulted between 2 February and 26 April 2022[5]. Accordingly, this RIS considers the proposal for an income insurance scheme against the status quo.

The income insurance scheme assessed would:

- cover workers – permanent, casual and fixed term employees – who lose their job involuntarily, or need to temporarily reduce their hours or cease work due to HCD[6]
- provide replacement income:
  - of up to 80% of prior wage/salary earnings up to an wage/salary cap of $136,544 p.a. (indexed annually)
  - for up to six months
- include case management to encourage job search along with other basic assistance needed to support workers' return to work (except for people exiting the workforce due to HCD).

Employers would also be required to give four weeks' notice prior to displacement and pay the first four weeks of income replacement following displacement as a 'bridging payment'

4 Presenteeism arises where people do not feel they can take time off.

5 A New Zealand Income Insurance Scheme | Ministry of Business, Innovation & Employment (mbie.govt.nz)

6 Generally workers would be eligible for support provided they worked at least six months in the preceding 18 month period. Temporary migrants would need to have also been resident for at least two years.

(in addition to any contractual notice or redundancy provisions) and keep jobs open for people with HCD.

For more detail on the proposed settings, refer RIS 2.

Costs

Against the status quo, the proposal would require a large fiscal outlay from the Crown to establish the scheme, and a larger ongoing financial cost to run the scheme, funded by worker and employer levies.

Confidential advice to Government

This will fund the design and establishment of IT systems, processes and organisational capability to deliver the scheme, and interfaces with the tax and income support systems. The Crown will fund some small ongoing cost for monitoring and policy stewardship. There may also be some need for the scheme to borrow from the Crown in the case of a shortfall.

Based on the above scheme specification, the ongoing financial cost of running the scheme is estimated at $4.7 billion per annum from 2025/26, funded by compulsory levies of ~2.77% (incl. GST) paid in equal share by employers and employees of ~1.39% (incl. GST) on wages and salaries up to the wage/salary cap. This will fund replacement income entitlements (~90% of costs), ACC's case management and administration of the scheme(~9.5% of costs).

These overall costs are uncertain. There is high sensitivity to changes in design parameters and assumptions particularly in relation to the number of people who will potentially claim on the scheme. Officials have estimated, based on analysis of comparable overseas jurisdictions with schemes in place, that claims numbers will be substantially higher than the numbers of current job losses observed based on:

- HLFS data excluding people displaced for short periods of time (less than a month)
- international evidence suggesting the introduction of a scheme could change behaviours. For instance, employers may more freely dismiss people on medical grounds or make people redundant given the safety net provided by the scheme
- people with HCD entering the scheme without needing to leave their job, and be covered for a period of time off work or reduced hours, resulting in a much larger number of claims (ie. Partial time-off claims can be up to half of overall claims in overseas schemes).

Comparison schemes were chosen on the basis of being present in similarly sized and flexible labour markets, and having similar scheme characteristics to the one proposed. Economic displacement claims are estimated to average 112,000 per year based on Massachusetts' scheme's claims rate, and HCD claims are expected to average 135,000 per year based on Denmark's scheme's claims rate. Both groups are expected to experience relatively short durations of joblessness. The number of people who would be in receipt of replacement income at any given time would be approximately 46,000 economically displaced people (1.5% of the labour force), and 30,000 people who left their jobs for health-related reasons (1.0% of the labour force).

Displacement claims are expected to vary across the business cycle, increasing substantially during recessions, whereas HCD claims are expected to be reasonably stable from year to year. Claims numbers are expected to grow by ~1% year on year in line with growth in the labour force. Provided the claims rate and average duration do not vary, levy rates should remain reasonably constant. That said, this estimation is highly assumption dependent, and it is unlikely all assumptions will hold upon the scheme's introduction.

The scheme would impose additional costs on employers in terms of requiring employers to provide four weeks notice to employees and the scheme prior to a redundancy, and providing a four week bridging payment to workers made redundant, regardless of whether the person is eligible for cover by the scheme (in addition to any contractual redundancy provisions). The bridging payment is estimated to cost employers ~$500 million per year from 2025/26, which will rise with labour force and wage growth. Both this and the levy costs will be offset for employers as they will be tax deductible. We also expect that introducing the scheme would result in fewer and/or lesser value redundancy provisions being negotiated over time into new employment contracts.

The scheme would impose on employers:

- high regulatory costs of paying levies, including on behalf of employees (on-going)
- minimal compliance costs on employers in terms of understanding and building compliance requirements (one-off) and with paying levies, as these will be incremental to existing levies (on-going)
- moderate regulatory and compliance costs of notice and bridging payments for economic displacements, and keeping jobs open for people with HCD (on-going, with significance dependent on claims rates by employer).

The scheme would also impose on employees:

- High regulatory costs of paying levies, which could increase for some people over time in the form of offsets against future wage increases (on-going)
- low compliance costs associated with making a displacement claim, but moderate cost in making a HCD claim (eg. medical practitioner co-payments).

The proposed scheme may place additional demands on the following systems:

- Health - extra demand will arise due to the need for health practitioners to undertake work capacity assessments for workers seeking to access the scheme (either as additional appointments or appointment time). The proposed scheme may also surface unmet health needs, which will create additional pressure for services in a system already subject to significant constraints. Both of these factors will entail some degree of cost pressure for Vote Health funded subsidies paid to primary care providers, and the latter factor could create increased demand for publicly funded health services, leading to longer waiting times for non-urgent services
- Employment, education and training - Some people may need to access additional services to support their return to good work, eg vocational rehabilitation, career advice, job brokerage, access to subsidised on-the-job training, provided by MSD and TEC. This will be considered further as part of the review of ALMPs, which aims to understand the sufficiency of support for people including future scheme claimants
- Employment relations – the proposed statutory notice periods and bridging payments would be given effect through amendments to the Employment Relations Act 2000, and enforced by the labour inspectorate and Employment Relations Authority and Employment Court
- Courts - unresolved disputes would be appealable to the District Court and from there to the High Court, which would require some additional Court capacity (funded from levy).

The scheme could also have broader costs for labour market efficiency. There is a risk that the introduction of income insurance could increase unemployment, by increasing employment to unemployment flows (by increasing employers' propensity to make their workers redundant) and decreasing unemployment to employment flows (by increasing the duration of job search), and an increase in the average wage rate (by increasing workers' reservation wage). However, the materiality of the effect is uncertain and likely to be small, as displacement and HCD only contribute to a small proportion of unemployment flows (estimated at 15%), and reductions in unemployment to employment flows will be offset to some extent by substitution to new entrants to the labour market (eg. those finishing study) who make up the bulk of flows into unemployment.

Benefits

Against the status quo, the proposed scheme would generate substantial benefits by:

- helping a large number of people avoid large income drops, financial stress and impacts on health and wellbeing
- reducing the pressure for people with HCD to stay in work when unwell or leave completely, with consequent improvements in health and employment outcomes
- helping to improve longer term wage and employment outcomes
- supporting the economy to better weather downturns and support local economies.
- spreading the costs of economic dynamism more broadly, and improving equity amongst people with HCDs who are and are not currently able to access ACC.

The proposed scheme would minimise the immediate financial impact of job loss on expenditure for workers and their families and whānau

The largest, most certain benefit offered by the scheme is that it would more effectively smooth incomes and expenditure for many people who are displaced or whose work capacity is reduced due to a health condition or disability. Through payments linked to lost wages and salaries, income insurance will make higher payments, and to a greater number of people who lose their jobs, than the welfare system. Payments are estimated to be ~$4.2 billion per annum from 2025/26.

Many households have little leeway to adjust household expenditure, and doing so can have flow on implications for economic recovery in a recession. While some discretionary spending may be cut without great harm, lower to middle income households spend a large proportion of income on non-discretionary items such as food, utility bills and medical costs. Of particular concern is housing costs (mortgages and rents) which are high in New Zealand compared to many other developed countries[7].

Some households are able to adjust their financial portfolios when one earning partner loses their job, such as drawing on savings, or taking out mortgage or consumer debt. However, this can have longer-term implications for living standards, particularly in retirement. Moreover, New Zealand households save less than households in many other OECD countries (OECD, 2010), and a significant proportion have little or no savings; survey data indicates over half of households have savings of less than six months' income, and would need to borrow if their incomes fell by a third for six months (Retirement Commission, 2021; Consumer New Zealand, 2021). It is likely that lower-paid

7 OECD (2022) estimates that in 2019, expenditure on housing and maintenance in New Zealand averaged 25% of household disposable income, compared to an OECD average of 18%. Subsequent increases in house prices suggest that this difference is likely to be greater.

workers who are most at-risk of involuntary job loss are also likely to have the least savings.

The proposed scheme will provide higher replacement rates for all of the family type scenarios tested, including those whose replacement rates are already high through the existing welfare system. Replacement rates range from 50-84% for those currently covered by the welfare system, whereas replacement rates are estimated to be 80-97% through the scheme (including tax credits and accommodation supplement). The scheme will make people who lose their job, who would otherwise receive welfare, better off.

… this in turn would mitigate stress and health and other wellbeing impacts

By avoiding large drops in income, the scheme will provide some people a protective buffer against stress of worrying about income and work, and protect against the adverse health-related consequences of unemployment and income reduction (Avendano, et al., 2017; Cylus, et al., 2015; Kuka, 2020; Shahidi, et al., 2019).

By covering both full loss of work as well as reduced hours, the proposed scheme encourages people with HCD to remain connected to work. Financial support will help to reduce the pressure for people with HCD to stay in work when unwell (presenteeism) or leave completely when working part-time would promote recovery and maintain their connection to the workplace. This in turn could prevent the loss of valuable skills.

Suitable work also has a therapeutic quality (Waddell and Burton 2006), and insofar as the scheme supports people to retain some hours, it will provide heath and wellbeing benefits.

For people that are unable to return to work, the scheme will provide support individuals and their families to transition their affairs to be sustainable post working life. Payments from the proposed scheme would also help at a time when people may be incurring higher medical expenses.

While the literature indicates net positive effects in these regards, given the diversity of workers' circumstances, we do not have robust estimates of the number of households who might experience financial stress or hardship at present, and how many of them would be relieved of this risk through a scheme. This effect is therefore assumed to be moderately positive but only apply to relatively small proportions of people supported by the scheme.

The proposed scheme will help support workers to retain or get back to good work, mitigating longer term income losses

The proposed scheme will allow people more time to search for a job that better matches their skills, and previous wages and conditions (reducing post displacement wage scarring). However, for some loss of wages or conditions may be inevitable and not everyone can return to work.

This will enable many people to obtain a job that better matches their skills and previous wages and/or is more secure, reducing post displacement wage and income scarring (Dahl and Knepper, 2022; Centeno, 2014; Kyyrä, et al. 2017). Payments from the proposed scheme would reduce the financial pressure people feel to accept poorly matching jobs, allowing more time to find a job that is a good match to their skills, as indicated by post displacement wages or tenure. This is particularly important for people with medium to higher skills who face thinner labour markets, which tend to entail longer periods for job-matches. Second, payments from the proposed scheme would allow displaced workers who need additional support, upskilling or to make career adjustments time to undertake or initiate training. This is particularly important for people with low qualification levels, or older people with specialised skills but who lack formal credentials, and for people in occupations or industries that are shrinking or where skill requirements are changing.

Furthermore, the proposed scheme will support people with HCD to retain their jobs by topping up the income of those who need to reduce hours by at least 50%. This creates the opportunity for people to maintain their connection to their workplace while they work to improve their work capacity. Supporting people with HCD to remain connected to employment is particularly important given considerable barriers to returning to work associated with HCD (Gaulke, 2021). By not leaving their job the risk of longer term wage scarring is reduced.

In these ways the proposed scheme will support some people to either retain employment, avoiding large income drops, or obtain better jobs than with a shorter search term, avoiding longer-term income losses. By supporting better job matches, and helping people with HCD to stay in work or successfully return to their place of work, employers and the economy will also benefit from making better use of human capital.

However, at the same time, some people who receive payments under the proposed scheme and extend their job search may see little difference, or even a detriment, to re-employment outcomes. For some loss of wages may be inevitable and not everyone can return to work (Chetty 2008; Kyyrä, et al. 2017). The net effect of extended job search on wage scarring is highly variable across studies. Some studies suggest that this is due to an economic cycle effect (Kroft & Notowidigdo, 2016), or simply that the empirical studies are of insufficient power to properly discern effects in this regard (Schmieder, von Wachter, 2016). However, recent analysis provides clearer support for the proposition that longer search is likely to promote improved job matches and wages (Dahl and Knepper, 2022).

To reduce the potential risk of poor outcomes, the proposed scheme will complement replacement income with:

- case management to assist individual workers in their job search
- monitoring of claimants' job search activities to ensure that they are meeting reasonable expectations about seeking work, and
- where necessary, referral to appropriate available ALMPs such as job search assistance and training programmes intended to improve prospects for re-employment and/or earnings.

Given the proposal is to introduce a new scheme where none currently exists (which is much more generous than the existing benefit system), and the low base from which New Zealand is starting (with relatively quick reemployment and high wage scarring) we expect the proposed scheme to have moderately positive longer term wage and employment impacts, at the upper range of international estimates, but this effect would only apply to relatively a small proportion of people supported by the scheme.

The proposed scheme will support the economy to better weather downturns and support local economies

The proposed scheme will help reduce the severity of a downturn, one of the most significant effects of the scheme.

New Zealand has several policies that automatically counter the effect of a recession, referred to as automatic stabilisers: for instance, receipt of welfare payments increases and tax revenue falls in a recession, which limits the slowdown of the circulation of money in the economy, preventing the recession from deepening. Countries with larger and more effective automatic fiscal stabilisers need less discretionary change in public spending and revenues to stabilise the economy for a given shock (Price, et al., 2015).

Treasury analysis estimates that the adoption of the proposed scheme will increase the responsiveness of New Zealand's automatic stabilisers from around the average to one of the stronger responses in the OECD. But introducing income insurance is unlikely to completely remove the need for monetary stimulus or discretionary fiscal policy such as business supports, during a downturn.

The proposed scheme would also support local economies. Loss of work can affect whole communities and whānau, especially communities reliant on a major employer. When major employers shut down, workers have little money to spend, which means other businesses suffer and the community can go into a long-term economic decline that can last for generations. Payments from the proposed scheme will cushion workers and communities from such abrupt income losses, allowing more time to adapt.

The proposed scheme will be equitable for working people and their families and whānau

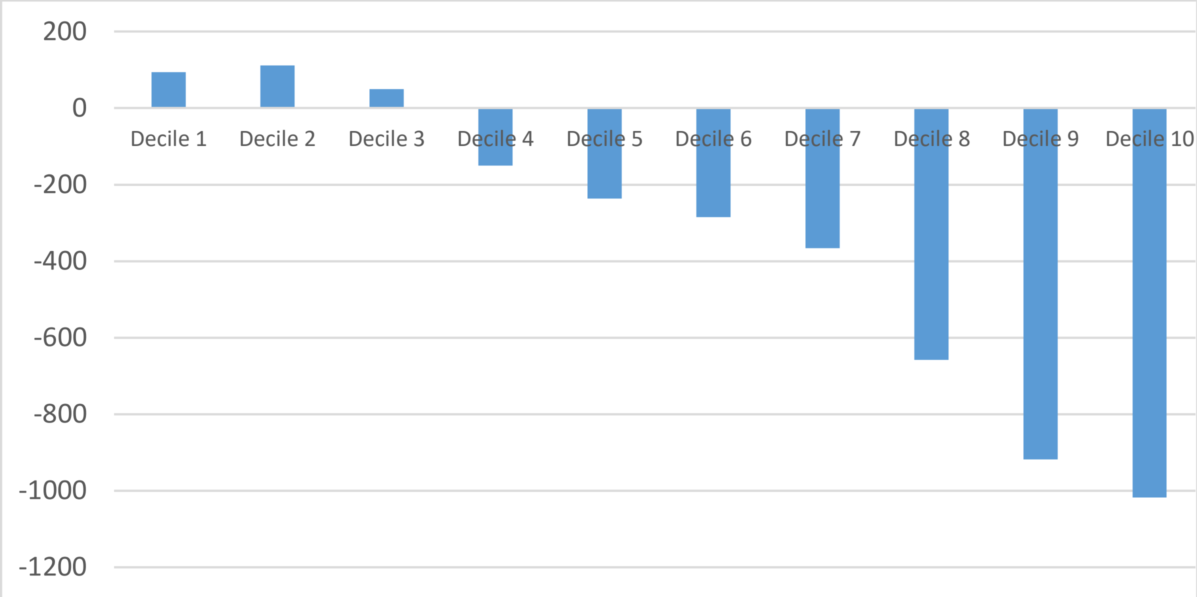
The proposed scheme will improve equity across the economy by compensating workers (and their families and whānau) for job loss, recognising the efficiency gains job reallocation brings to businesses and workers.

Overall, taking account of both scheme payments and levies payable, the proposed scheme is likely to redistribute income from higher- to lower-income individuals and families. A key reason for this is that HLFS data indicates that people with below-average earnings are more likely to experience involuntary job loss, so are more likely to receive replacement income. Therefore, low income workers are collectively expected to be net recipients from the scheme (i.e. to receive more in replacement income than they pay in levies) and average and high income earners to be net payers.

The following two charts illustrate the above point using Treasury modelling to estimate distributional effects of the scheme taking account of levies paid and the likelihood of receiving entitlements from the scheme at the family level.[8] The charts show the average change in annual income for a family by income decile (decile 1 being the lowest earning families and decile 10 the highest). Figure 1 shows that families in the bottom income deciles will collectively benefit in terms of the amount paid in levies and forgone earnings, compared to the amount received in replacement income, whereas higher decile families will collectively pay more in levies and foregone earnings, than they receive in replacement income on average. Figure 2 shows that families in the bottom income deciles will collectively benefit in terms of the amount paid in levies compared to the amount received in replacement income on average, whereas higher decile families will collectively pay more in levies than they receive in replacement income on average.

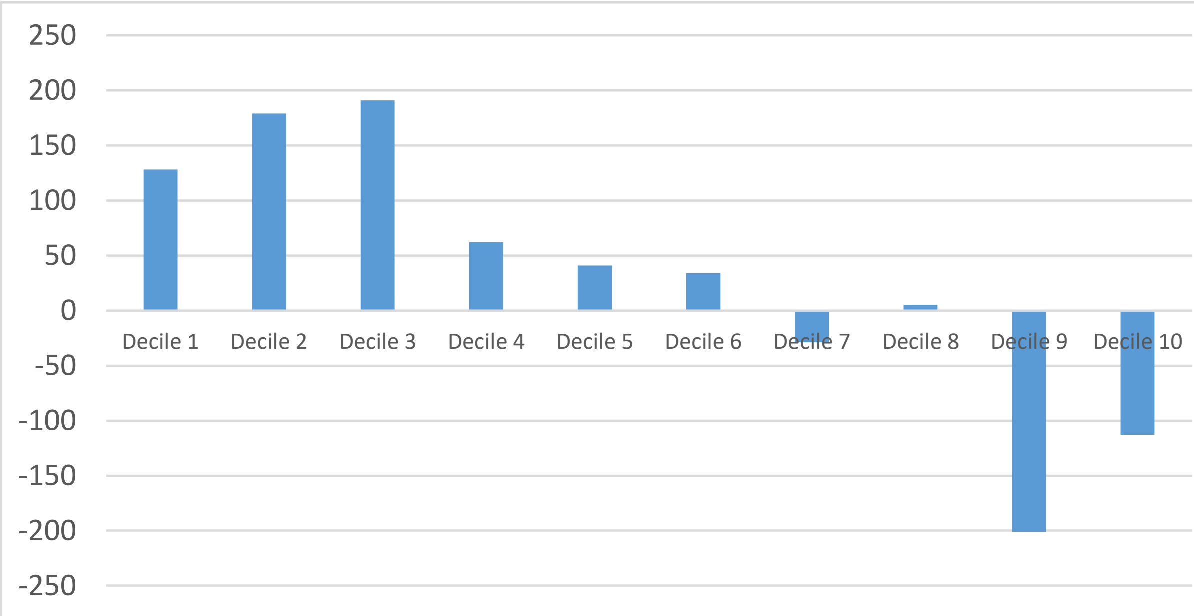
[8] While these estimates reflect our best assessment of the potential distributional effect of the policy given the data available and the assumptions made, they are highly uncertain. The policy entails a large change to the social security system in New Zealand and the proposed programme is materially different from existing programmes. Given the uncertainty around a) how many people are made redundant or stop working due to HCD or R each year and b) the extent of the behavioural changes that would occur, the modelling is subject to significant uncertainty. The modelling does not factor in the proposed scheme eligibility requirement that someone would have worked for six months in the previous 18 months, meaning the scale of income redistribution depicted may be overstated. Officials are however confident in the direction of effect, i.e. that the scheme will be to some degree redistributive from higher decile to lower decile families, and unlikely to be regressive.

Figure 1: Average change in disposable income by family income decile – displacement (baseline scenario)



Source: Treasury, November 2021

Figure 2: Average change in disposable income by family income decile - HCD



Source: Treasury, November 2021

Possible factors that would reduce redistribution to low income families include:

- the modelling assumed eligibility for the scheme is based on a minimum tenure in the job lost of 2-3 months, not on having an employment history of at least 6 out of the last 18 months. Those who don't meet this scheme criteria are more likely to be lower income earners.
- the behavioural response to the introduction of scheme was assumed to be the same irrespective of prior earnings level. If those in higher family income deciles are more likely to delay finding/starting a job than those in lower income deciles, higher income families would benefit relatively more and lower income families would benefit less than indicated.

While the proposed scheme will not help those most disadvantaged in the labour market (i.e. those of working age not in work), this group will not be required to finance the scheme.

Other disadvantaged groups of workers, such as those on lower than average incomes, in industries prone to job losses in a downturn, and populations with higher health needs (all of which have overrepresentation of Māori and Pacific people) will benefit from the proposed scheme, given these groups experience higher rates of redundancy and HCD and more limited income protection and savings than other populations. It will also benefit older workers who lose their jobs as this group is particularly affected by wage scarring and people in couple households given they are much less likely to be eligible for welfare support than people without partners due to the family income test.

The proposed scheme will also improve horizontal equity by providing a more comparable level of financial (albeit time-limited) support to people who lose work due to health conditions, as people receive who lose work due to accidents. The proposed scheme will make payments equivalent to ACC weekly compensation, for up to six months. Like ACC, those payments will be unaffected by any assets, or partner earnings.

Overall assessment

MBIE considers the proposed scheme will generate a moderate net benefit to New Zealand over the status quo, and recommends that the proposal proceed.

The proposed scheme would involve a large ongoing financial cost for employers (levy and bridging payments) and workers (levies), most of which would be transferred to workers as entitlements in the event they are laid off or are incapacitated by an HCD. The net financial cost over time would be for scheme administration and case management.

Our assessment is that the scheme's cost will be outweighed by its benefits, and will be equitable for low income workers and their families. Scheme entitlements will help to smooth incomes which will alleviate financial stress with consequent health and wellbeing benefits. In smoothing incomes for displaced workers, the scheme will contribute wider economic benefits in terms of greater macroeconomic stability over time.

A key rationale for introducing income insurance is to reduce the financial pressure that displaced workers may face to accept work rapidly following displacement, thereby increasing search time, improving job matching, and reducing New Zealand's relatively high levels of wage scarring. A further rationale for income insurance is to allow workers with health conditions and disabilities that affect their ability to continue working to reduce their hours of work (without significant income loss), thereby focusing on rehabilitation, and restoring their work and earning capacity. We expect a moderate positive impact on reducing wage scarring for displaced workers, and workers with health conditions and disabilities.

We consider that benefits will be most likely, and risks best mitigated, if return to work outcomes are supported with adequate investment in case management (within scope) and other ALMPs (outside scope).

The costs and benefits of the proposed scheme compared to the status quo are summarised below.

Table 1: Summary of assessment against criteria

Criterion	Status quo	The proposed NZII
Will the proposed NZII maintain living standards for workers and their families and whānau immediately after losing jobs and incomes?	0	++ • Maintains living standards as it smooths incomes for a wider group of workers, many of whom have little income protection or savings; will relieve financial stress from an unknown but potentially significant number of households
Will the proposed NZII support workers to retain or return to good jobs and other sustainable outcomes?	0	+ • Moderate reductions in wages scarring, improvements in tenure, and therefore improvements in incomes for people displaced and with HCD • Risk for some that too longer job search reduces employment and wage outcomes due for instance to foregone income and skills atrophy while displaced
Will the proposed NZII support the economy to adjust more rapidly to structural change, shocks or downturns?	0	+ • Likely to moderately reduce economy-wide impacts of displacement during recessions • Better matching will contribute to improved labour productivity • However, small impact on labour supply, increases labour costs from increased reservation wage/bargaining position
Will the proposed NZII improve equity?	0	+ • Redistributes to displaced people and persons with HCDs by providing compensation for loss of work • redistributes income from higher- to lower-income workers with improvements for Māori, Pacific peoples • Partially addresses inequity between compensation for injury and non-injury caused ill-health • Levy may place financial stress on low income households
What regulatory costs will result from the proposed NZII?	0	-- • significant regulatory costs of paying levies, (on-going) • Moderate regulatory and compliance costs of notice and bridging payments, and retaining jobs for people with HCD (dependent on claims rates by employer) • minimal compliance costs to understand and build compliance requirements (one-off) and with paying levies (on-going) • minimal compliance costs associated with making a claim for displacement, moderate cost for HCD (eg. medical practitioner co-payments) • Moderate costs for other regulatory systems • Small fiscal offset from welfare and tax saving
OVERALL ASSESSMENT		++ • A significant and certain benefit of providing income protection, to a largely unprotected population. • Reduces financial stress, with consequent wellbeing and health benefits, and for some, improves job search, skills-match and wages. • Non-monetised benefits expected to be large, particularly the value of the scheme for automatically stabilising the economy in a recession, improved labour productivity and distributional considerations.

Monetised analysis of the proposed scheme is subject to significant uncertainties, both in respect of the cost and benefits. The analysis draws on an extensive international literature on social insurance schemes, however, there are two qualifications to the relevance of this literature to New Zealand:

- impacts of social insurance schemes are strongly affected by institutional context, including labour law, the wider social security system, and availability of supporting services (see below); all of which vary between jurisdictions
- all studies focus on the impact of changes to existing schemes, at the margin, and findings are likely to understate the impacts of the introduction of a new scheme.

Subject to these significant limitations, introducing the scheme is estimated to produce a positive net present value of $351 billion over 50 years; and a cost-benefit ratio of 1:1.34).[9]

Non-monetised benefits, particularly the value of the scheme for automatically stabilising the economy in a recession, and distributional considerations, are expected to be amongst the largest benefits, but are unquantifiable. Equally, to the extent the scheme supports better skill-matching, better health and reduced absenteeism, and reallocation of workers to higher productivity jobs we expect to see improvements in labour productivity, but the scale of impact is uncertain.

The monetised present value (PV) and non-monetised costs are summarised as follows:

Table 2: Proposed scheme costs

Affected groups	Description	Impact	Evidence certainty
	Confidential advice to Government		
Employers	Financial costs – levies net of GST plus bridging payments	$529,000	Medium
	Compliance costs – administering levy, notice periods, bridging payments	Medium	Low
Workers	Financial costs – levies including GST	$516,000	Medium
	Compliance costs – lodging claims	Low-medium	Low
Wider community	Loss of employment and production (due to increased search, increased labour costs)	Low-Medium	Medium
	Total monetised costs	**$1,045 billion**	**Medium**
	Total non-monetised costs	**Low-Medium**	**Low-Medium**

[9] This analysis uses the cost-benefit analysis framework set out in The Treasury (2015). Monetary benefits and costs have been estimated using the Treasury's CBAx tool to model potential impacts. Some impacts have been quantified using the '*Valuing Wellbeing Outcomes*' framework set out in Smith and Davies (2020), which places a value on a number of changes in life circumstances, and have been incorporated in the CBAx tool. The calculation uses a technique known as *subjective wellbeing valuation* which involves measuring the monetary value of wellbeing outcomes, by indirectly valuing these outcomes relative to the importance of income to wellbeing. Base data on positive and negative impacts of specific events on life satisfaction were collected by Statistics New Zealand through the New Zealand General Social Survey (NZGSS).

The monetised and non-monetised benefits are summarised as follows.

Table 3: Proposed scheme benefits

Affected groups	Description	Impact $m	Evidence certainty
Additional benefits of the preferred option compared to taking no action			
Displaced workers	Receipt of replacement income, *maintain living standards*	$549,000	Medium
	Reduced financial stress and hardship	$152,000	Low
	Reduced long-term wage scarring. *Extended job search to secure jobs with better wages*	$37,000	Low
Workers with HCDs	Receipt of replacement income, *maintain living standards*	$418,000	Medium
	Reduced financial stress and hardship	$101,000	Low
	Reduced long-term wage scarring. *Extended job search to secure jobs with better wages*	$29,000	Low
	Better long-term employment and health outcomes: *time out for recovery; better exit*	$55,000	Low
Other government agencies	Fiscal offset, *changes to welfare payments and tax as a result of levies and payments*	$56,000	Medium
Wider community	Better job matching results in higher productivity	Low-Medium	Low
	Better health outcomes result in higher productivity, *reduced work absences and presenteeism among workers with HCDs*	Low-Medium	Medium
	Smoothing consumption and economic cycles, *payments strengthen 'automatic stabilisers' by maintaining consumption during recessions*	High	Medium
	Total monetised benefits	**$1,396 billion**	**Low-Medium**
	Total non-monetised benefits	**MEDIUM/HIGH**	**MEDIUM**

Sensitivity analysis

Both the costs and benefits are highly sensitive to assumptions. The largest driver of NPV costs are the levies payable under the scheme, followed by the scheme's establishment cost. Neither the establishment nor the ongoing administration costs are expected to have material effect on the costs or net benefit. The main levy cost factors which are most sensitive are claims rate/duration and average replacement income payable. A 10% change in these factors would change scheme cost by respectively 5% and 9%, entailing a cost benefit ratio range of between 1:1.41 and 1:1.27.

The largest driver of benefits is the provision of income replacement for consumption smoothing (~67% of NPV benefits). The scheme is also expected to provide significant wellbeing and health benefits from ameliorating financial stress (~25% of NPV benefits), and a benefit of enabling people to obtain better jobs than they would otherwise under the status quo (~5% of NPV benefits).

The main benefit which is assumption sensitive and could materially affect the overall cost-benefit analysis is the assumed health benefits (a 50% change in this benefit would change the net benefit by 7 points up or down). The assumed benefit of enabling people to obtain better jobs was subject to particularly conservative assumptions based on the international literature, however, this impact could be considerably more favourable in the context of a new scheme.

All of the assessments of the impacts are subject to uncertainties - most of the impacts could be considerably larger or smaller - but we are confident in our assessed direction and significance of impacts in a broad sense, and therefore have confidence in the net assessment that the proposed scheme would provide a moderate net benefit.

Stakeholder feedback

Business New Zealand and the NZCTU and the Government worked together to develop a public discussion document on the proposal.

Feedback was sought via public submissions, an online survey and targeted engagement with Māori/iwi and key stakeholders. MBIE received around 250 submissions, 2,000 survey responses and held around 50 targeted engagements. MBIE also engages regularly with Business New Zealand, the NZCTU and the Pou Tangata Skills and Employment Iwi Leaders Group on the proposed scheme.

Overarching stakeholder views on establishing the scheme[10]

Findings the from engagement show mixed views on the proposal. Just over a third of self-selected respondents to a survey supported the proposed scheme (34%), whereas 60% opposed the proposal. Submissions expressed the following views:

- some submitters consider the proposal should proceed since it would fill a significant gap in income replacement for people who lose their jobs. Targeted engagement suggested that support is strong from those who had experienced redundancy or job loss due to health conditions or disabilities
- another large group support the intent of the proposal but saw insurance as inequitable and favour alternative solutions, such as improving existing systems (welfare, Kiwisaver, redundancy payments),
- a number of employer groups opposed the scheme based on a view that it would impose a cost on businesses with little perceived benefit. Businesses were also concerned about the inclusion of health conditions and disabilities
- common across the engagement, irrespective of level of support, was concern about the impact of the levy on low-income workers, and the timing of the proposal, given the low unemployment rate and costs of living.

We consider that the proposed scheme will fill a significant gap in income replacement for people who lose their jobs. We further consider that the proposed scheme will:

- complement the welfare system's role in alleviating poverty and hardship for individuals and their families; enabling many to avoid needing the basic level of support provided by the welfare system.
- benefit businesses through improved skills matching across the labour market, and sustaining consumer demand through recessions, reducing the risk of business closures. The inclusion of health conditions and disabilities brings benefits to both individuals and businesses, as it will provide greater opportunities for HCDs to stay

[10] The stakeholder views on the detailed policy parameters for the scheme are discussed in more detail in RIS 2.

in work or successfully return to work, reducing staff churn and keeping experienced staff in businesses
- provide significant additional protection to low-income families over a longer time horizon which outweigh the cost; unemployment is currently low but this will not always be the case. Overall, taking account of both scheme payments and levies payable the scheme will redistribute income from higher- to lower-income families.

Conclusion

All of the assessments of the impacts are subject to uncertainties - most of the impacts could be considerably larger or smaller - but we are confident in our assessment of the direction and significance of impacts in a broad sense.

MBIE recommends that the proposed scheme be established, based on our consideration that the benefits of the proposed scheme would outweigh its costs.

Limitations and Constraints on Analysis

A key limitation on the scope of this RIS relates to consideration of alternatives. An assessment of options to address the problems identified was undertaken in 2020, and is summarised in *Annex 1: Origins of the proposed NZII*.

In early 2021 Ministers directed officials to focus their work on the development of an insurance-based model. As a result of Ministerial direction, officials did not undertake further work on assessment of alternatives to this proposal. For this reason, the scope of this RIS is comparing the proposed NZII scheme with the status quo.

A key assumption of this analysis concerns the availability of Active Labour Market Policies (ALMPs) such as retraining as well as health services required by people with HCD for rehabilitation. Studies emphasise the complementary importance of ALMPs to achieve intended employment outcomes. Most people are relatively well connected to the labour market and are not expected to need much assistance to return to work. The scheme will fund case management and encourage job search, which will assist some people to reconnect with work, or existing ALMPs available through income support, careers, health and other systems insofar as they are eligible. It is not proposed to fund ALMPs through this package; but consideration will be given to whether available ALMPs are suited to address the needs of people supported by the scheme (a longer-term process, through the ongoing review of ALMPs).

Responsible Manager(s) (completed by relevant manager)

Francis van der Krogt

Policy Manager

Income Insurance Policy

Ministry of Business, Innovation and Employment

Privacy of natural persons

23 June 2022

Quality Assurance	
Reviewing Agency:	*Ministry of Business, Innovation and Employment*
Panel Assessment & Comment:	A cross-agency, independent quality assurance panel convened by MBIE has assessed the executive summary of RIS One for the Cabinet decision on whether to establish a New Zealand income insurance scheme. The panel considers that this partially meets the RIA quality criteria. In the time available, the panel was not able to review the body of this RIS (which is very extensive) against the RIA criteria and has relied on assurances from the NZII project team that the key elements of the RIA are presented in the executive summary of the RIS. The main reason for the panel's assessment is that there continues to be uncertainty about the assessment of overall costs and benefits of introducing the proposed NZII scheme. Comments from the panel on earlier drafts of this RIS were addressed to our satisfaction (taking into account the uncertainties involved). In particular, these comments involved clarifying the analysis that supports the recommendations in this RIS and this Cabinet paper. The proposed NZII scheme will include substantial costs for employers and workers of levies and bridging payments, with most of those costs matched by benefits received by workers. These costs and benefits (transfers) are clearly identified in this RIS, with the main uncertainties in assessment relating to the quantification of other benefits, which inherently involve judgments based on the best available information, including international comparisons. This RIS identifies the limits to the assessment, including judgments, and presents clearly the key rationale for the benefits of the proposed NZIIS. Further clarity or analysis is also needed on the redistributional impacts of the NZII scheme, to support the claimed equity benefits. A supplementary RIS will be completed before the New Zealand Income Insurance Bill is finalised, including residual decisions to be made by Ministers and potentially incorporated in the Bill. This will allow for the full RIS to be assessed against the RIA quality criteria.

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Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

This document concerns the impacts on workers of:

- economic displacement from an employer closing, contracting or restructuring, ie the disestablishment of a position (and excluding job loss due to poor performance, gross misconduct or resignation)
- partial or full reduction in work capacity due to onset or deterioration in a health condition or disability (HCD) that means an employee is unable to continue fully (or at all) in their current job.

There are few restrictions on the right of the employers to determine the structure of the business and, therefore, to make positions redundant, subject to there being genuine business reasons for redundancies and that they are carried out in a fair and reasonable manner (Public Advisory Group on Restructuring and Redundancy 2008).

Similarly, an employer may terminate someone's employment if they reasonably believe that an employee can no longer do their job because of an HCD, and it is not reasonable to keep the person's job open for them. Termination may take the form of dismissal for medical incapacity, or medical retirement by mutual agreement.

New Zealand is regarded as having a lightly-regulated labour market compared to other developed countries, with comparatively few restrictions on employers' rights to hire and fire, but relatively strict procedural requirements for dismissal of 'regular' workers (OECD 2020).

What is the policy problem or opportunity?

Despite a widespread risks of job loss from displacement or HCD (which could increase with future of work trends such as technological advancements and population ageing), most people are exposed in that they:

- Have insufficient bargaining position to negotiate income protection as part of their work contract. Available data indicates an uneven distribution of redundancy provisions, which are mostly contained in collective employment agreements (representing 18% of employees: see Blumenfeld et al 2020). Little is known about entitlements for people working under individual employment agreements, and people working under non-standard employment contracts (eg temporary or casual workers) generally have no entitlement.
- Are unable to afford income protection commiserate with the impacts of job loss. A key issue in this regard is that insurance will be overpriced or unavailable to those who need it due to market failure. Only those who see themselves as at risk of being made redundant will choose to purchase insurance. As these people are more likely to be paid out by the scheme, insurers have to charge higher premiums. This adverse selection prices people out of the market who would have benefitted from having insurance but cannot afford the high premiums. FSC (2020) suggests that only 11% of households have adequate income protection or mortgage repayment insurance. The

people most at-risk of job loss due to displacement or HCD are typically lower-skilled and lower paid and the least able to afford insurance.[11]

- have little savings, or other family income to sustain their living standards until they secure another job to fall back on. Some households are able to adjust their financial portfolios when one earning partner loses her/his job, such as drawing on savings, or taking out mortgage or consumer debt (Andersen et al 2020), smoothing current consumption by spreading the costs into the future. However, a significant proportion of households having little or no savings; over half of households have savings of less than six months' income, and would need to borrow if their incomes fell by a third for six months (Retirement Commission 2021, Consumer New Zealand 2021). Drawing on Kiwisaver savings has long-term implications for living standards in retirement. While empirical data do not generally indicate the circumstances of people with low and high savings, it is highly likely that lower-skilled, lower-paid workers who are most at-risk of involuntary job loss are also likely to have the least savings.
- Insufficient sick leave. For people with an HCD, the relevant issue may not be termination provisions in employment contracts; rather, it is the amount of sick leave (if any) they have to take time away from work for recovery. There is a statutory minimum provision of 10 days, although some employment contracts may provide more. As discussed later, availability of sick leave may be more important for this group than support if they lose their job.

Many who lose their jobs are either ineligible for, or only receive minimal financial support from, the welfare system. Individuals may be eligible for income support after losing their job, primarily through different variants of the Jobseeker benefit (or for people with permanent and severe HCDs, Supported Living Payment, SLP). Sole parents with children under 14 would be eligible for Sole Parent Support.

Eligibility and the amount payable depends in part on household circumstances (partners, partner income, children, housing costs, assets) and will generally be lower than prior earnings from employment, often significantly lower (see Annex 2). Most displaced people do not qualify for, or do not take up, welfare support. OECD (2017a) suggests that 60-70% of unemployed people who had been made redundant in the previous five years did not receive a benefit, in the majority of cases as they were ineligible because of a spouse in full-time employment (see **Error! Reference source not found.** in Annex 2).

There is a major inconsistency in income support for people whose earnings are affected by an HCD, depending on the cause. If loss of earnings is a result of an accident (from whatever cause) or a work-related injury, people are entitled to income from accident

[11] The Health Promotion Agency's (HPA) 2020 report *Mental Distress and Discrimination in Aotearoa New Zealand* said of the fifth of respondents who experienced mental distress, 16% reported they had experienced discrimination in the insurance market.

compensation, at a rate of 80% of prior earnings with no restrictions on eligibility based on household circumstances, and co-ordinated support to return to work.

If loss of earnings is a result of an HCD that is not caused by the individual's work, accident compensation does not apply, and the individual must seek support through the benefit system (with lower rates and potential restrictions on eligibility) or private resources.

… and many have limited scope to adjust their spending

Another common response to loss of earnings is to adjust household expenditure – for example, by reducing discretionary spending such as entertainment or substituting home production (eg preparing meals at home rather than eating out). Some work-related expenses such as transport or childcare may be eliminated.

Households differ considerably in their scope adjust expenditure, primarily according to how much of their expenditure is not discretionary, such as food, utility bills and medical costs. Of particular concern is housing costs (mortgages and rents) which are high in New Zealand compared to many other developed countries.[12]

Additionally, having an HCD tends to increase costs e.g. having to pay for treatment, pharmaceuticals, transport to and from treatment.

How large is the problem of involuntary job loss and who is affected?

While most workers and employers benefit from a flexible labour market and dynamic economy, people who bear its cost each year in the form of involuntary job losses go largely uncompensated and can suffer serious consequences.

Involuntary job loss through economic displacement and health-related causes is a consistent feature of the labour market. Statistics New Zealand's Linked Employer-Employee Data (LEED) suggest that job creation (by new firms and existing firms expanding) and job destruction (from firm closures and downsizing) per quarter typically average 6-8% of total filled jobs, 140,000 to 190,000 (and this does not take account of job re-allocation within firms).

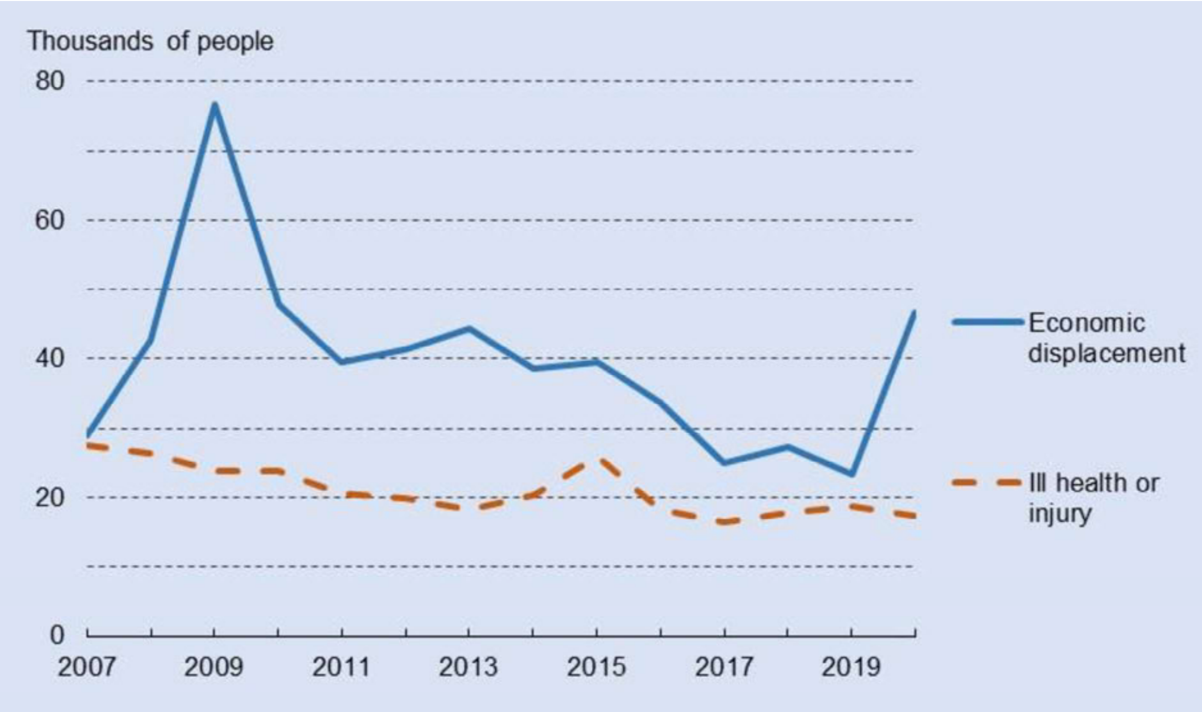
HLFS data understates the level of displacement, but is a good indicator of trends, and the population affected.

HLFS data suggest that an average of about 40,000 people lose their jobs due to displacement, and 20,000 people lose their jobs to HCD each year but undercounts the actual level of job loss, as it does not identify people who are displaced and then re-employed within the same three month survey quarter; nor does it identify people who have more than one job and are displaced from one but not all of them. The data also does not count people with HCD who remain in employment but reduce their hours or take extended leave from work.

12 OECD (2022) estimates that in 2019, expenditure on housing and maintenance in New Zealand averaged 25% of household disposable income, compared to an OECD average of 18%. Subsequent increases in house prices suggest that this difference is likely to be greater.

The figure below shows that rates of displacement rise and fall with the economic cycle. In 2009, during the Global Financial Crisis, the HLFS indicated around 77,000 people were displaced and not re-employed quickly. This dropped progressively with the subsequent improvement in the labour market, to about 23,000 in 2019, before rising again in 2020 to around 47,000 because of the COVID-19 pandemic and lockdown.

Figure 3: Estimated number of job losses due to displacement and health conditions or injuries, 2007–2020



Source: Ministry of Business, Innovation and Employment; using data from Statistics New Zealand's Household Labour Force Survey (HLFS)

People who experience displacement are disproportionately:

- Māori
- young (15 to 24 years)
- earning low incomes in their previous job
- in couple households, both with and without dependent children.

(See *Annex 2: Further information*

Economic displacement for supporting information.)

People who experience HCD related job loss are disproportionately:

- older - aged 55 to 64 years and 65+ years
- Māori
- earning low incomes in their previous job (from HLFS data, we infer that a high proportion were in part-time work and may have reduced their hours prior to leaving; especially for progressive rather than acute and unexpected HCDs)
- are most likely to be in couple households, both with and without dependent children.

The older age profile is largely a result of physical conditions that worsen with age, and the onset of diseases that are more common among older people; and is consistent with other jurisdictions. However, in the past decade an increase has occurred in younger workers, especially those aged 15 to 24 and 35 to 44 years, with a high prevalence of mental health conditions (in this country and abroad).

Figure suggests that the numbers leaving work for health-related reasons do not vary across the economic cycle (compared to the highly pro-cyclical pattern in the numbers losing jobs because of displacement). However, evidence suggests that job loss for workers with HCDs are still to some extent pro-cyclical. For example, people with HCD are vulnerable to job loss and will find it more difficult to secure alternative employment in recessions (OECD 2010). Numbers receiving a JS-HCD typically increase in economic downturns.

(See *Employment of people with health conditions and disabilities* for supporting information.)

Job and incomes losses can have serious effects on individuals …

The consequences of job loss for individuals can be negative and serious, with:

- a sudden, substantial drop in income that can be difficult to adjust to in the short term
- negative physical and mental health outcomes, especially where loss of work is prolonged
- accepting replacement jobs with poorer wages and/or conditions.

Falls in earnings can result in hardship among affected households, especially when lost income exceeds the ‘discretionary’ share of household budgets. This can apply in low-income households where virtually all income is required for basic living expenses, and higher income households with significant financial commitments (especially housing).

> *Displaced workers and their families who receive little or no unemployment payments experience a sharp loss in income, which can make meeting living expenses difficult, especially in a country where housing costs are so high* (OECD 2022).

The risk of hardship can also result in significant negative emotional states among household members, whether or not hardship eventuates – what is known as ‘*financial stress*’ (Smith and Davies 2020). Hardship is linked to worse physical and mental health, especially where prolonged. There is a strong link between income and health. Less income is linked to poor health outcomes and higher income is linked to better health outcomes.

The impact of involuntary job loss on incomes is known as '*wage scarring*', and is estimated by comparing incomes before and after involuntary job loss. This includes both income lost by workers while unemployed, and lower wages when they are re-employed.

How do these problems influence workers' behaviours and outcomes?

The lack of support and protections creates different incentives for workers when faced with a job loss.

For displaced workers, the primary incentive is to secure another job quickly, even if the new job has inferior wages and conditions to the prior one.

In most jurisdictions there are forms of income protection that provide relatively high replacement incomes after involuntary job loss. The absence of this in New Zealand (compared to other developed countries) and the limited coverage of the welfare system means that the immediate income loss after separation is substantial; hence, job search is short, return to work is prompt, but wage scarring is pronounced.

> *Re-employment rates in New Zealand are high compared with many OECD countries and seem to be little affected by the business cycle. … wage effects* [scarring] *tend to be stronger in New Zealand than in other OECD countries* (OECD 2017a).

Many displaced New Zealand workers experience significant long-term wage scarring. Hyslop and Townsend (2017) found that displaced workers who regained employment had 25% lower earnings in the first year after job loss (compared to equivalent workers who do not lose their jobs), and about 15% lower earnings five years later.

Hyslop and Townsend (*ibid*) also estimated reductions in employment and increased benefit receipt for displaced workers, indicating significant negative outcomes one year after displacement that diminish but still persist until the fifth year, and are most pronounced for older (50+) workers. Typically, about half the people who do not secure re-employment are in receipt of a benefit.

A subsequent study, Hyslop *et al* (2021), estimates of the net-present value of wages lost (over multiple years) as a result of displacement is $3.3 billion (in a year of economic upswing). The impacts are greater when there is a severe downturn; not only are more workers displaced but (unsurprisingly) they take longer to get another job and their loss of income on re-employment is larger, up to $15.4 billion in a very severe economic downswing.

Workers with HCDs who experience partial or full loss of work capacity may also face significant drops in income, and this can lead to problematic trade-offs between treatment and income. For example, some people may continue to work with an existing HCD (even if the job is making their HCD worse), or return to work prematurely after the onset of an acute condition, because they cannot afford enough unpaid time away from their jobs for full treatment and recovery. In the worst-case scenario, failure to get treatment can result in an HCD deteriorating to the point that the worker loses their current job and finds it difficult or impossible to get another.

These people may find it more difficult to return to previous jobs or find new work because of barriers such as inaccessibility of workplaces, additional work-related costs to offset their HCD, lack of support, and employers' perceptions about their ability to do the job.

Wage scarring resulting from HCDs can be comparable to that experienced by economically displaced workers. There is considerable international evidence of income loss associated with HCDs, both for people who remain in the labour market and for those who leave it (OECD 2010).

Blakely *et al* (2021) estimated income loss resulting from 14 aggregated and 40 disaggregated diseases or conditions across the full population of 25- to 64-year-olds in New Zealand from 2006-07 to 2015-16. They estimated a combined annual income loss from all diseases of US $2.72 billion or 4.3% of total income.

Dixon (2015) examined the impact of eight chronic or acute health conditions on the employment and incomes of working-aged New Zealanders who developed them, and found (for six of eight conditions), significantly lower rates of employment, earnings losses and benefit receipt.

The majority of people experiencing most types of HCD are able to remain in or return to work, albeit often with lower earnings. Notable exceptions where income losses are more pronounced – primarily because of exit from employment – are for conditions such as dementia, some types of cancer and traumatic brain injury.

Work also has an important therapeutic quality. Not only can an HCD affect work capacity; there is considerable evidence confirming the benefits of work to health and well-being (Waddell and Burton 2006). This means that changes in health and employment status can be mutually reinforcing; depending on individual circumstances, continuing to work can support stable or improved health, and loss of work can worsen an HCD.

The transitions people with HCDs face are more complex than the (essentially linear) pathways of displaced people. The starting point may include situations where the person is working at 'full' capacity, as well as situations where they are already working at reduced capacity because of their HCD[13].

Outcomes after some 'triggering' event can range on a continuum from:

- people who are able to recover and return to work at full capacity (albeit possibly with some wage scarring and loss of savings – see below)
- people whose HCDs (especially serious and terminal illnesses) are so severe that they are unable to return to work, and leave the labour market.

In between these groups are people whose recovery may be partial and who still have some job prospects, but inferior to what they had prior to the triggering event. Their outcomes might include remaining in their existing job with some adjustments to hours or duties

13 As noted elsewhere, data from the HLFS suggests that many people with disabilities work part-time; this may reflect challenges they face sustaining full-time work rather than preferences for working fewer hours.

(eg moving from a manual to a non-manual role), or leaving the current job and finding an alternative one. Some of these people currently leave the labour market, but with suitable support may be able to remain in some form of employment.

... and impact the wider economy

Negative effects on individuals may have wider social consequences.

Productivity losses from poor job matching

A concern with wage scarring is that short-term income losses (and potential depletion of savings) incentivise a short period of job search, which may result in people accepting employment which does not fully use their skills. This would also suggest that their and society's productivity may be lower than could be achieved with a longer job search and better matching of skills and jobs.

Productivity losses from poor health outcomes

Poor health may have significant productivity impacts when people are unable to work, or work fewer hours or less intensively or at jobs using few of their skills, compared to what they could do if they were healthy. Mitchell and Bates (2011) and Zhang *et al* (2001) identify two causes of lost productivity; absences from work; and 'presenteeism', where workers are physically at work but performing at a low level for health-related reasons.

The productivity impacts arise from flow-on effects of individual absences and presenteeism, to impacts on the business such as on team performance or time-sensitive outputs.

Mitchell and Bates (2011) estimated annual costs in lost productivity per employee, compared to similar employees without the condition for the US. Costs varied between US$15 and US$1,601 depending on the condition (high cholesterol and cancer respectively), with annual costs of nearly US$3.8 million per 10,000 employees, in addition to medical costs.

SCHI/BNZ (2021) report that in this country in 2021, the median cost to the employer is $722 per absent employee per year, and the direct costs to the economy of absences totalled $1.85 billion.

Risk aversion

Negative consequences of displacement may result in personal and business decisions and social attitudes that run counter to an adaptive and resilient labour market.

Acemoglu and Shimer (1999) suggest that without suitable income protection, risk-averse workers will truncate job search when they lose their jobs and take low-risk, low-paid jobs; employers will respond by offering such jobs; low wages will bias investment decisions towards labour-intensive production; and the economy will settle in a 'low skill equilibrium' (Redding 1996).

In a broader context, an adaptable labour market requires an ability for businesses to recruit, shed and redeploy workers quickly. This adaptability offers significant benefits for society, in promoting movement of workers from low- to high-productivity jobs.

Negative attitudes to risk are understandable but may work against the adaptability and resilience needed in a dynamic economy.

Pro-cyclical macro-economic effects

One consequence of displacement and the resulting income losses is reduced consumption expenditure by displaced people, which has a dampening effect on economic activity and employment. As displacement is most pronounced during recessions, and lower-income people who are most likely to be displaced spend most of their earnings, this effect reinforces the underlying negative trend.

This dampening effect can be observed at the national level, or at the local level when downsizing or closure of major employers can cause major downturns in local economies (eg closures of freezing works).

Impacts on wages, employment and production

One feature of the status quo is that, because displaced workers undertake relatively short job searches and accept job offers quickly (even at wages lower than in prior jobs), employers are able to recruit relatively speedily, and this in turn minimises production losses that could result from unfilled vacancies. Workers bargaining power is also affected in this regard.

The aggregate effect of displaced workers accepting jobs with lower wages than in prior jobs is a downward pressure on wages, coupled with the generally reduced bargaining power may in turn result in higher employment and output, but lower wages and productivity.

There are also major impacts on equity

Current income protection arrangements have a number of equity implications:

- *equity across the economy* (with regard to displaced people) - many of the costs of displacement fall on the relatively small group of people who lose their jobs, a proportion of whom experience long-term income losses; notwithstanding wider benefits that are derived by businesses and the economy from structural change.

  > *Re-allocation of workers from declining firms and sectors to growing firms can contribute to economic dynamism and growth. However, the costs can be high for the affected workers …* (OECD 2017a)

- *vertical equity* – how the costs (levy payments) and benefits (income received) are distributed among workers with different incomes; and how this might change under a NZII.
- *horizontal equity* – how people in different but ‘comparable’ situations are treated. The most prominent example of inconsistency here relates to people who lose their job because of an HCD, who rely on benefits for income support, with relatively low payments and eligibility restrictions; unless their HCD is directly work-related or the

result of an accident, in which case they receive income-related compensation through ACC, which is explicitly tied to prior income with few eligibility restrictions.

Other inconsistencies can result from benefit rules and rates that are based on household circumstances: 'similar' workers who lose their jobs involuntarily may receive very different levels of support from the benefit system depending on family circumstances, ranging from near-full replacement income to none at all.

Some populations are disproportionately affected.

Māori and Pacific peoples, (and some segments of ethnic communities) are particularly exposed to greater risks of job loss due to displacement or a health condition or disability compared to other groups, and are least likely to have income protection or savings being in lower earning jobs.

Young people (especially aged 15 to 24 years) are more likely to be displaced than older workers, but older workers (aged 55 to 64 years and 65 years and older) who are displaced tend to experience longer periods of joblessness and wage scarring. Older workers are more likely to leave work due to a health condition or disability.

Disabled people and people with health conditions with conditions not covered by ACC, that can be comparatively incapacitating, face inequities in the support received. This is particularly pronounced for people with mental health or musculoskeletal disorders.

People in couple households, both with and without dependent children, given these people are less likely to be able to access welfare benefits if their partner is earning.

What objectives are sought in relation to the policy problem?

Drawing on the above problem definition, the following policy objectives are proposed.

1. **maintain living standards of workers and their families and whānau in the period after job loss**
   a. *reduce direct immediate impacts of economic displacement and health-related job losses* including short-term income losses and resulting effects on individual, family, whānau and community well-being
2. **support workers back to good jobs and other sustainable outcomes**
   a. *support re-employment of economically-displaced people in jobs with comparable wages and conditions to their previous ones*
   b. *support employment of people with HCDs to retain their current jobs, or find new jobs consistent with their skills and work capacity; or facilitate better planned exit from employment*
3. **support the economy to adjust more effectively to structural change, shocks or downturns**
   a. *reduce productivity losses from poor job matching*

b. *reduce costs of poor health outcomes,* including reduced work capacity for health-related reasons

c. *reduce economy-wide impacts of displacement,* including

- *risk aversion* (negative consequences and attitudes towards displacement may work against the adaptability needed in a dynamic economy)
- *cyclical macro-economic effects*
- *impacts on employment and production.*

4. **improve equity**

    a. *across the economy* (resulting from displaced persons bearing a disproportionate share of the costs of job reallocation)

    b. *between people with different incomes*

    c. *between groups of people with comparable circumstances*

5. **ensure regulatory costs are proportionate to intended outcomes** including

    a. *administrative costs (to government)*

    b. *regulatory and compliance costs to businesses*

    c. *regulatory and compliance costs to workers*

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The primary criteria for assessing the proposed scheme will be its effectiveness in meeting each of the four objectives derived from the problem definition:

1. **Will the proposed scheme maintain living standards for workers and their families and whānau immediately after job loss?**
2. **Will the proposed scheme support workers to retain work, or return back to good jobs and other sustainable outcomes?**
3. **Will the proposed scheme support the economy to adjust more rapidly to structural change, shocks or downturns?**
4. **Will the proposed scheme improve equity?**

The analysis against criteria 1 and 2 will give equal weighting to impacts on workers losing jobs because of displacement and HCDs. This reflects the fact that the objectives relate to short-and long-term outcomes for both groups of workers; and initial estimates of numbers of claimants (which are subject to considerable uncertainly) suggest similar numbers of each.

Across the four objectives, weighting will also be according to the level of confidence in available evidence. Without prejudging the analysis, we generally have most confidence in assessments against the first criteria, where the effects are direct and immediate; effects with a longer time horizon or wider diffusion across the economy are given less weight.

The overall assessment will then be considered against the final objective:

5. **What regulatory costs will result from the proposed scheme?**

This assessment will have elements of a cost benefit analysis, comparing intended/expected outcomes to costs; but as many of the outcomes cannot be quantified, the assessment will be qualitative.

What scope will options be considered within?

The analysis assesses the proposed NZII scheme against the status quo.

In early 2021 Ministers directed officials to focus their work on the development of an insurance-based model. An assessment of options to address the problems identified was undertaken in 2020, and is summarised in *Annex 1: Origins of the proposed NZII*.

What are the key elements of the proposal?

It is proposed to establish an income insurance scheme. The proposed details of the scheme are covered in RIS 2, but can be briefly summarised as follows:

Scheme coverage

The scheme would cover workers – permanent, casual and fixed term employees – who lose their job due to economic displacement, and any health condition or disability that significantly reduces work capacity (more than 50 percent), with health practitioners certifying incapacity.

Coverage would depend on a minimum period of contributions. Payments would be limited to New Zealand citizens and residents.

Scheme entitlements

Income insurance would replace up to 80 percent of lost incomes, up to a maximum of 80 percent of $136,544 (an indexed income cap), for up to six months, with limits for subsequent claims.

Employers would be required to provide four weeks notice of a redundancy, and pay the first four weeks of income replacement as a bridging payment.

Entitlements would generally be treated as income for tax purposes, welfare, and other transfers. Personal exertion earnings would reduce income insurance payments, after a threshold.

Case management would be provided to encourage and assist workers return to work.

If claimants have not found another job after six months, their NZII payments will cease and they may need to seek other income support through the welfare system.

Employer and claimant responsibilities

Employers would be required to provide four weeks notice of a redundancy and pay workers a ‘bridging payment’ of 80 percent of four weeks’ pay after job loss. Employers would be encouraged to help claimants return to work and to keep jobs open for them for the length of their claim.

Claimants would be obliged to search or prepare for work and risk suspension of payments for serious cases of non-compliance. Claimants with health conditions or disabilities would be obliged to participate in work capacity assessments and return-to-work support (such as rehabilitation activities, employment support) where appropriate.

Scheme delivery and funding

ACC would administer the scheme, handling claims and helping claimants return to good jobs where they need additional support. The scheme would provide case management services which link to existing services, including ALMPs and vocational rehabilitation, but

The scheme would cost approximately $4 7 billion per year from 2024/25, funded via a compulsory levy shared in equal part by employers and employees, with each contributing 1.39% of wages and salaries up to the income cap.

How many people will claim from the proposed scheme?

The scheme is expected to receive a higher number of claims than the number of job losses indicated by HLFS and LEED statistics. This is due to the undercount of short-duration job separations, and the possibility the scheme will create a number of behavioural changes:

- a greater willingness for employers to make people redundant; employers who are currently reluctant to lay workers off because of the potential hardships (even when layoffs make business sense) may be more willing to do so knowing that redundant workers have access to NZII replacement income (Hyslop *et al* 2021)
- a willingness to categorise dismissals for, eg, poor performance or misconduct, as 'redundancies'
- a greater willingness for employers to give staff with HCDs time off for treatment and recovery, as they are no longer liable for employees' wages – which is precisely the mechanism through which NZII would deliver better outcomes to these people.

To estimate claimant numbers and durations, we examined data from comparator schemes abroad (Massachusetts for displaced workers and Denmark for workers with HCDs), adjusted for differences in scheme design. From this we project:

- 112,300 people would be economically displaced and claim from the scheme[14] for an average of 4.9 months (including receiving the four weeks' bridging payment).
- 135,300 people would leave work (temporarily or permanently) for health-related reasons and draw replacement income for an average of 2.7 months.

This is for the year to June 2023, which is assumed to represent a 'normal' year (ie across the business cycle), with average numbers can be expected to rise in line with growth in employment.

The number of people who would be in receipt of replacement income at any given time[15] would be approximately 46,000 economically displaced people (1.5% of the labour force), and 30,000 people who left their jobs for health-related reasons (1.0% of the labour force).

The value of claims is based on combining the above parameters with an average annual income of $49,488 for people who are economically displaced, and $57,072 for people with an HCD. See the section *Assumptions for monetised benefits and costs* for a description of the sources and estimation of these figures.

14 The actual number of displaced people would be higher than this, as displaced workers who secure new jobs during their notice period would not claim replacement income.

15 calculated by multiplying the total number of people making claims by average duration divided by 12.

How does the proposed NZII compare to the status quo?

Our assessment of the proposed NZII compared to the status quo is summarised below.

Table 4: Summary of assessment against criteria

Criterion	Status quo	The proposed NZII
Will the proposed NZII maintain living standards for workers and their families and whānau immediately after losing jobs and incomes?	0	++ • Maintains living standards as it smooths incomes for a wider group of workers, many of whom have little income protection or savings; will relieve financial stress from an unknown but potentially significant number of households
Will the proposed NZII support workers to retain or return to good jobs and other sustainable outcomes?	0	+ • Moderate reductions in wages scarring, improvements in tenure, and therefore improvements in incomes for people displaced and with HCD • Risk for some that too longer job search reduces employment and wage outcomes due for instance to foregone income and skills atrophy while displaced
Will the proposed NZII support the economy to adjust more rapidly to structural change, shocks or downturns?	0	+ • Likely to moderately reduce economy-wide impacts of displacement during recessions • Better matching will contribute to improved labour productivity • However, small impact on labour supply, increases labour costs from increased reservation wage/bargaining position
Will the proposed NZII improve equity?	0	+ • Redistributes to displaced people and persons with HCDs by providing compensation for loss of work • redistributes income from higher- to lower-income workers with improvements for Māori, Pacific peoples • Partially addresses inequity between compensation for injury and non-injury caused ill-health • Levy may place financial stress on low income households
What regulatory costs will result from the proposed NZII?	0	-- • significant regulatory costs of paying levies, (on-going) • Moderate regulatory and compliance costs of notice and bridging payments, and retaining jobs for people with HCD (dependent on claims rates by employer) • minimal compliance costs to understand and build compliance requirements (one-off) and with paying levies (on-going) • minimal compliance costs associated with making a claim for displacement, moderate cost for HCD (eg. medical practitioner co-payments) • Moderate costs for other regulatory systems • Small fiscal offset from welfare and tax saving
OVERALL ASSESSMENT		++ • A significant and certain benefit of providing income protection, to a largely unprotected population.

	• Reduces financial stress, with consequent wellbeing and health benefits, and for some, improves job search, skills-match and wages. • Non-monetised benefits expected to be large, particularly the value of the scheme for automatically stabilising the economy in a recession, improved labour productivity and distributional considerations.

Assessment against criteria

1 Will the proposed NZII maintain living standards for workers and their families and whānau immediately after losing jobs and incomes?

This is relevant for both economically displaced workers who lose their jobs, and for workers with HCDs who take time away from work for treatment and rehabilitation, as well as those who lose their jobs.

The impacts of a worker's job loss and/or reduced earnings on household wellbeing are highly variable, because

- these workers provide a contribution to household income but not necessarily the only nor the major source
- the scope for households to adjust to reduced earnings and the ways that they can do it also varies considerably; a particular concern is the levels of discretionary vs non-discretionary expenditure, especially housing costs (in high-cost housing markets currently experienced in New Zealand).

The benefits of replacement income are in avoiding actual hardship for some households, and reducing financial stress, ie concerns about the risk of hardship, among a larger number of households.

Given the diversity of both groups of workers, and the greater diversity of households to which they belong, we do not have robust estimates of the number of households who might experience financial stress or hardship at present, and how many of them would be relieved of this risk through NZII. However, overall indications are that New Zealand households save less than households in many other OECD countries,[16] and a large proportion of households have limited savings to weather even a short period of joblessness.[17]

We conclude that this impact will be clearly positive.

[16] OECD Factbook 2010: Economic, Environmental and Social Statistics, p. 45.

[17] A recent survey indicates that 39% of New Zealanders don't have emergency savings to fall back on. Around 20% would be able to cover their living expenses for just one week or less if they lost their job. Around 7% could rely on their current savings for three months, and 5% could survive for six to 12 months if they fell out of work. Refer

2 Will the proposed NZII support workers back to good jobs and other sustainable outcomes?

In New Zealand re-employment is reasonably rapid for a significant proportion of people, with 33% unemployed for less than three months and a further 25% for between three and six months[18]. At the same time New Zealand workers tends to experience comparatively higher levels of wage scarring from unemployment than workers in other countries.[19]

With the introduction of a SUI scheme, it is likely that people made redundant will take more time to search for a job. International evidence unequivocally suggests that *more readily available and generous unemployment insurance results in an extended period of job search* (Tatsiramos and van Ours 2014, Kyyrä *et al* 2017).

However, the evidence suggests that extended job search can both contribute as well as detract from post displacement labour market outcomes such as wages and tenure. The introduction of generous unemployment insurance can give rise to two opposing incentives that may drive extended job search (Chetty 2008):

- *moral hazard*: the availability of replacement insurance incentivises displaced workers to take an 'unnecessarily' long time to secure another job, which may be little or no better than what would be found with shorter job search periods.
- *credit-constrained workers:* displaced workers lack savings or access to credit to sustain consumption during any extended period of unemployment (a market failure), so will shorten their job search and take jobs that do not fully utilise their skills. The availability of income insurance alleviates financial pressure to take the first job, and allows better job matches to be achieved.

Both effects can occur simultaneously across the population, with different people subject to different pressures (eg. credit constraint for instance will be more prominent in lower income populations with less savings). Some workers who would otherwise move straight to the next job could instead opt to take a break between jobs on the SUI scheme. This could help to improve job matches and limit wage scaring for some people.[20] However, other people are likely to spend longer periods of time unemployed, and obtain similar or even worse jobs than they otherwise would have.[21] The net effect is highly variable across studies, and may

[18] MBIE analysis from the HLFS. Note that this will understate re-employment rates as the data do not include people who lose their job and find a new one within the same survey period, ie less than three months.

[19] OECD (2017). Back to Work: New Zealand: Improving the Re-employment Prospects of Displaced Workers.

[20] Centeno M. (2004), The match quality gains from unemployment insurance, Journal of Human Resources, vol. 39(3), pp. 839-863; Nekoei, A. and Weber, A. (2017). Does Extending Unemployment Benefits Improve Job Quality? American Economic Review, Vol. 107, No. 2, February 2017; Ammar Farooq, Adriana D. Kugler & Umberto Muratori (2020). Do Unemployment Insurance Benefits Improve Match Quality? Evidence from Recent U.S. Recessions. NBER Working Paper 27574

[21] Card, D., Chetty, R., & Weber, A. (2007). The Spike at Benefit Exhaustion: Leaving the Unemployment System of Starting a New Job? The American Economic Review, 97(2), 113-118; Kory Kroft, Fabian Lange, Matthew J. Notowidigdo (2013). Duration Dependence and Labor Market Conditions: Evidence from a Field Experiment. The Quarterly Journal of Economics, Volume 128, Issue 3, August 2013, Pages 1123–1167.

be influenced by factors such as the business cycle context and the composition of workers displaced.

Chetty (2008) suggests that credit constraints explain approximately 60% of the extensions in job search and moral hazard the other 40%.

Some suggest the variability in the literature is due to the low power of most studies to detect effects *(*Schmieder, von Wachter, 2016), whereas others suggest that general equilibrium effects are likely to mute individual-level responses which makes any such effects difficult to discern (Kekre, 2021).

Recent evidence suggests however that a large change in income support can promote a reasonably large improvement in job match quality and post-displacement wages, as well as wages more generally by increasing worker bargaining power (Dahl and Knepper, 2022). This study found that a decrease in unemployment insurance generosity was associated with a large wage reduction composed of:

- lower match quality in the form of firm and occupational downgrading accounting for approximately 40% of the wage effect
- with the remainder due to a decline in either unobserved match quality or worker bargaining power.

Given the proposal is to introduce a new scheme where none currently exists (and is much more generous than the existing benefit system), and the low base from which New Zealand is starting (with relatively quick reemployment and high wage scarring) we expect the introduction of NZII to have positive longer term wage and employment impacts, at the upper range of international estimates.

In the proposed scheme and overseas equivalents, replacement income is complemented with case management to assist individual workers in their job search, monitoring of claimants' job search activities to ensure that they are meeting reasonable expectations about seeking work, and where necessary providing referral to appropriate available services – in effect, offsetting some of the risk of moral hazard.

Case management may be augmented with existing available ALMPs such as job search assistance and training programmes, intended to improve prospects for re-employment and/or earnings. However, there is no intention to implement new ALMPs funded through the NZII.

In commenting on the proposed NZII, OECD (2022) observed that.

> *… unemployment insurance design features such as short benefit duration, effective enforcement of activation requirements and diminishing replacement rates over time could increase the likelihood of better job matches. Should the scheme be implemented with a high replacement rate, it will be important to develop effective ALMPs to reduce the risk of increasing structural unemployment. … To be effective, ALMPs should be targeted at specific needs of jobseekers – for example, job search assistance for people who had been long-tenure employees prior to displacement, or*

training for people whose skills are at risk of atrophy or out-of-date in the current labour market.

We conclude there will be improvements in post displacement wages and tenure with the introduction of the proposed scheme; and that these benefits will be positive but small in line with the upper estimates of international evidence.

Supporting employment of people with HCDs in jobs consistent with their skills and health status; or facilitating orderly, dignified exit from employment

People with HCDs who are at risk of losing their jobs face diverse pathways and multiple possible end-states. This in turn means that there is a range of channels through which a NZII might affect outcomes, through the combination of replacement income, and employer obligations to facilitate their employment (where feasible).

For people with an HCD, NZII is intended to reduce adverse trade-offs between treatment and income that result from potential income losses. It is intended to support their continuing employment and attachment to the labour market, while also receiving suitable treatment and rehabilitation. For these people, better health outcomes are central to the achievement of better employment outcomes. The self-reinforcing connection between employment and better health (Waddell and Burton 2006*)* is fundamental here.

Supporting people with HCD to not leave work in the first place is the most effective strategy for mitigating against poor employment and wage outcomes.

NZII will support better outcomes for people confronting differing HCD issues in the following ways. It will enable people:

- who would otherwise leave their employment and the labour force, to remain in work at partial capacity
- who need time to recover to take time out and return to their job
- who need to move to different work more suited to their capacity (eg from a manual to non-manual job) to have financial security to make that change
- who need to stop working to do so in a dignified way (which may lead to better health outcomes).

However replacement income is not necessarily sufficient in its own right to achieve positive outcomes.

> *Overall, the evidence in this review shows that effective vocational rehabilitation depends on work-focused healthcare and accommodating workplaces. Both are necessary: they are inter-dependent and must be coordinated* (Waddell *et al* undated).

Similar conclusions are made, in respect of people suffering mental illnesses, in OECD (2018).

We conclude that the proposed scheme will result in a material improvement in employment outcomes for people with HCDs, primarily through enabling people to take time out to recover, while maintaining connection to their employment.

3 Will the proposed NZII support the economy to adjust more rapidly to structural change, shocks or downturns?

Smoothing economic cycles

One consequence of economic downturns is that reduced employment results in less consumption expenditure by households, and this can accentuate the downturn. Households may spend less because of actual job loss – ie families of displaced persons – or on a precautionary basis, if they are concerned about potential job loss.

A key offset to this is the operation of *automatic stabilisers*. Maravalle and Rawdanowicv (2020a) describe these as:

> *… spontaneous changes in government spending and revenues that help stabilise the economy after negative and positive shocks without any discretionary policy intervention. Examples of automatic stabilisers include rising unemployment benefits when unemployment increases or falling direct taxes on households when wages decline.*

They are described 'automatic' because they come into effect when required (during the trough of a recession) and wind down when growth resumes, without the risks of discretionary fiscal measures that can provide economic stimulus at the wrong time, ie after economic growth has resumed.

The effectiveness of automatic stabilisers in this country is close to the OECD average (Price and Botev 2015). However, we would expect payments to unemployed people to be a relatively weak stabiliser in New Zealand at present, given the absence of unemployment insurance (compared to almost all other OECD countries) and the restricted eligibility and low value of benefits.

Maravalle and Rawdanowicv (2020b) suggest that options to improve automatic stabilisers include improving unemployment payments (in countries with weaker unemployment support) through higher rates, longer duration and limited-term payments for reduced working hours.

This impact was also highlighted in OECD (2022) in its discussion of the possibility of introducing income insurance:

> *A social insurance scheme would also be likely to improve the resilience of New Zealand's economy and job market to shocks by bolstering automatic stabilisers, especially given that such schemes typically have strong fiscal multiplier effects. ... The impact of such a scheme on automatic stabilisers would depend on its size, generosity and the responsiveness of financing sources (levies, contributions or taxes) and redundancy payments to a downturn.*

The proposed New Zealand scheme seems fully in line with these findings; the impact of introducing unemployment insurance will be to strengthen the automatic stabilisers and thus reduce the severity of future downturns.

The main qualification to this is that positive effects will be partly offset by the introduction of the levy. The effectiveness of automatic stabilisers is partly a function of the progressivity of the personal tax system (Maravalle and Rawdanowicv 2020b), and this progressivity is slightly reduced by the flat rate for the NZII levy.

In the consultation document, the possibility was raised that entitlements and eligibility could be extended in times of crisis (such as the current COVID-19 pandemic), with the Government expected to fund the changes and/or act as a lender-of-last-resort.

There are precedents for this provision in other countries' unemployment insurance schemes, on an ad-hoc discretionary basis or through pre-ordained triggers such as unemployment exceeding a legislated threshold. For example, in response to the GFC, the US extended eligibility for receipt of unemployment insurance from 26 to 99 weeks.

This is one of the enhancements to automatic stabilisers proposed by Maravalle and Rawdanowicv (2020b), with a preference for automatic triggers – for example, in Canada conditions, duration and amounts of payments are mandated to vary according the local unemployment rate.

We conclude that strengthening the effectiveness of the automatic stabilisers is a clear benefit of the proposed scheme.

Productivity benefits

Introducing a scheme could have additional benefits for productivity.

For displaced people, longer job search may result in better job matching, and from there, better skill utilisation and higher productivity.

Standard search models predict that more generous benefits will increase match quality and worker bargaining power by affording individuals more time to find a job and generate competing offers (Acemoglu and Shimer 1999; Chetty 2008). These effects would in turn flow through to improved productivity by reducing the number of people filling jobs for which their skills are poorly matched (Rujiwattanapong 2018), and by higher wage and productivity jobs being preferentially filled. A second order effect is that by increasing wage pressure, businesses will be incentivised to invest in labour-saving capital, resulting in productivity improvements.

New Zealand tends to have greater levels of mismatch than other countries (Adalet McGowan and Andrews, 2017; OECD, 2017b), but evidence of the cause is limited. Some suggest that poor labour mobility due to high housing costs is a prominent cause (Adalet McGowan and Andrews, 2015). However, a recent study highlights the critical relationship between skills and industry growth, particularly for knowledge industries (Haini and Tan, 2022). While the scheme is unlikely to directly affect the housing market, it is expected to positively affect productivity through job reallocation and bargaining channels.

Poor health can diminish productivity through worker absences and presenteeism, with flow-on effects to the business such as impacts on team performance or time-sensitive outputs. Therefore it is axiomatic that improving health, through recovery and better management of long-term HCDs, should reduce long-term absences and presenteeism, which will improve productivity.

We consider the proposed scheme could have moderate positive impact on productivity but this effect is uncertain.

Negative impacts on employment and production

The introduction of a NZII may reduce employment growth, by:

- increasing rates of displacement, if the availability of replacement income makes employers more willing to lay people off
- increasing the duration of unemployment by allowing workers to substitute leisure for work without enduring a steep loss in income (Gruber 2007).

A second impact on production may arise from an increase in labour costs. Initially employers will face an increase of 1.21% on their current wage bills. This increase in labour costs could result in reduced employment growth and production (Kyyrä et al 2017).

A third impact is through the effect on labour supply. The worker's component of the levy, 1.39% of taxable earnings up to $136,544 p.a., will reduce take home pay, and for some workers this may result in their leaving employment or reducing hours worked.

However, existing literature has generally not found sizeable employment responses to changes in unemployment insurance benefits.[22] Some studies suggest that general equilibrium effects mute individual-level responses. For instance negative labour supply effects will be offset to an extent by unemployed people who have recently entered the labour market being prepared to fill vacancies left open by people in receipt of unemployment insurance (eg school leavers, people returning from caregiving - a group that has historically been responsible for larger inflows into unemployment than people who had previously been employed). An increase in benefits could also exert upward pressure on aggregate demand since job seekers are also consumers (Kekre, 2021).

We conclude that there will be a small net negative impact on employment.

[22] Boone et al. (2021); Chodorow-Reich et al. (2019); Dieterle et al. (2020) find no effect on employment, whereas Hagedorn et al. (2015) document negative effects.

4 Will the proposed NZII improve equity?

Across the economy

The scheme will substantially improve across-economy equity.

The core concern is that, if displacement is a result of economic dynamism and structural economic change which benefits businesses and the wider community, a disproportionate share of the costs of this change falls on a small group of displaced persons.

> *Re-allocation of workers from declining firms and sectors to growing firms can contribute to economic dynamism and growth. However, the costs can be high for the affected workers and the New Zealand Government has to consider how income support institutions, active employment measures and training programmes can help displaced workers to maintain their job quality and living standards.* (OECD 2017a).

Technological change is a prominent example of structural change with wider benefits. This point is emphasised by the New Zealand Productivity Commission (NZPC 2020):

> *The biggest opportunities available to New Zealand from technological change are higher household incomes and greater future wellbeing. Rather than treat technology as a threat, the country should embrace technology and take steps to encourage more adoption and diffusion, while looking after those adversely affected or less well equipped to adapt.*

Technological change is by no means the only one however; other sources include industries with excess capacity, or firms in declining markets, or poorly-run businesses.

The combined effect of the NZII is to reallocate some of the costs of business and structural change, by compensating displaced workers (through replacement income) funded by levies on all eligible workers and businesses.

The proposed bridging payment may also improve the allocation of costs, by obliging employers to accept some of the costs of displacing workers.

Vertical equity

The proposed scheme will improve equity across the economy by compensating workers for job loss, recognising the efficiency gains job reallocation brings to businesses and workers over time.

Overall, taking account of both scheme payments and levies payable, the proposed scheme is likely to redistribute income from higher- to lower-income individuals and families.

Treasury modelling indicates that workers in lower income deciles will generally pay less in levies as a proportion of their incomes. This is because more of their income is leviable, whereas lower income families and individuals draw a greater proportion of income from non-levied sources such as core benefits or working for families. To illustrate:

- Of those in tax band <=$14,000, only those studying, aged <25, or identify as Pacific have a median levy above 1.00%

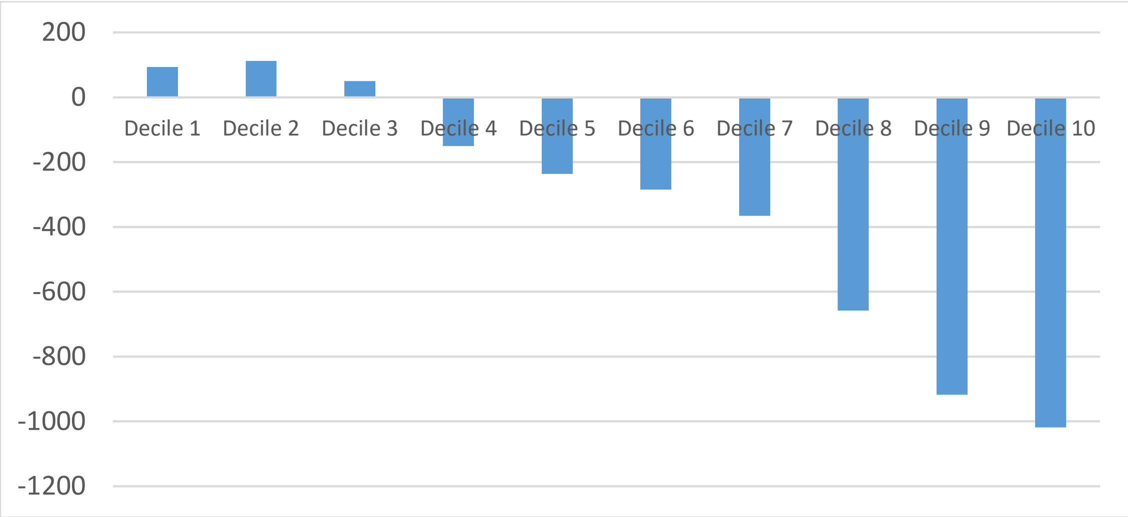
- Of those in tax band $14,001-$48,000, only those studying and aged <35 have a median levy above 0.80%.
- Within tax bands $48,000-$70,000 and $70,001-$180,000, most groups have a median levy of 1.38% corresponding to the levy payment setting.
- Of those in tax band $180,000+, the median levy 1.35% and suggests that taxable income other than wages and salaries is a significant contributor to this sub group.

HLFS data indicates that people with below-average earnings are more likely to experience involuntary job loss, so are more likely to receive replacement income. Therefore, low income workers are collectively expected to be net recipients from the scheme (i.e. to receive more in replacement income than they pay in levies) and average and high income earners to be net payers.

The following two charts use Treasury modelling to estimate distributional effects of the scheme taking account of levies paid and the likelihood of receiving entitlements from the scheme at the family level.[23] The charts show the average change in annual income for a family by income decile (decile 1 being the lowest earning families and decile 10 the highest). Figure 5 shows that families in the bottom income deciles will collectively benefit in terms of the amount paid in levies compared to the amount received in replacement income on average, whereas higher decile families will collectively pay more in levies than they receive in replacement income on average. Figure 4 shows that families in the bottom income deciles will collectively benefit in terms of the amount paid in levies and forgone earnings, compared to the amount received in replacement income, whereas higher decile families will collectively pay more in levies and foregone earnings, than they receive in replacement income on average.

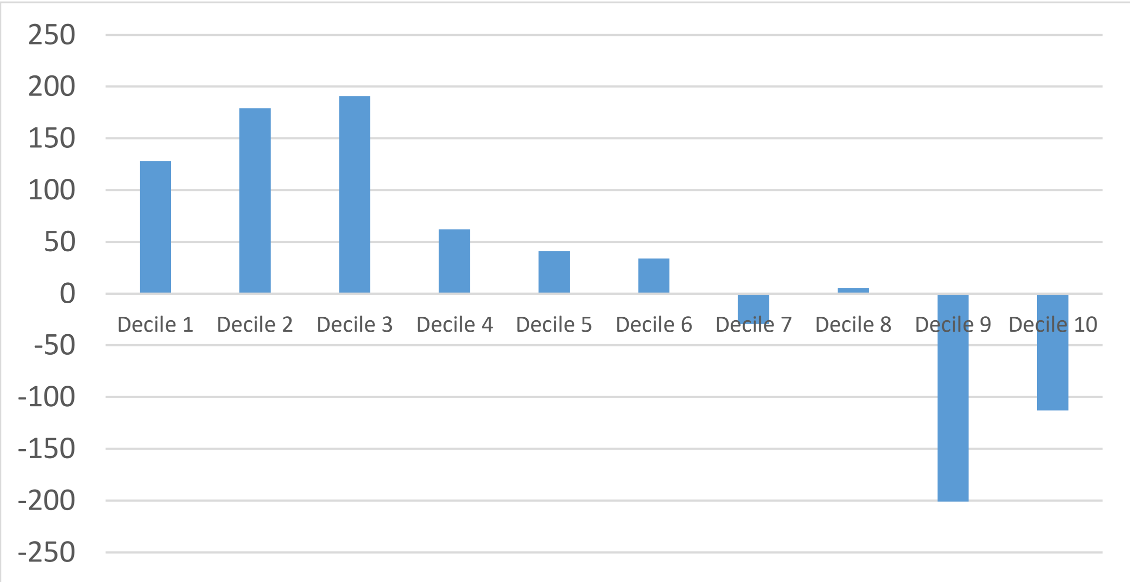
[23] While these estimates reflect our best assessment of the potential distributional effect of the policy given the data available and the assumptions made, they are highly uncertain. The policy entails a large change to the social security system in New Zealand and the proposed programme is materially different from existing programmes. Given the uncertainty around a) how many people are made redundant or stop working due to HCD or R each year and b) the extent of the behavioural changes that would occur, the modelling is subject to significant uncertainty. The modelling does not factor in the proposed scheme eligibility requirement that someone would have worked for six months in the previous 18 months, meaning the scale of income redistribution depicted may be overstated. Officials are however confident in the direction of effect, i.e. that the scheme will be to some degree redistributive from higher decile to lower decile families, and unlikely to be regressive.

Figure 4: Average change in disposable income by family income decile – displacement (baseline scenario)



Source: Treasury, November 2021

Figure 5: Average change in disposable income by family income decile - HCD



Source: Treasury, November 2021

Possible factors that would reduce redistribution to low income families include:

- the modelling assumed eligibility for the scheme is based on a minimum tenure in the job lost of 2-3 months, not on having an employment history of at least 6 out of the last 18 months. Those who don't meet this scheme criteria are more likely to be lower income earners.
- the behavioural response to the introduction of scheme was assumed to be the same irrespective of prior earnings level. If those in higher family income deciles are more likely to delay finding/starting a job than those in lower income deciles, higher income

families would benefit relatively more and lower income families would benefit less than indicated.

A concern that has been raised is that replacement rates from benefits for some low-income workers are already high following job loss. The existing welfare system already replaces some income for eligible families, with some low-income families receiving a higher replacement rate from the existing welfare system following displacement. However, this group will pay a levy, and there could be a perceived inequity that their NZII entitlement would not be significantly more generous than welfare.

Overall, eligibility for NZII entitlement will benefit eligible families, as they will receive more financial assistance than from welfare.

The following table sets out scenarios of example families to illustrate the relative gain from the status quo compared to having NZII in place. This tests 'income continuity' by comparing total family income pre- and post-displacement, for both the status quo (which includes partner income and welfare support, including all support under the Social Security Act and tax credits) and with the NZII scheme in place (which includes NZII, partner income, all support under the Social Security Act and tax credits).

Table 5: Impact of job loss on incomes of different types of family

Family circumstances				Income Continuity	
Composition	Income	Living situation		Status quo	With NZII
Single person	Earns $22 per hour, 40 hours per week	Living in Auckland paying rent of $380 per week.	Loses job	69.8% (-$249.53 per week)	90.0% (-$82.34 per week)
Dual income couple with two children	Both earn $22 per hour • principal earner works full time • other works part-time	Living in Auckland paying rent of $550 per week	The principal earner loses their job	83.7% (-$233.15 per week)	92.7% (-$105.24 per week)
Sole parent with two children	Earns $22 per hour, 30 hours per week	Living in Auckland paying $498 per week in rent	Loses job	80.3% (-$228.64 per week)	96.9% (-$36.19 per week)
Couple without children	Both earn $50 per hour, 40 hours per week.	Living in Wellington with a mortgage of $800 per week	One person loses their job	50.0% (-$1,459.02 per week)	92.7% (-$212.40 per week)

Source: MBIE calculations

Note: that income figures are after tax

Under the welfare system, replacement rates range from ~50-84%, compared to ~90-97% through NZII.

However, this will be funded through a levy which reduces take-home pay which will place additional financial stress on some households (especially but not only low-income households).

Horizontal equity

The question here is the extent to which people in 'comparable' employment situations are treated consistently.

The scheme does not involve any changes to the benefit system, so any inconsistencies within that system remain. What it does however is provide some people with assistance who currently do not have access to benefits because of eligibility criteria; and move some people from the benefit system to the more generous NZII, at least temporarily. A significant number of people (perhaps 25-30% of claimants drawing on existing data)

That said, there are people who become unemployed who will not benefit from NZII as their separation from a prior job was for other reasons, such as caring for family and whānau members, relocation, or performance issues.

With regard to people with HCDs, NZII narrows the current difference between people with an HCD that is directly work-related or the result of an accident (income-related compensation through ACC) and those from other causes (benefits or no support). There is a clear improvement for employed people with HCDs who need only short-term support (ie within the six month claim duration).

However, NZII makes only a modest improvement for people with serious HCDs who need support over a longer period and/or with suitable support services (of uncertain availability), or who will not be able to work at all. Effectively NZII only defers their moving to reliance on a benefit (if eligible) and the long-term income consequences. The introduction of the scheme could result in a shift of some claim types from AC scheme cover to NZII cover, which could be detrimental for those individuals and families concerned.

Nor does it have any impact on people with HCDs whose employment or contribution history makes them ineligible for NZII.

With regard to different types of employment, the proposed approach (as set out in the consultation document) is to set the boundaries of NZII to include some NSE workers, and self-employed people whose work resembles employment. The underlying principles are that NZII will cover 'loss of reasonably anticipated income', and have entitlements based on an 'established pattern of work'.

The consultation document acknowledged that detailed guidance will be developed to specify how these principles will be applied in practice.

We would conclude that in principle, coverage and entitlements are intended to be set as broadly as is administratively feasible, to minimise potential inconsistencies and inequities from excessively narrow boundaries to coverage. The practicalities of applying this principle have yet to be determined.

One significant exception to this consideration is that most temporary migrants (~8% of employees) will clearly be disadvantaged by the introduction of the scheme as they and their employers will be required to pay levy with no prospect of benefit.

Population impacts

Based on what we know about the characteristics of different populations within the labour force, we expect the scheme would have the following impacts on population groups.

Ethnicity

Māori and Pacific peoples (and some within ethnic communities) will likely benefit from the scheme given these groups face a greater risk of job loss due to displacement or an HCD.

For instance Māori (and to a lesser extent, Pacific peoples) are more likely to experience displacement than other ethnic groups. While 13% of employed people are Māori, they make up 21% of displaced people. Also, Māori have a comparatively high disability rate for a population with a relatively young age structure, and have a high susceptibility to disabling HCDs as they age; therefore the incidence of HCDs among Māori is expected to increase as the Māori population gets older.

The scheme should have a positive impact for Pacific peoples given the high concentrations of employment in occupations and industries that are subject to cyclical downturns and displacement, such as manufacturing (although this was not the case during the 2020 downturn). On average, pacific peoples' health status is often below other population groups, suggesting pacific peoples may be more likely to require time away from work for treatment and rehabilitation (or to lose their job for health-related reasons).

However, some within these groups will not benefit as much from the scheme as they are over-represented among working-age people in receipt of main benefits, so will make up a disproportionate share of people ineligible for NZII because they will not be able to build up contributions from employment.

Sex

Men are likely to benefit from redundancy support to a greater extent than women, based on having higher rates of employment in occupations and industries exposed to cyclical downturns and displacement.

However, displaced women in dual income households will benefit through replacement income in situations they would otherwise be ineligible for a benefit; and this is more likely than for displaced men in dual income households.

From the available data, there are no obvious differences in overall prevalence of HCDs[24] nor income loss between women and men, so no indication as to relative benefits.

Age

Young people (especially aged 15 to 24 years) are more likely to be displaced than older workers. For young people who are displaced (especially young Māori and Pacific people), six months replacement income could provide a pathway to gain additional skills and qualifications, with benefits to them and potential employers.

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24 although obviously, there are significant differences in prevalence of individual HCDs.

Older people (aged 55 to 64 years and 65 years and older) experience lower levels of displacement, but those who do lose a job tend to spend much longer periods of unemployment and larger wage scarring than other groups. However, given the fact that earnings tend to increase with age, they are also likely to receive relatively high replacement incomes if they are displaced.

The availability of NZII is also likely to incentivise people in older age groups to remain in the labour market, whereas many would retire in response to displacement under the status quo.

Older workers are more likely to claim for an HCD than younger people, largely because of the cumulative effects of progressive conditions (eg musculoskeletal degeneration), or diseases where onset is more prevalent at older ages (eg cardiovascular disease, some types of cancer). Therefore, they will disproportionately benefit from replacement incomes.

Over time, there are two opposing trends in the number of older people with HCDs. Firstly, older age groups are projected to increase relative to younger cohorts, in line with population aging. However, the impacts of age-related HCDs may be lower with better treatment and management of them (and fewer people, particularly men, working in manual jobs that aggravate many conditions).

Overall, the scheme will improve equity, particularly for low income households.

5 What regulatory costs will result from the proposed NZII?

The scheme will involve costs for:

- Government - upfront and ongoing policy and interface costs
- Employers (including Crown agencies) - ongoing levy costs, bridging payments, and upfront and ongoing compliance costs
- Employees - ongoing levy costs.

Administrative costs (to government)

Confidential advice to Government [redacted] There are some relatively minor ongoing expenditures by other agencies, of ~$3 million per annum, for interfaces with the scheme (eg data exchange), monitoring and policy advice.

There is an additional fiscal impact other than from levies and Crown-funded costs. There are positive fiscal impacts from reductions in benefits (as a result of people not needing to claim benefits because of eligibility for replacement income under a NZII, or deferring benefit receipt until their NZII eligibility has expired), and income tax receipts from personal income tax payable on replacement income. But there are also significant losses in income tax payable on businesses' profits, as employer levies and bridging payments are tax-deductible.

Officials estimate that the scheme will generate ~$235 million in savings for the Crown per year (~7% of the annual levy costs of NZII) from reduced welfare expenditure and changes in tax revenue. However, Crown agencies will face employer levies and bridging payments (in the case of redundancies), which are estimated to increase Crown payroll costs by up to

$450 million per year. Including these costs, it is likely that introducing the scheme will be a net cost for the Crown, of up to $215 million per year. Crown costs are included in the levy cost for employers discussed below. A breakdown of this is set out in the following table.

Table 6: Breakdown of additional fiscal savings and costs

Scheme function	Impact (borne by)	$m
Levy/Bridging costs	Employer tax deductions (Inland Revenue)	-361.0
	Employer net GST (Inland Revenue)	33.1
	Employee net GST (Inland Revenue)	145.9
Scheme pay-outs	Employee PAYE (Inland Revenue)	276
	Welfare offsets (MSD)	141
Fiscal offset/reduction		**235**
Crown costs as an employer		
Levy/Bridging payments (Crown)	Crown employer levy payable	-360.8
	Crown employer bridging payments	-89.3
Total fiscal impact including crown costs		**-215.1**

The establishment of NZII would introduce additional complexity and costs for other regulatory systems, as follows:

- Health - extra demand will arise due to the need for health practitioners to undertake work capacity assessments for workers seeking to access the scheme (either as additional appointments or appointment time). The proposed scheme may also surface unmet health needs, which will create additional pressure for services in a system already subject to significant constraints. Both of these factors will entail some degree of cost pressure for Vote Health funded subsidies paid to primary care providers, and the latter factor could create increased demand for publicly funded health services, leading to longer waiting times for non-urgent services
- Employment, education and training - Some people may need to access additional services to support their return to good work, eg vocational rehabilitation, career advice, job brokerage, access to subsidised on-the-job training, provided by MSD and TEC. This will be considered further as part of the review of ALMPs, which aims to understand the sufficiency of support for people including future scheme claimants
- Employment relations – the proposed statutory notice periods and bridging payments would be given effect through amendments to the Employment Relations Act 2000, and enforced by the labour inspectorate and Employment Relations Authority and Employment Court;

- Courts - unresolved disputes would be appealable to the District Court and from there to the High Court, which would require some additional Court capacity (intended to be funded from levy).

Scheme costs

The largest cost will be for the payment of scheme entitlements, ongoing scheme administration and in bridging payments payable by employers when making workers redundant (applying to all workers, not just those eligible for scheme entitlements).

The scheme is estimated to cost $4.7 billion in total levies from its first year of operation in the 2025/26 fiscal year (GST inclusive). The scheme cost figure has been updated from the figure at BEFU 2022 using projected wage growth from the figure used in the discussion document (which used 2019 wage data). This does not affect levy rates, as both the leviable income and cost of entitlement figures change and broadly cancel each other out.

The cost would be funded by compulsory levies of ~2.77% (incl. GST) paid in equal share by employers and employees of ~1.39% (incl. GST) on wages and salaries up to the wage/salary cap.

The estimated cost is subject to significant uncertainty, being reliant on significant assumptions as to the likely take-up and duration of scheme claims, the likely average income of claimants and behavioural responses, as discussed above in the section *How many people will claim from the proposed scheme?* From this we estimate the full year costs in the first year of the scheme will be as follows.

Table 7: Estimated total annual costs of NZII ($m, 2025/26 prices, excl GST)

	Claims		ACC Admin (% of claim $)	ACC Admin	ACC claims & costs	Bridging payments	Total
Displaced	1,903	}	9.50%	181	2,083	505	2,588
HCDs	1,830	}		174	2,004		2,004
Total	**3,732**			**355**	**4,087**	**505**	**4,592**

Scheme entitlement costs represent ~90% of the scheme cost. ACC's costs included in the analysis have been calculated as 9.5% of total claims values, however these could be as high as 12%. These costs are to be fully funded from levies, and are expected to increase in line with the number and value of claims, at the same rate as growth in the labour force (0.1-1.0% per annum over the next fifty years). One of the largest component of ACC's costs is in case management, and the number of case managers will be broadly proportional to the number of claims.

The below estimates assume that the final incidence of levies is the same as the initial incidence, ie equally shared between employers and workers. However, over time the incidence may change according to relative bargaining power. Workers with 'strong' bargaining power may be able to obtain wage increases to offset some of the levy impact on their net incomes, while workers in a weaker negotiating position may see wage increases erode over time as employers seek to recoup levy costs.

It is also important to note that levies and bridging costs will be tax deductible for businesses, as is the case for other employment costs such as ACC levies and wages.

The direct costs to businesses for 2025/26 are estimated to total $2,105 million, broken down as follows:

- levies estimated as $2,036 million to meet a 50% share of claims and ACC costs (excluding GST)
- $505 million for bridging payments
- tax deduction of $435 million.

These costs are expected to increase in line with growth in the labour force and wages.

Additionally there will be both upfront one off, and ongoing compliance costs for businesses, determined by the following factors(Evans 2008):

- *change* – how frequently is any given tax modified, and
- *complexity*, in terms of design, interpretation of legislation and practicalities such as record keeping requirements.

There will be one-off costs for businesses in setting up systems for collecting and forwarding levies, internally and for intermediaries providing payroll software and services (in the latter case, presumably passed onto the businesses that use their services).

Levy stability is intended to be legislated as a key scheme funding principle; an obligation for ACC and Government to manage in levy setting, which will help to minimise compliance cost associated with change.

With respect to complexity, virtually all businesses employing staff and subject to the NZII levy will already be collecting and forwarding accident compensation levies on payrolls. So NZII compliance costs are the increment to existing tax compliance costs, and will be minimal.

However, the scheme will impose moderate additional compliance costs on businesses with notification requirements for redundancies, and calculating and administering bridging payments.

With regard to employers of people with HCDs, the clear requirements for holding jobs open and accommodating workers' needs would provide more clarity than current requirements for medical terminations (derived from case law), which many employers – especially small and medium employers - will struggle to understand and apply. This clarity could reduce their costs (including potential costs of litigation and penalties if they misinterpret the law).

Compliance costs for taxation are generally regarded as regressive, as the costs relative to revenue are generally highest for small firms, and fall as firms get larger.

Financial and compliance costs to workers

The direct costs to workers for 2025/26 are levies estimated as $2,341 million (including GST)[25]. This equates to $2,036 million excluding GST, to meet a 50% share of claims and associated ACC costs, and is expected to increase in line with growth in the labour force.

Compliance costs to workers will result from the claims process, particularly for HCD claims as they are responsible for providing most of the information required, including costs of any requisite medical certification. It is intended to mitigate such costs on claimants by making the claims process accessible and of minimum compliance, such as through the use of information sharing arrangements (eg. earnings history would be provided by Inland Revenue based on taxable income). Compliance costs for claimants are likely to be minimal, however, costs of any requisite medical certification may present an access barrier to the scheme as they do for the AC scheme, and particularly affect low income earners, including Māori and Pacific peoples.

25 The net impact on businesses and workers differs because of differences in the treatment of GST on levies. GST on levies is a tax on inputs for businesses, which they are able to offset against GST payable on revenues; therefore, the impact on income (profitability) is the pre-GST amount.

In contrast, GST represents a tax on consumption for workers who are generally unable to offset GST against any other revenues; therefore, the impact on their incomes is the post-GST amounts.

What are the marginal costs and benefits of the option?

Analysis of the scheme monetised costs and benefits is subject to significant uncertainties. The analysis draws on an extensive international literature on social insurance schemes, however, there are two qualifications to the relevance of this literature to New Zealand:

- impacts of social insurance schemes are strongly affected by institutional context, including labour law, the wider social security system, and availability of supporting services (see below); all of which vary between jurisdictions
- all studies focus on the impact of changes to existing schemes, at the margin, and findings are likely to understate the impacts of the introduction of a new scheme.

Subject to these significant limitations, introducing the scheme is estimated to involve a Net Present Value (NPV) over 50 years of $351 billion (a ratio of 1:1.34).[26]

Non-monetised benefits, particularly the value of the scheme for automatically stabilising the economy in a recession, and distributional considerations, are expected to be amongst the largest benefits, but are unquantifiable. Equally, to the extent the scheme supports better skill-matching, better health and reduced absenteeism, and reallocation of workers to higher productivity jobs we expect to see improvements in labour productivity, but the scale of impact is uncertain.

The results have been presented in the following tables,

- impacts on affected groups (the standard RIS template)
- impacts on affected groups, distinguishing between displaced workers and those with HCDs

All values are Net Present Values (NPVs) in $ million in current (2021/22) prices, over a fifty-year time horizon, calculated using the Treasury's CABx tool. The assumptions used in estimating monetised benefits and costs are set out after the tables.

[26] This analysis uses the cost-benefit analysis framework set out in The Treasury (2015). Monetary benefits and costs have been estimated using the Treasury's CBAx tool to model potential impacts. Some impacts have been quantified using the '*Valuing Wellbeing Outcomes*' framework set out in Smith and Davies (2020), which places a value on a number of changes in life circumstances, and have been incorporated in the CBAx tool. The calculation uses a technique known as *subjective wellbeing valuation* which involves measuring the monetary value of wellbeing outcomes, by indirectly valuing these outcomes relative to the importance of income to wellbeing. Base data on positive and negative impacts of specific events on life satisfaction were collected by Statistics New Zealand through the New Zealand General Social Survey (NZGSS).

Table 8: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups			
Employers	Financial costs - levies net of GST plus bridging payments • *ongoing, increasing in line with growth of the labour force*	$529,000	Medium
	Compliance costs - calculating and forwarding levies, notice and bridging • *some initial costs but mostly ongoing* • *assumes NZII levy is aligned with ACC levy* • *notice and bridging payments*	Medium	High
Workers	Financial costs - levies including GST • *ongoing, increasing in line with growth of the labour force*	$516,000	Medium
	Compliance costs - lodging claims • *processes not yet designed, intention for user-friendly approach; HCD claims will involve medical assessment and therefore medical practitioner co-payments*	Low-medium	Low
Confidential advice to Government	[redacted] • [redacted]	[redacted]	[redacted]
	Interface between welfare, health, ACC and tax	Medium	Low
Wider community	Losses in employment and production • *effect of reductions in labour supply (through longer job search duration) and increased labour costs*	Low-Medium	Medium
	Total monetised costs	Confidenti	**LOW-MEDIUM**
	Total non-monetised costs	**LOW/MEDIUM**	**LOW**
Additional benefits of the preferred option compared to taking no action			
Regulated groups			
Employers	More certainty of process for employees with HCDs	Low	Low
Displaced workers	Receipt of replacement income for up to 30 weeks • *enables workers and their families and whānau to maintain living standards after*	$549,000	Low

	losing their jobs and while searching for new work		
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress for 60% of claimants*	$152,000	Low
	Reduced long-term wage scarring • *extended job search will enable 60% of claimants (26,667 people) to secure jobs with better wages and less wage scarring (10%)* • *for some people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain*	$37,000	Low
Workers with HCDs	Receipt of replacement income for up to six months • *enables workers and their families and whānau to maintain living standards while taking time away from current jobs for recovery and rehabilitation, or while searching for new work*	$418,000	Low
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress 60% of claimants to a small extent*	$101,000	Low
	Better long-term employment and health outcomes: • *some claimants will use replacement income to take time out from work for recovery and rehabilitation to achieve better outcomes* • *reinforced by requirements on employers to keep jobs open, accommodate different circumstances* • *for many people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain* • *some people may leave the labour force because of their HCD – enables considered and dignified exit, may support better health outcomes* • *benefits assume 30% of people have better mental health outcomes and 30% have better physical health outcomes*	$55,000	Low
	Reduced long-term wage scarring • *existing evidence of wage scarring and possibility of better employment/health outcomes implies some likelihood of this occurring*	$29,000	Low
Other government agencies	Fiscal offset • *changes to welfare payments and tax as a result of NZII levies and payments*	$55,000	Medium

Wider community	Better job matching results in higher productivity • *additional affects through bargaining and wage channels*	Low-Medium	Low
	Better health outcomes result in higher productivity • *reduced work absences and presenteeism among workers with HCDs in the long-term should improve their and employers' productivity*	Low	Low
	Smoothing consumption and economic cycles • *payments to displaced workers strengthen the 'automatic stabilisers' by enabling them to maintain consumption during recessions, offsetting downward economic pressures* • *well accepted argument* • *impacts likely to be significant but not feasible to estimate in advance*	High	Medium
	Total monetised benefits	**$1,396,000**	**LOW**
	Total non-monetised benefits	**MEDIUM/HIGH**	**LOW/MEDIUM**

Comparing costs and benefits, the surplus of benefits over costs is largely a result of the reductions in stress and improved health outcomes

Most non-monetised costs and benefits are considered to be low impact, except for the benefit of 'smoothing consumption and economic cycles' which is considered high impact. Therefore, non-monetised effects are net positive.

Most of these impacts are considered to have low certainty of evidence.

In the following table, we have reorganised the above table to compare the impacts on the two groups of workers (assumptions and comments omitted).

Table 9: Impacts of NZII on affected groups

Affected groups	Description &comment	Impact: Displaced workers	Impact: Workers with HCDs	
Additional costs of the preferred option compared to taking no action				
Employers	Financial costs - levies excl GST plus bridging payments	$298,000	$231,000	(1)
Workers	Financial costs - levies including GST	$263,000	$253,000	(2)
Crown	*Establishment costs (2021/22 to 2024/25) and ongoing costs*	~$275	~$275	(2)
				(2)
Total monetised costs		**$561,000**	**$484,000**	
Additional benefits of the preferred option compared to taking no action				
Workers	Receipt of replacement income for up to 30 weeks/six months plus bridging payments	$549,000	$417,000	
	Reduced short-term financial stress and hardship	$152,000	$101,000	
	Reduced long-term wage scarring	$37,000	$29,000	
Other government agencies	Better long-term employment and health outcomes		$55,000	
	Fiscal offset	$28,000	$27,000	(2)
Total monetised benefits		**$767,000**	**$630,000**	
Net benefits		**$206,000**	**$146,000**	
Benefit cost ratio		**1.37:1**	**1.30:1**	

Note: Common costs and benefits in the previous table have been allocated between the two groups as follows (numbering in right-hand column):

(1) shares of costs including bridging payments

(2) shares of costs excluding bridging payments.

Assumptions for monetised benefits and costs

The start date for the analysis is assumed to be 30 May 2022, and the timeframe is fifty years, to 2072. The vast majority of costs are generated when the scheme becomes operative in 2025.

There are 2,963,000 people projected to be in the labour force in 2023 (employed and unemployed people). This will increase by 1.0-0.8% per annum over the next ten years, then at much lower rates (0.6-0.1%) until 2073 (SNZ 2021a).

The number of people claiming from NZII in an 'average year' across the economic cycle is estimated at 247,600, of whom:

- 112,300 will be claiming due to economic displacement
- 135,300 will be claiming due to HCDs.

Estimates of the average duration of claims are:

- economic displacement - 4.9 months
- HCDs - 2.7 months.

Numbers of both types of claims will increase at the same rate as growth in the labour force.

Mean average annual wages in 2022 are assumed to be

- economic displacement - $58,462 – average annualised income (capped at $130,000) of all employees economically displaced (made redundant / laid off / business closed) from 2009 to 2018, projected to 2024. Sources: HLFS and Inland Revenue income data from the IDI[27], and the TAWA model.[28]
- HCDs - $67,421 – average annualised income (capped at $130,000) of all employees during 2018, projected to 2024. Source: IR income data from the IDI and the TAWA model.

These will increase by 1.0% per annum, based on the Treasury's 2021 Long-Term Fiscal Model[29].

Average claim numbers and durations is combined with average wages to calculate the total annual value of claims for each group.

75% of the labour force and their employers will be subject to earnings-based levies.

This analysis uses the orthodox cost-benefit analysis framework set out in The Treasury (2015. Monetary benefits and costs have estimated using the Treasury's CBAx tool to model potential impacts.

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27 The Integrated Data Infrastructure (IDI) is a large research database operated by Statistics New Zealand that holds microdata about people and households. See [Integrated Data Infrastructure | Stats NZ].

28 Tax and Welfare Analysis, TAWA, is the Treasury's micro-simulation model of the tax and welfare system, based on data from the IDI. See [Tax and Welfare Analysis (TAWA) Model (treasury.govt.nz)])

29 This growth rate used is median annual labour productivity growth, which is described as 'a proxy for real wage growth'. See

The Treasury (2021a) He Tirohanga Mokopuna 2021: The Treasury's combined Statement on the Long-term Fiscal Position and Long-term Insights Briefing [He Tirohanga Mokopuna 2021 (treasury.govt.nz)]

The Treasury (2021b) Demographic, Economic and Fiscal Assumptions and Logic in the 2021 Long-term Fiscal Model: Background Paper for the 2021 Statement on the Long-term Fiscal Position [Background Paper for the 2021 Statement on the Long-term Fiscal Position: Demographic, Economic and Fiscal Assumptions and Logic in the 2021 Long-term Fiscal Model - September 2021 (treasury.govt.nz)]

The Public Sector Discount Rate specified by the Treasury for projects of this type is 5% per annum. All costs and benefits are expressed in today's (2021/22) dollars.

Depreciation, capital charges, interest and other financing costs are excluded from the analysis.

Some impacts have been quantified using the '*Valuing Wellbeing Outcomes*' framework set out in Smith and Davies (2020), which places a value on a number of changes in life circumstances, and have been incorporated in the CBAx tool. The calculation uses a technique known as *subjective wellbeing valuation* which involves measuring the monetary value of wellbeing outcomes, by indirectly valuing these outcomes relative to the importance of income to wellbeing. Base data on positive and negative impacts of specific events on life satisfaction were collected by Statistics New Zealand through the New Zealand General Social Survey (NZGSS).

This analysis includes measures of:

- *financial stress*, defined as 'having a money shortage' and based on people reporting difficulties in paying bills; $15,060 per annum for every 1 point change in having a money shortage, on a scale of 0 to 2. International evidence shows that consumption smoothing is beneficial to wellbeing, particularly for those on low incomes.
- *mental health*: a value of $5,286 per annum for every 1 point improvement on a scale of 0-100
- *physical health*: a value of $1,329 per annum for every 1 point improvement on a scale of 0-100.

We assume that

- 60% of annualised displaced claimants (26,667 people) and 60% of HCD claimants (17,778 people) are credit constrained (refer Chetty, 2008) and will experience a 1 point reduction in financial stress;
- 30% of the HCD cohort (8,889 people) experience a 5% improvement in mental health
- 30% of the HCD cohort (8,889 people) experience a 5% improvement in physical health.

In addition, we assume that 60% of displaced workers achieve a modest reduction in wage scarring equivalent to 10% of their prior earnings, at the average for the cohort of $58,462. The small to moderate improvement across the entire displaced cohort appears consistent with the upper estimate of international evidence that finds positive effects from unemployment insurance, judged to be an appropriate assumption given New Zealand is coming from a low base with a new scheme.

We have applied the same assumptions to estimate the impacts on 60% of workers with HCDs achieving a reduction in wage scarring equivalent to 10% of their prior earnings, at the average for the cohort of $67,421. This is less certain due to the more limited international literature, but is judged reasonable on the basis that the scheme will support many people to retain employment, protecting their wage and tenure, compared to the status quo.

Sensitivity analysis

Both the costs and benefits are highly sensitive to assumptions. The largest driver of NPV costs are the levies payable under the scheme, followed by the scheme's establishment cost.

Neither the establishment nor the ongoing administration costs are expected to have material effect on the costs or net benefit.

The main cost factors which are most sensitive are claims rate/duration and average replacement payable. For instance a 10% change in:

- the average replacement wage level would result in a 9% increase in claims costs (the CBA could range between 1:1.27 to 1.41)
- average claims rates or duration could result in a 5% increase in claims costs (the CBA could range between 1:1.30 to 1.38).

The largest driver of benefits is the provision of income replacement for consumption smoothing (~74% of NPV benefits). The scheme is also expected to provide significant wellbeing and health benefits (~20% of NPV benefits), and a benefit of improved longer term income from enabling people to obtain better jobs than they would otherwise under the status quo (~5% of NPV benefits).

The main benefits which are sensitive are the reduced short-term financial stress & hardship, reduced long-term wage scarring, and better long-term employment & health outcomes. A 50% change in these components would affect the overall value proposition as follows:

- reduced short-term financial stress & hardship would change the net benefit by 8% (the CBA could range between 1:1.28 to 1.40)
- reduced long-term wage scarring would change the net benefit by 3% (the CBA could range between 1:1.32 to 1.36)
- better long-term employment & health outcomes would change the net benefit by 2% (the CBA could range between 1:1.32 to 1.36).

Consultation feedback

Business New Zealand and the NZCTU and the Government worked together to develop a public discussion document on the proposal.

Feedback was sought via public submissions, an online survey and targeted engagement with Māori/iwi and key stakeholders. MBIE received around 250 submissions, 2,000 survey responses and held around 50 targeted engagements. MBIE also engages regularly with Business New Zealand, the NZCTU and the Pou Tangata Skills and Employment Iwi Leaders Group on the proposed scheme.

Findings the from engagement show mixed views on the proposal. Just over a third of self-selected respondents to a survey supported the proposed scheme (34%), whereas 60% opposed the proposal. Submissions expressed the following views:

- some submitters consider the proposal should proceed since it would fill a significant gap in income replacement for people who lose their jobs. Targeted engagement suggested that support is strong from those who had experienced redundancy or job loss due to health conditions or disabilities
- another large group support the intent of the proposal but saw insurance as inequitable and favour alternative solutions, such as improving existing systems (welfare, Kiwisaver, redundancy payments),
- a number of employer groups opposed the scheme based on a view that it would impose a cost on businesses with little perceived benefit. Businesses were also concerned about the inclusion of health conditions and disabilities
- common across the engagement, irrespective of level of support, was concern about the impact of the levy on low-income workers, and the timing of the proposal, given the low unemployment rate and costs of living.

We consider that the proposed scheme will fill a significant gap in income replacement for people who lose their jobs. We further consider that the proposed scheme will:

- complement the welfare system's role in alleviating poverty and hardship for individuals and their families; enabling many to avoid needing the basic level of support provided by the welfare system.
- benefit businesses through improved skills matching across the labour market, and sustaining consumer demand through recessions, reducing the risk of business closures. The inclusion of health conditions and disabilities brings benefits to both individuals and businesses, as it will provide greater opportunities for HCDs to stay in work or successfully return to work, reducing staff churn and keeping experienced staff in businesses
- provide significant additional protection to low-income families over a longer time horizon which outweigh the cost; unemployment is currently low but this will not always be the case. Overall, taking account of both scheme payments and levies payable the scheme will redistribute income from higher- to lower-income families

Section 3: Delivering an option

How will the new arrangements be implemented?

It is proposed that the Accident Compensation Commission (ACC) will deliver NZII. This choice is discussed further in the second RIS.

Substantive legislation to govern the operation of the scheme is intended to be introduced in late 2022, and enacted in mid 2023. The scheme will take effect in mid 2025.

ACC will have three years to build the necessary scheme functions, many of which will leverage, replicate or build upon existing accident compensation scheme functions administered by ACC. These functions include levy management, claims lodgement, assessment and payments systems, information sharing and management systems and risk assurance.

Crown appropriations have been allocated to enable ACC to engage in activities necessary to build the scheme's architecture.

How will the new arrangements be monitored, evaluated, and reviewed?

Introducing income insurance represents a significant shift for New Zealand. A multi-layered approach to evaluation and monitoring will be required.

Ministers will provide oversight of the effectiveness of the policy, supported by Treasury and MBIE monitoring and policy functions.

The ACC Board will be responsible to ensure that the statutory functions of the scheme are discharged as effectively as possible by ACC, and be responsible in this regard to Ministers. Further detail on governance is set out in the second RIS.

Work to establish a performance and monitoring framework for the scheme will be carried out as part of the overall approach to establishing scheme governance. This will establish the baseline indicators that will be regularly reported on to understand the impact of the scheme.

An interagency group of research and evaluation experts is being established to consider and advise on the approach to evaluation. This will include contracting for an independent formative evaluation of scheme outcomes and effectiveness, which will inform ongoing reviews of the scheme and its policy settings over time.

Scheme levy rates are proposed to be periodically reviewed, on a three yearly basis, to ensure scheme funding is sustainable, economically efficient and reasonably stable. Levy setting will be governed by legislated principles and process requirements to ensure funding requirements are set in a transparent manner.

Annex 1: Origins of the proposed NZII

Examining options to support displaced (redundant) workers was one of the key recommendations in the Forum's 2019 Strategic Assessment, '*Theme Four: Helping workers find and keep decent jobs'*.

A Tripartite Unemployment Insurance Working Group, comprising officials from a range of agencies and representatives of the social partners, undertook to examine options on behalf of the Forum.

Options identified to address the problems identified initially included:

- widen access to personal savings by *enabling access to Kiwisaver funds*
- widen access to credit through *establishing a loan scheme for people made redundant (*similar to the student loan scheme)
- adjust the welfare system to *provide a time-limited individualised payment* (similar to COVID-Income Relief Payment)
- widen access to main benefits temporarily (ie disregarding partner income for six months
- *introduce statutory tenure-based redundancy provisions*, potentially with a collective financing scheme
- *introduce social unemployment insurance*.

The options were assessed against the following objectives and criteria:

- minimise the immediate financial shock of losing income and work, for workers and their families and whānau
- support workers back to good jobs, through a sufficiently-long duration for effective job search etc
- support the economy to adjust more rapidly to shocks or downturns.
- *coverage* - ensure as many people can be covered as possible
- *adequacy* - ensure a replacement income that is similar to lost wages and salaries, enabling people to adjust to changed circumstances
- *equity* - ensuring people are treated fairly and improving outcomes for the most disadvantaged
- *incentives* – encouraging people to return to good work
- *coherence* – ensuring alignment with other systems, including the tax and welfare system, and good employment practice.
- *affordability* – ensuring the costs are reasonable.

The Working Group concluded a social unemployment insurance scheme was the preferred option to reduce adverse financial impacts of spells of unemployment, and reduce wage scarring upon re-employment. A summary of the analysis behind that conclusion is included in the table on the following page.

In March 2021, Cabinet agreed to work with unions and business to design an income insurance scheme which would be the subject of public consultation[30].

The Minister of Finance signalled the Government's intention in the 2021 Budget speech:

> *At the urging of Business NZ and the Council of Trade Unions we have committed to the development of a Social Unemployment Insurance scheme. Many countries around the world have such a scheme. We are investigating an ACC-style scheme that would provide 80% of income for a fixed period of time, with minimum and maximum caps, linked to training opportunities. This proposal is being developed by a tripartite working group with Business NZ and the CTU, and public consultation will occur later in the year.*

The discussion document "*A New Zealand Income Insurance Scheme: a Discussion Document*" outlining the proposed scheme was released on 2 February 2022, with feedback accepted until 26 April.

30 Cabinet Minute CAB-21-MIN-0069 of 15 March 2021 *Social Unemployment Insurance: Approach to the Tripartite Forum*

Table 10: Assessment of options

Objectives & criteria	Enable access to KiwiSaver funds	Establish a loan scheme for people made redundant	Provide a time-limited individualised payment	Widen access to main benefits temporarily	Introduce statutory redundancy provisions	Introduce social unemployment insurance
Minimise immediate financial shocks	**0** Would address immediate shock, but leave workers more exposed to other shocks and possibly lower retirement income	**0** Would address immediate shock, but could leave workers worse off in the long term by making them more indebted	**+** Provides support for a broad range of people, especially those not eligible for a benefit	**+** Provides support for a broad range of people, especially in households not eligible for a benefit	**0** Impacts would vary widely by tenure Would benefit workers who aren't currently covered	**++** High replacement rates minimise income drops
Support workers back to good jobs	**0** Impacts would vary widely by KiwiSaver balances – little impact for people with limited earnings history	**+** Impacts could vary according to scheme rules and limits	**0** Low/flat rate means effects are mixed – strong incentives to return to work but only for some people	**+** Enables people in financially stressed households not eligible for a benefit to extend job searches	**-** Impacts would vary widely by tenure Some extension to job search, but not necessarily aligned with need	**+** Appropriate duration with high replacement rates enables extended job search, but also creates moral hazard risks of unnecessarily long job search
Support the economy to adjust more rapidly to shocks or downturns.	**+** Depends on willingness of affected people to withdraw savings from KiwiSaver – could have limited impact	**+** Depends on willingness of affected people to take out loans – could have limited impact	**+** Some improvement in consumption during downturns, no offsetting restraint on consumption during recoveries	**+** Some improvement in consumption during downturns, no offsetting restraint on consumption during recoveries	**0** Could exacerbate cashflow issues and insolvencies for struggling firms Could introduce restraint on hiring and firing	**++** Enables consumption at close to prior levels (depending on replacement rate) Offsetting restraint on consumption during recoveries
Coverage	**-** Impacts would vary widely by KiwiSaver balances	**0** Impacts could vary according to scheme rules and limits	**++** Individualisation widens eligibility	**+** Provides support for a broad range of people, especially in households not eligible for a benefit	**0** Would only apply to workers in 'standard' employment – impractical to extend further	**+** Depends on contribution rules and coverage for non-standard workers would reduce coverage
Adequacy	**-** Impacts would vary widely by KiwiSaver balances	**+** Individuals can determine levels of borrowing to provide 'adequate' support	**+** Depends on basis and level of payments	**+** Depends on basis and level of payments	**0** Would be paid at 100% of wages, but impacts would vary widely by tenure	**++** High replacement rates maximise smoothing effects
Equity	**- -** Low income people likely to have low KiwiSaver balances, increases financial risk, and may be unable to rebuild retirement savings	**-** Would leave lower income people more indebted and paying off redundancy debt could lower saving for retirement	**+** Provides support for a broad range of people, especially in households not eligible for a benefit	**+** Provides support for a broad range of people, especially in households not eligible for a benefit	**0** No relationship between tenure-based payment, post-redundancies needs and re-employment prospects	**0** Imposes additional costs through levy payments, and insurance may be little higher than welfare payments)

+ or ++ effective

0 mixed

- or -- ineffective

Table 10 (continued): Assessment of options

Objectives & criteria	Enable access to KiwiSaver funds	Establish a loan scheme for people made redundant	Provide a time-limited individualised payment	Widen access to main benefits temporarily	Introduce statutory redundancy provisions	Introduce social unemployment insurance
Incentives	**0** Desire to rebuild savings could incentivise job search, but not necessarily focussed on good jobs	**0** Debt obligation could incentivise job search, but not necessarily focussed on good jobs	**+** Payments contingent on work search, but low replacement rate risks poor job/skill matches	**+** Payments contingent on work search, but low replacement rate risks poor job/skill matches	**-** No explicit levers to encourage return to work (other than using up payment)	**++** Payments contingent on work search, with time limit, but moral hazard risks
Coherence	**-** Would undermine Kiwisaver objectives	**0** Some precedent from student loan scheme	**-** Significant departure from main welfare settings	**-** Departure from main welfare settings	**-** Not clear how it would interact/ interface with other policies	**-** Introduces significant additional complexity across tax, welfare, and ACC systems
Affordability	**0** High cost to affected individuals, no cost to others	**-** High cost to affected individuals, high fiscal impacts	**-** Medium/high costs to the Crown	**-** Medium/high costs to the Crown	**-** High cost to affected employers, no cost to others	**--** High overall cost, low/medium costs on workers and employers
OVERALL ASSESSMENT	**-** Poorly targeted at needs of individuals Short-term benefits likely to generate significant costs in reduced adequacy of retirement incomes	**0** Highly uncertain whether this option would deliver against objectives	**+** Significant departure from main welfare settings, with additional costs Generates modest improvements in outcomes	**+** Departure from main welfare settings, with additional costs Generates modest improvements in outcomes	**-** Relatively low cost but poorly targeted at needs of individuals Highly uncertain whether this option would deliver against objectives	**+** Delivers best against objectives **but** highest cost option

+ or ++ effective

0 mixed

- or -- ineffective

Annex 2: Further information

Economic displacement

Data from a variety of sources imply low rates of displacement. HLFS data suggest an average of approximately 40,000 per year (see *Figure*). This is an under-count as it does not include people who are made redundant and secure re-employment within the same survey quarter. Nor does it identify people who have more than one job and are displaced from one but not all of them.

Hyslop and Townsend (2017) estimate displacement rates between 1.8% and 2.2% using a different data source (the Survey of Family, Income, and Employment). This equates to approximately 55,500 redundancies per year.

International comparisons suggest New Zealand either has low rates of displacement or is significantly under-reporting them. The United Kingdom, for example, has an equivalent rate of 5.5% a year (Hyslop *et al* 2021) which, if applied to the New Zealand labour market, would equate to more than 125,000 redundancies – 2-3 time higher than estimates from statistical sources.

Given the similarities between our and the British labour markets (see *Figure 5*), the higher figure seems a more plausible estimate of the order of magnitude.

The number and characteristics of displaced workers varies from year to year. That said, HLFS data suggest that since 2007, people who experience displacement are disproportionately:

- Māori
- young (15 to 24 years)
- on lower incomes
- in couple households (ie living with a partner).

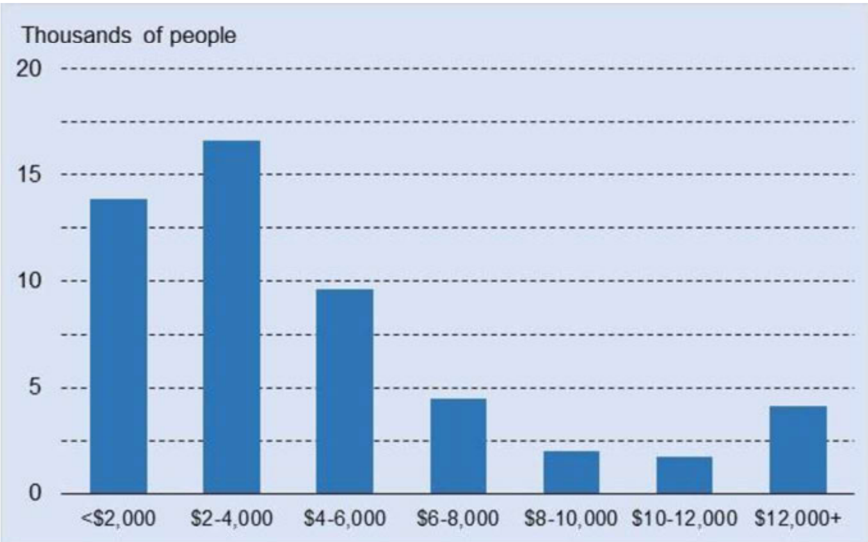
Māori (and to a lesser extent, Pacific peoples) are more likely to experience displacement than other ethnic groups. While 13% of employed people are Māori, they make up 21% of displaced people.

Figure 1: Share of displaced workers 2008-20, by ethnicity

Source: MBIE, using data from the HLFS

People who are displaced tend to be on low incomes. The median income from June 2016 to March 2018 was less than $3,400 per month (in 2021 dollars); just over a quarter of people (27%) were earning below $2,000 per month, and a further 32% between $2,000 and $4,000.

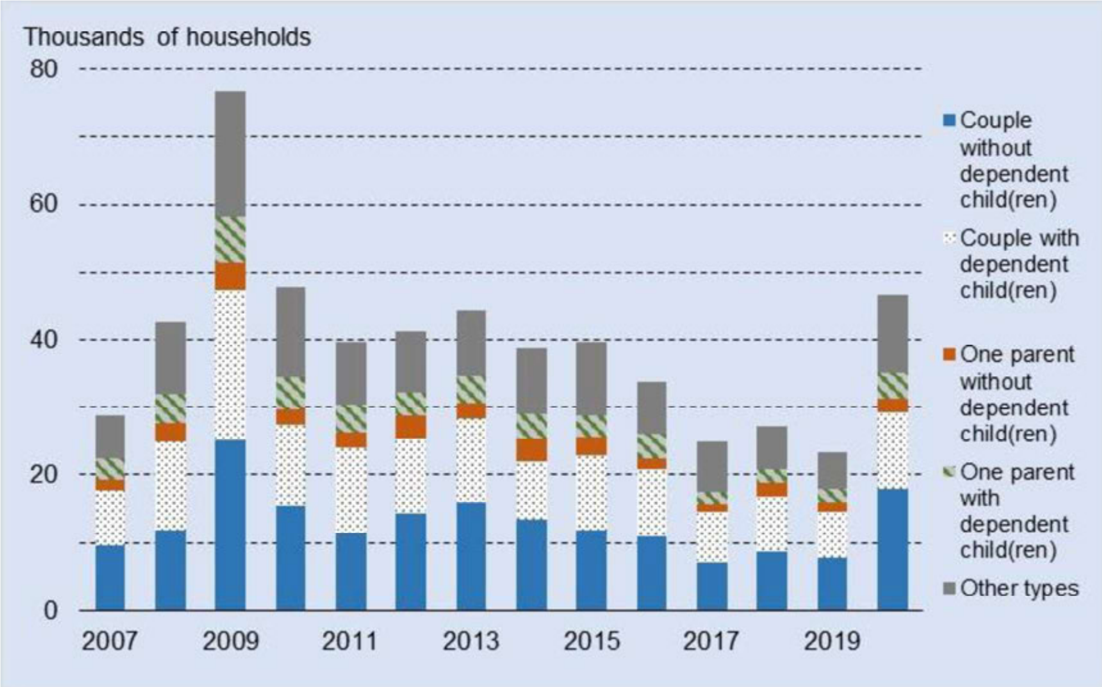
Figure 2: Average monthly wage from previous main job, June 2016 to March 2018 (March 2021 dollars)



Source: MBIE, using data from the HLFS

Most people who are displaced are in ‘couple’ households (ie living with a partner), with or without children. If the partner is employed (or has other earnings), the displaced person is likely to be ineligible for benefit payments.

Figure 3: Household composition of people losing their jobs because of being made redundant, laid off or business closure, 2007–20



Source: MBIE, using data from the HLFS

Re-employment is reasonably rapid for a significant proportion of displaced people, with 33% unemployed for less than three months and a further 25% for between three and six months[31]. However longer spells were also common, with 27% not employed for more than 12 months (including those still not employed).

Displacement is also a trigger for some people to leave the labour force, especially older workers (moving into early retirement), women (most likely, secondary income earners with a high-income partner) and low-skilled workers.

Employment of people with health conditions and disabilities

In New Zealand, the HLFS indicates around 20,000 people cease work each year due to a health condition, injury or disability[32]. This is likely to be an underestimate of the actual number of people whose employment is affected by a health condition or disability, because it only includes those fully leaving their job and does not include those who reduce their hours of work or take extended leave from their job.

Across the labour force as a whole Blakely *et al* (2021) estimated that almost half of person-years worked (49%) was by people who suffered from one or more of the 40 HCDs they reviewed – 52% of women and 47% of men. They estimated total disease-related income loss ($US2,729 million) was 4.31% of all income earnt, and this is almost identical between females and males (4.34% and 4.29% respectively).

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31 Cabinet Minute CAB-21-MIN-0069 of 15 March 2021 *Social Unemployment Insurance: Approach to the Tripart*

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ceasing work because of an injury make up a small proportion of this number.

A more detailed examination of HLFS data shows that, in 2020, 17,300 people had recently left work because of a health condition, injury or disability. These people are more likely to be:

- older - aged 55 to 64 years and 65 years and older
- Pākehā (although Māori are more likely than other groups to leave work for health-related reasons)
- on low incomes in their previous job.
- are most likely to be in couple households (ie living with a partner), both with and without dependent children (see *Figure 4* below).

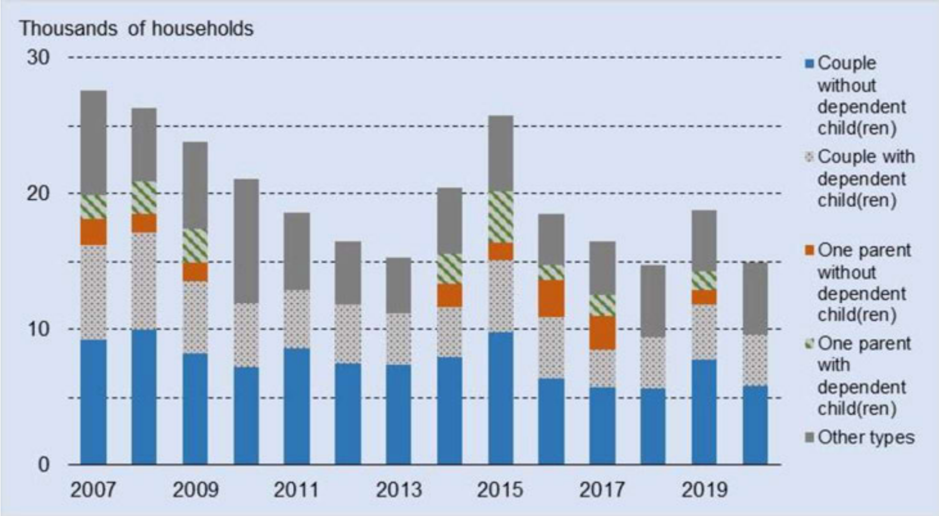
The older age profile is consistent with other jurisdictions, and reflects the cumulative effects of progressive conditions (eg musculoskeletal degeneration) and diseases where onset is prevalent at older ages (eg cardiovascular disease, some types of cancer). However, in the past decade an increase in HCDs has occurred in younger workers, especially those aged 15 to 24 years and 35 to 44 years, which reflects a high prevalence of mental health conditions amongst younger people (in this country and abroad).

This distribution is illustrated in Figure 3 in Blakely *et al* 2021 which shows progressively higher income losses with age, for all types of condition except mental health.

HLFS data shows that the median monthly earnings from the previous job for people who had left their jobs was about $2,300 in March 2021 dollars. This is less than earnings from working full-time at the adult minimum wage, suggesting a high proportion were in part-time work[33].

33 Due to the small number of survey responses, it is difficult to ascertain how many hours HCD workers worked in their previous employment. Nor does the HLFS collect data on the number of people who work for fewer hours than they would like due to an HCD.

Figure 4: Household composition of people losing jobs because of health conditions, injuries or disabilities, 2007–2019



Source: MBIE, using data from the HLFS

(Some categories show zero data in some years; in those years, numbers were suppressed as there were fewer than 1,000 responses.)

HLFS data shows that the number of people who are lose their jobs due to a health condition, disability or injury does not vary across the economic cycle (compared to the highly pro-cyclical pattern in the numbers losing jobs because of displacement). However, workers with HCDs are still vulnerable to job loss in recessions (OECD 2010), and numbers receiving a JB-HCD typically increase in economic downturns. The spread of health-related job loss across industries reflects overall employment composition.

Workers unable to work due to a health condition, disability or injury and not eligible for payments from the ACC may be eligible for a main benefit from the Ministry of Social Development (MSD). Around 22,000 to 30,000 people per year people are granted Jobseeker Support – Health Condition or Disability (JS-HCD) after stopping employment at some point in the previous six months. These people are a subset of all of those receiving a main benefit who have a health condition or disability[34].

The number of people stopping employment for health-related reasons is higher than this; not all people in this situation will be eligible for this benefit because their partner's income is above the earnings threshold.

As with other jurisdictions, mental health conditions are common among health and disability benefit recipients. For example, 37% of Supported Living Payment recipients and half of JS-HCD recipients had mental health conditions listed as their primary incapacities. This is likely to be an underestimate of the proportion of people receiving health and disability benefits with mental health conditions, because MSD often only reports on the primary

34 As at end of June 2021, 79,470 people were receiving a JS-HCD, and 97,404 people were receiving a Supported Living Payment (MSD 2021).

incapacities listed on medical certificates. The prevalence of these conditions is also common in the wider New Zealand population:

- In 2020, 20.2% of people aged 15-plus years (808,000 people) had a mood or anxiety disorder[35]. Prevalence has been increasing over time; equivalent figures were 12.7% in 2006/07 and 16.3% in 2011/12. Prevalence is highest amongst those aged 45 to 54 years, women, those in more deprived areas and disabled adults.
- In 2020, 19.6% of people aged 15-plus years (785,000 people) reported experiencing chronic pain[36]. Prevalence generally increases with age, and is higher for Māori, women, people living in more deprived areas and disabled adults.

Sickness, illness and injury are by far the main reason why disabled people leave their jobs; 55% of such people cited this as the primary cause in the June 2021 quarter, and this has consistently been the cause of over half of separations over the last five years (SNZ 2021b[37]).

In contrast, only 14% of non-disabled people cited sickness, illness and injury as the main reason why they left their jobs, and this has also been consistent over the period.

Returning to work after leaving with a health condition or disability can be difficult:

- HLFS data shows that people leaving work due to an HCD tend to have slower returns to work compared with redundancy. The HLFS data found that the greatest number of people had spent 12 months or more between spells of employment.
- People who receive health and disability benefits are less likely to leave the welfare system and move into employment than other working age benefit recipients. Longer benefit spells generally correlate with lower exit rates and less sustainable exits (ie moving to jobs which do not last for long periods).
- While 49% of JS-HCD recipients remain on the benefit for more than two years, others only receive JS-HCD for a short time before exiting the benefit. However, repeat spells on JS-HCD or another main benefit are common.

Work-related illnesses have a much larger impact than work-related acute injuries. It is estimated that 750 to 900 people die from work-related diseases each year, with 5,000 to 6,000 hospitalisations each year due to work-related health conditions. Musculoskeletal disorders account for the largest burden of harm, followed by mental ill health, cancers and respiratory diseases.

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35 People were defined as having a mood and/or anxiety disorder if they had ever been told by a doctor that they have depression, bipolar and/or anxiety disorder. This definition is likely to underestimate the true number of people with mood or anxiety disorders because some people may not be aware they have such a disorder. In addition, not all respondents who have had depression, bipolar and/or anxiety disorder at some time in the past would meet the criteria for the relevant condition at the time they were surveyed.

36 This is defined as pain that is present almost every day, but the intensity of the pain may vary, and has lasted, or is expected to last, more than six months. This includes chronic pain that is reduced by treatment.

37 The definition used is

> *"Disabled people are those who have at least a lot of difficulty seeing or hearing (even with glasses or hearing aids), walking or climbing stairs, remembering or concentrating, self-care, or communicating"*

Annex 3: Overview of New Zealand labour market

In this Annex we outline features of New Zealand's labour market that provide useful context for addressing questions in the body of the RIS.

Labour market context

Employment composition

A snapshot of the labour market provides a sense of the potential size of the issues relating to different types of employment[38].

1,702,600 people were in permanent full-time employment (at least 30 hours a week), which is a majority of employed people. Men are somewhat overrepresented in this group compared with women (56%), and average weekly gross incomes are highest for this group (63% earn more than $1,000 a week).

While Māori are under-represented in this group relative to the overall population (13%), it is still the largest type of employment for them (245,200 people).

291,600 people were in permanent part-time employment, which is dominated by women (75%). Most part-time employees (67%) earn less than $500 a week on average, and just over a quarter of them (26%) are underemployed, ie wanted more hours of work.

An estimated 192,300 people are employed in non-permanent arrangements:

- more than half of these people (108,600, 56%) are in 'casual' jobs, which tends to be lower paid (63% earn less than $500 a week on average); and filled disproportionately by women (55%), young people (44% are aged 15-24 years) and Māori (18%) and Pacific people (10%)
- men are more likely than women to be in seasonal jobs (60%), and Māori are significantly over-represented (32%)
- fixed term work arrangements appear quite varied; 46% of people in such jobs earn more than $1,000 a week on average, and 31% earn $500-$999
- 46% of people in NSE jobs would prefer permanent employment; 36% of casual workers would prefer more hours, and 35% of seasonal workers would prefer ongoing employment.

There are 343,900 people whose main job was self-employment. This group are more likely to be men (60%) and disproportionately NZ European (75%).

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38 MBIE analysis from the HLFS as at the end of December 2020. Workforce composition in New Zealand has been relatively stable, so this snapshot is broadly reflective of trends over the last few years, going back to 2016.

There are 65,900 people with multiple jobs, with disproportionate representation by women (62%), and younger people (22%). Income is not recorded for secondary jobs, so it is difficult to ascertain overall income for people in this group.

Legal provisions regarding dismissals

Neither redundancy nor displacement are currently defined in the Employment Relations Act 2000, but a commonly accepted definition was provided in the Labour Relations Act 1987. Section 184(5) of that Act defined redundancy as:

> *… a situation where…[a] worker's employment is terminated by the employer, the termination being attributable, wholly or mainly, to the fact that the position filled by that worker is, or will become, superfluous to the needs of the employer…*

The common law accepts the right of the employer to determine the structure of the business and, therefore, to make positions redundant, subject to there being genuine business reasons for redundancies and that they are carried out in a fair and reasonable manner (PAGRR 2008).

Similarly, an employer may terminate someone's employment if they reasonably believe that an employee can no longer do their job because of an HCD, and it is not reasonable to keep the person's job open for them. Termination may take the form of dismissal for medical incapacity, or medical retirement by mutual agreement.

While the employer is not obligated to hold a job open indefinitely, they must treat the employee fairly and be able to demonstrate that the process leading up to it was carried out in good faith. The test of whether dismissal is justifiable has been expressed by Chief Judge Horn as whether the point has been reached "… *at which an employer can fairly cry halt*"[39].

The employer must give due consideration to a number of factors before a dismissal on the ground of sickness/incapacity is justifiable, based on principles that have been developed through case law, including:

- the terms of the employment agreement
- the nature and extent of the HCD, including how long the employee has already been away from work
- the nature of the employment and how important the employee's role is to the organisation
- the chance of recovery and the likely timeframe for returning to work (which should be based on objective information such as a doctor's report)
- the employee's entitlement to sick leave (paid and unpaid)
- how long the employee has been employed with the employer
- steps the employer can take to help with rehabilitation, such as providing part-time or light duties.

39 Hoskin v Coastal Fish Supplies Ltd [1985] ACJ 124 at 127

- how long the employee would have been employed if not for the problem
- if there are any alternatives to dismissal that are reasonable in the circumstances, such as part-time or reduced hours, or medical retirement.
- if the employer is at fault for the employee's problems in any way.

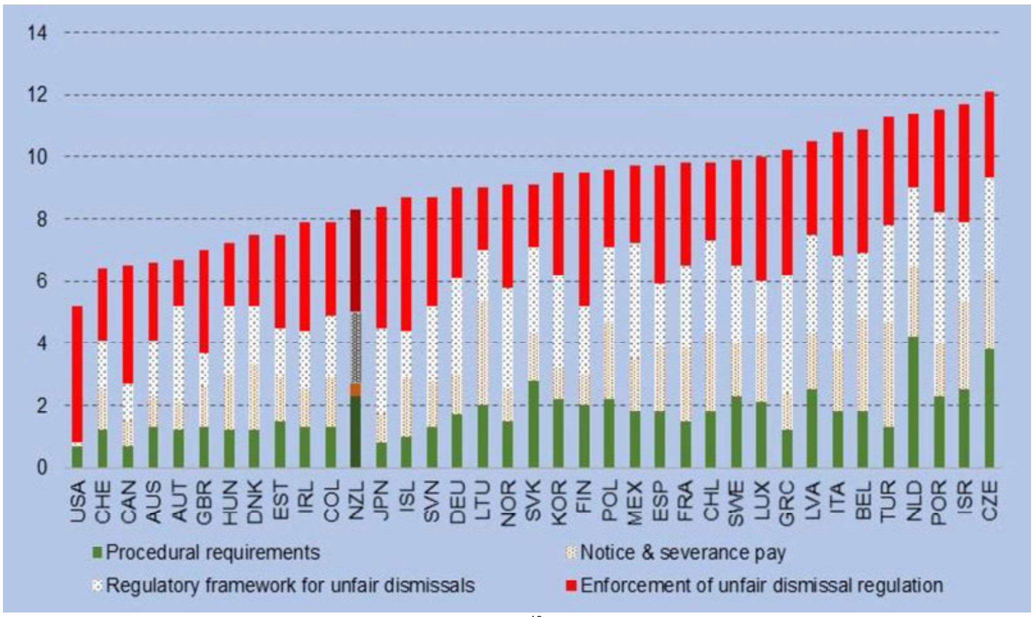
The Holidays Act 2003 provides for four weeks paid annual leave (which can generally be accumulated if not used in the year of entitlement) and up to two weeks per annum for sick leave for employees. Unused annual leave must be included in final payments on termination for whatever reason (including redundancy and medical dismissal), while sick leave is only available while employment continues.

Requirements for payment on termination are generally limited to outstanding wages for time worked and notice periods, unused holiday pay, and redundancy or any other severance payments (where these are included in employment contracts).

Labour market regulation

New Zealand is regarded as having a lightly-regulated labour market compared to other developed countries:

Figure 5: OECD Employment Protection Legislation indicators



Source: based on Table 3.3 of (OECD 2020[40]), data from
OECD Employment Protection Legislation Database, http://oe.cd/epl.

There are a number of dimensions to the 'strictness' of employment protection legislation. We are 25th of 37 countries in terms of overall strictness, but 36th in the requirements for notice and severance pay. This measure includes both the length of the notice period and

40 This database includes 12 different indicators which are grouped into the four broad categories in the figure above.

the amount of severance pay, where New Zealand is one of 12 countries with none. Unusually, there is no difference in our requirements for individual and collective dismissals; most countries have stricter requirements for collective dismissals, ie redundancies.

However, procedural requirements for dismissal of 'regular' workers are relatively strict, with New Zealand ranked 6th of the 37 countries. This measure covers notification procedures – requirements to inform the employee of the reason(s) for dismissal, to have warning procedures, and to discuss the matter with the employee before it takes effect – and the time delay before notice can be given.

A useful insight behind this framework is that employment protection measures serve two purposes – to protect employees from arbitrary dismissal, and to ensure firms bear some of the costs of dismissal (which is of particular relevance to displacement, as discussed elsewhere).

This 'flexibility 'brings both benefits and costs:

> *English-speaking countries have fewer restrictions on dismissals than many European Union countries, for example. This puts employees in English-speaking countries at a higher risk of job loss, but also gives them a greater chance of finding a job again if laid off.*
>
> (OECD 2020)

The basis for this argument (which is well established in relevant literature) is that legal restrictions on dismissal and associated costs are factored into hiring decisions, making employers more cautious about taking people on. At the economy-wide level, higher job turnover is observed with in countries with less strict dismissal requirements, as more workers leave jobs and more jobs are offered.

Other relevant findings are that total employment and unemployment do not appear to be affected much by the strictness of employment protection legislation, although stricter regimes seem to result in longer durations of unemployment.

And with respect to productivity:

> *strict dismissal regulation dampens the scope for productivity-enhancing worker reallocation from low- to high-productivity firms (*citations omitted*). It can thus weaken labour productivity growth and slow economic development.*

and

> *overly strict dismissal regulation tends to reduce productivity growth*

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MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Regulatory Impact Statement: Establishing a New Zealand Income Insurance Scheme - *Detailed scheme design settings*

Executive Summary

Purpose

1. This executive summary presents an overview of the design choices for the proposed New Zealand Income Insurance scheme (the scheme), and the impacts of those choices.
2. This document should be read with *Regulatory Impact Statement One* – *New Zealand Income Insurance Scheme.*

Design choices and criteria

3. Officials' recommendations on the scheme's design choices, with reference to the aims of the scheme are summarised below.
4. More detailed analysis of options for each of the design choices is presented in the body of this RIS.
5. The main design choices for the scheme relate to:
   - coverage
   - entitlements
   - obligations for employees
   - obligations for employers
   - funding & delivery
   - governance.
6. Criteria, derived from the scheme's objectives, have been used to assess the options for each scheme design choice. Will the option:
   1. **maintain living standards** for workers and their families and whānau immediately after job loss? Including:
      i. reducing direct immediate impacts of economic displacement and health-related job losses
      ii. reducing short-term income losses and resulting effects on individual, family, whānau and community well-being
   2. support workers back to **good jobs** and other sustainable outcomes? Including:
      i. supporting re-employment of economically-displaced people in jobs with comparable wages and conditions to their previous ones
      ii. supporting employment of people with HCDs in jobs consistent with their skills and work capacity; or facilitate orderly, dignified exit from employment

3. **support the economy** to adjust more rapidly to structural change, shocks or downturns? Including:
    i. reducing productivity losses from poor job matching
    ii. reducing costs of poor health outcomes, including reduced work capacity for health-related reasons
    iii. reducing economy-wide impacts of displacement, including risk aversion (negative consequences and attitudes towards displacement may work against the adaptability and resilience needed in a dynamic economy)
    iv. supporting the economy through cyclical macro-economic effects
    v. minimising impacts on employment and production.
4. improve **equity**? Including:
    i. improving equity across the economy (resulting from displaced persons bearing a disproportionate share of the costs of job reallocation)
    ii. improving equity between people with different incomes
    iii. improving equity between groups of people with 'comparable' circumstances
5. ensure **regulatory costs are proportionate** to intended outcomes? Including:
    i. administrative costs (to government)
    ii. financial and compliance costs to businesses
    iii. financial and compliance costs to workers

7. Any changes to officials recommended design approach would change the CBA and overall assessment. Alternatives are likely to have a material impact on the CBA of the recommended design. For example, changes to replacement rate, income cap or duration of coverage will significantly impact on the CBA.

Overview

8. The overall design recommendations seek to provide a high level of income smoothing following loss of employment to maintain living standards, for a sufficient duration to allow for a considered job search, or rehabilitation, without encouraging very long periods out of work or leading to excessive costs.

9. Further, the recommended design approach seeks to provide a high level of coverage through low contributions requirements (six months work in the past 18) and extending eligibility to people in most working arrangements (permanent, fixed-term, seasonal casual, full and part-time employment).

10. The scheme will cover work lost because of economic displacement (ED) such as redundancies, as well as health conditions and disabilities (HCD). In most aspects, the scheme design recommendations for HCD mirror those for ED, with important differences for the events triggering entitlements, and expectations that employers support workers back to their jobs.

11. Obligations on employers and employees aim to encourage behaviour that will support the scheme's objectives and minimise scheme risks, while minimising compliance costs for employers and employees (in particular notice obligations, and a requirement to pay 80% of wages for four weeks post-displacement).

12. Delivery arrangements seek to leverage the strengths of existing entities – ACC to deliver income insurance, inland Revenue to collect levies, and MSD to deliver employment services (where available).

13. Governance arrangements are intended to comply with the Crown Entities Act while also ensuring those who have the most at stake if the scheme succeeds or fails (iwi/Māori, disabled people, workers and employers) can have confidence that governance arrangements provide for their voice to be heard at all levels.

Coverage

14. The scheme's coverage settings are key to cost management, equitable outcomes, and meeting Treaty obligations. Scope of coverage establishes who can make a claim, the circumstances of job loss that can lead to a claim, and the conditions a worker or their employer must meet to claim.

15. These choices have equity impacts because workers of different ages tend to be represented more within some working arrangements than others, and similarly there are gender, ethnicity, and other biases towards some working types.

16. Socio-economically disadvantaged groups tend to be overly represented in non-standard working arrangements (casual, fixed term, seasonal, and self-employment) and there is a risk that coverage decisions could entrench the existing labour market related disadvantage some groups experience.

17. Coverage decisions will also impact on the Government's ability to meet its obligations under the Treaty of Waitangi. Māori outcomes are intertwined with the outcomes of those in non-standard work – for instance Māori are over-represented non-standard work and are more likely to be made redundant when in permanent work.

Working arrangements covered

Options

18. New Zealand Income Insurance could cover:
    - permanent employees only; or
    - extend coverage also to non-standard employees (casual, fixed term and seasonal)
    - or extend coverage further to the self-employed.

19. Most working New Zealanders (1,702,600 people, at the end of December 2020) are in permanent, full-time employment (at least 30 hours per week). However, a significant portion of the labour force are engaged in non-standard working arrangements.

20. Coverage of non-standard employment is challenging for income insurance because expectations of ongoing work are less clear, and because 'displacement' events can be less clear-cut.

21. Self-employment is a significant category of working arrangements to consider for coverage. There are 343,000 self-employed without employees, and a further 182,000 self-employed with employees. How the scheme treats the self-employed is therefore a very significant design choice.

22. Income insurance schemes struggle with self-employment. Coverage for ED is especially complex. Many international schemes do not insure the incomes of the truly self-employed because:
    - truly self-employed people can arrange their affairs to qualify for coverage, and
    - covering self-employment can effectively cover standard business risks, skewing business decisions towards higher risk activities.

23. However, it is difficult to exclude the truly self-employed without also excluding misclassified employees (so-called dependent contractors).

Consultation findings

24. There were mixed views on what events the scheme should cover, even among supporters of the scheme.

25. Some employers and industry representatives thought seasonal, fixed-term and casual workers should not be covered by the scheme. Conversely, advocacy groups, unions, and Māori/iwi representatives supported covering these workers, with the view that workers in these arrangements are likely to be the most vulnerable. There was particular emphasis on the overrepresentation of women, Māori, and Pacific people in non-standard roles, and the consequential inequitable impacts of their exclusion from the scheme. Union groups also raised concerns that excluding casual workers from the scheme could drive employer behaviour to make more of their staff casual employees to avoid scheme liability.

26. Stakeholders generally agreed that extending coverage to the self-employed would be complex. There was a preference from submitters for excluding self-employed, or for opt-in bespoke options, to avoid gaming. Māori/iwi representatives and health and disability representatives were generally more supportive of the inclusion of self-employed workers and noted that self-employment offers more flexibility and can be more accommodating than employment.

Conclusions and impacts

27. Officials recommend that the scheme cover:

- permanent employees; and
- casual, fixed term and seasonal employees (with allowances made for the nature of entitlements and circumstances triggering entitlement).

28. Officials recommend the exclusion of all self-employed from the scheme, while continuing to explore the desirability and feasibility of providing a form of income insurance for designated groups of self-employed workers.

29. The key impacts of these policy choices in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
- **Supports** workers back to good jobs and other sustainable outcomes
- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Improves** equity
- **Increases** regulatory costs.

30. Covering permanent employees ensures that most working New Zealanders will receive protection from the scheme and supports key assessment criteria including maintaining living standards for workers and their family / whanau immediately after job loss, supporting workers back to good jobs.

31. Officials recommend, primarily for equity reasons, covering casual, fixed term, and seasonal employees, but with allowances made for the nature of entitlements and circumstances triggering entitlement. This means these workers can be covered with little impact on levy rates and will broaden the numbers of workers who receive support to find good work post job-loss and maintain their living standards during that period. It will have positive equity impacts as non-standard workers are more likely to be Māori, Pacific People, and women, however. This will have an impact on regulatory

costs that will increase somewhat because of the complexity involved in implementation. This is due to the need to identify the working arrangement for claims from these groups and assess / verify the claim.

32. Covering self-employment entails significant risk – including increased regulatory costs, a reduction in the scheme's effectiveness to support the economy during structural changes, shocks or downturns, and negative equity impacts resulting from the scheme providing support to claimants it is not designed to support, and in many cases do not require that support.

33. However, while recommending the exclusion of all self-employed from the scheme, officials also intend to continue to explore the desirability and feasibility of providing a form of income insurance for designated groups of self-employed people.

Job losses covered – ED

Options

34. The scheme could cover the loss of full-time jobs and/or part time jobs. It could also cover only the full loss of a job and/or or partial loss (reduced hours). Where the loss is because of a health condition or disability, the scheme could cover situations ranging from total loss of capacity to do a job, to low level capacity reductions.

35. Taking a broad approach to these decisions would allow the scheme to cover more of the job-loss circumstances that affect New Zealand workers, while the narrower choices target the scheme towards the most impactful losses experienced by workers. There are also equity impacts, particularly regarding the choice of whether to cover part time work – with more Māori, Pacific People and women working part time.

Consultation findings

36. For redundancies and layoffs, around half of survey respondents thought that the job had to end to qualify (with a reduction in hours worked at the job not covered by the scheme).[1]

37. Individual submitters and union groups raised that many low-income workers hold multiple part-time jobs, so excluding part-time job loss would disadvantage this group.

Conclusions and impacts: Displacement

38. Officials recommend that for ED the scheme cover the loss of full time and part time jobs, but only the full loss of a job.

39. The key impacts of this choices in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
- **Supports** workers back to good jobs and other sustainable outcomes
- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Improves** equity

[1] 1591 people responded to the statement in the close-ended survey that "For redundancies and layoffs, to qualify, the job must end. A reduction in hours worked at the job is not covered by the scheme". 31% of respondents strongly agreed, 22% agreed, 17% neither agreed or disagreed, 13% disagreed, 11% strongly disagreed, and 6% didn't know.

- **Supports** regulatory costs that are proportionate to intended outcomes.

40. Covering full time and part time jobs ensures the scheme covers most jobs, and covering the full loss of those jobs ensures the scheme covers the most impactful of job losses, having a positive impact on the scheme's ability to maintain living standards for workers and their families / whanau, and supporting workers back to good jobs, and with positive equity impacts since Māori, Pacific People and women are more likely than others to work in part time jobs.

41. The option to cover only full time work would reduce the effectiveness of the scheme at maintaining living standards for workers and their family / whānau, in supporting workers back to good work post job-loss, and its ability to support the economy during difficult periods, primarily because it would mean fewer workers are supported, and because it could lead to distortions in the labour market due to an increased preference for part time work (assuming part time work was not subject to the employers or employee's levy requirements).

42. The option to cover reduced hours (not just job losses) would add significant complexity and cost to the administration of the scheme (requiring the scheme administrator to determine which employees faced 'no fault' hours reductions, and those which faced reductions for reasons such as performance, personal choice etc. It would also allow employers to avoid the obligation to make bridging payments to employees, while still making those employees eligible for the scheme's income replacement payments (by reducing hours significantly rather than making the employee redundant).

43. Despite reduced hours situations being excluded from scheme coverage, employees who face a proposal to reduce their hours will have more protection than the status quo. This is due to the scheme's proposed redundancy cover and bridging payment obligations.

44. An employer cannot unilaterally reduce an employee's contracted hours. Proposals from employers for significant reductions (generally more than 20% reduction is considered significant) will generally trigger a workplace change process, unless the employee agrees to the change, or has previously contractually agreed that their hours can be changed without their agreement (previous contractual agreement to changed hours is not thought to be a common feature in employment agreements, but how often it occurs is not known)

45. If an employer proposes reducing the hours for the position through a workplace change process, this would generally trigger an offer of redundancy unless the employee can be offered another substantially similar position. This means employers currently face significant costs (redundancy payments) in most situations where they seek to reduce an employee's hours if the employee has negotiated redundancy provisions, but few costs where there are no negotiated redundancy provisions.

46. The universal application of bridging payment obligations means that employers who seek to reduce employee hours will all face that cost if an employee has not agreed to the reduced hours. As well, the income replacement payments employees will be eligible for after redundancy will also mean that for many employees the risk of not accepting a proposal to reduce their hours is reduced significantly.

Job losses covered – health and disability

Options

47. The scheme could be limited to full loss of work capacity only or also cover partial loss of work capacity. Limiting coverage to only full loss would reduce costs but come with significant drawbacks such as presenteeism, poorer health and employment

outcomes, more people becoming full detached from work with lower prospects for returning to work and working people over-stating symptoms to qualify.

Consultation findings

48. Many individual submitters supported coverage for full and partial loss of work capacity. Health and disability representatives saw this as one of the most important features of the scheme. Because some health conditions and disabilities fluctuate or deteriorate over time, limiting coverage to full loss of work capacity was seen as inappropriate. Health representatives and some employee representatives emphasised that early intervention and support is important for health and employment outcomes.

49. There were views from public engagement that the assessment process could be complex, and workers, employers, and health practitioners would need support and guidance to undertake work capacity assessments.

Conclusions and impacts: Health conditions and disability

50. Officials recommend that for health conditions and disability, the scheme cover reduced capacity to work of at least 50 percent and that is expected to last for no less than four working weeks.

51. The key impacts of this choice in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss (full or partial loss)
- **Supports** workers back to good jobs and other sustainable outcomes
- **Improves** equity overall, however there are some negative equity impacts
- **Increases** regulatory costs.

52. Providing over for 50% work capacity loss of at least 4 weeks duration means the scheme will provide support where there is significant loss of work capacity and expands the group that the scheme helps with maintaining living standards in these circumstances. It will support more workers back to good jobs (or potentially supporting them to remain in their current job). It has positive equity impacts since Māori, Pacific People and women are more likely to be in the group covered than others.

53. Covering full as well as partial loss of work capacity has benefits such as slowing skills and earnings deterioration, maintaining connection to an employer, allowing for a gradual return to the workplace, and supports positive health outcomes, particularly mental health.

54. As with ED, both part-and full-time work will be covered. However, coverage for loss of 50 percent of work capacity is an important difference from ED, where coverage is only provided for complete job loss. This difference will bring some additional complexity and regulatory costs, e.g., assessment process and support and education for workers, employers and health practitioners, however this additional cost is unlikely to be significantly material. Evidence from both New Zealand and international experience shows that only a small proportion of HCD cases require intensive support and/or support over the longer term. How costs for ED and HCD are apportioned will be worked through as part of the operational design.

55. These costs are outweighed by the benefits of covering workers with health conditions or disability as outlined above. The option aligns with current ACC practice and is similar to assessment processes in the welfare system. ACC considers this option is

manageable and will work with health practitioners and people with lived experience to design a feasible and workable, assessment process. People experiencing loss of work capacity who do not meet the eligibility criteria would be able to use sick leave but workers with limited or no sick leave could be disadvantaged.

Contribution requirements

Options

56. Contribution and prior employment requirements can provide an incentive to work, mitigate abuse of the scheme and promote financial sustainability, but also means some groups of workers miss out on support, even if they have contributed, and genuinely need support.

Consultation findings

57. There were views from interest groups, individuals and unions that contribution requirements would disadvantage particular groups or more vulnerable workers, e.g. Māori, Pacific people and women. The Pou Tangata Skills and Employment Iwi Leaders Group has expressed particular concern about the disproportionate impact of the contribution requirements on Māori and recommended revisiting the policy.

Conclusions and impacts:

58. Officials recommend a relatively brief contributions period of six months contributions in the eighteen months prior to the claim. Time spent on statutory parental leave would be counted towards the requirement. This is consistent with maintaining broad access to income insurance (supporting more workers to find good jobs post job loss and maintaining their living standards).

59. The key impacts of this choice in terms of the assessment criteria (outlined further below) are:

- **Improves** equity overall but with some negative equity impacts, particularly for youth
- **Supports** regulatory costs that are proportionate to intended outcomes.

60. The six months contributions requirement in each 18-month period recognises that a contributions period does usefully manage some scheme risks, and helps ensure regulatory costs are manageable, without raising excessive barriers to access (as observed in a number of international schemes). It is positive from an equity perspective since statutory parental leave is still accessed almost exclusively by women, and because many non-standard workers will be able to meet the requirement, and these are more likely to be Māori, Pacific People and women. These positive impacts are not universal though, since any contributions history requirement will disadvantage young workers, who are most likely to not be eligible as a result.

61. A more restrictive contributions history requirement could have the benefit of reducing levies, and therefore regulatory costs, as well as positively impacting equity since low-income earners would benefit more than others from the lower levies. However, these benefits would be outweighed by the negative impacts since fewer workers would receive support to find good work and to maintain their (and their family / whanau's) living standards, with associated equity impacts (non-standard workers would be those most likely to be ineligible, and they are disproportionately Māori, Pacific People and women).

62. Not imposing any contribution history requirement would have positive equity impacts because young people, followed by Māori, Pacific People and women are more likely

than others to be unable to meet any requirement. It would also increase the pool of workers who can benefit from the scheme's income support and assistance into good work. However, these benefits are outweighed by the risk of increased regulatory costs that would be created, and increased scheme costs.

Immigration status

Options

63. Income insurance coverage (and contributions) could be limited to certain categories of workers according to their immigration status. Immigration status is a proxy for connection to the New Zealand labour market: the stronger a person's connection to the New Zealand labour market, the more important it is to cover them through New Zealand Income Insurance, since it is desirable to support their return to good work. This is clearly the case for New Zealand citizens and residents.

64. The case is less strong for temporary work visa holders. Temporary work visa categories vary, and include working holiday visas, international student visas, and partner visas. For working holiday makers and international students, their main purpose for being in New Zealand is to holiday or to study. Employment is a secondary activity.

65. For closed work visa holders (such as the Accredited Employer work visa which replaces the essential skills visas), employment is their main reason for being in New Zealand, but their visa is linked to a particular employer and generally used to fill skills gaps that cannot be filled by domestic workers. If a closed work visa holder is made redundant, or becomes unable to work, they will lose their eligibility to work in New Zealand.

66. How the scheme treats migrants with temporary work rights is a significant issue since they comprise a large group of the workforce. In June 2019 there were 268,883 temporary migrants with work rights. The number is expected to rise this year with border restrictions easing.

67. The scheme could cover temporary migrants with or without additional eligibility criteria, exclude them entirely from levy requirements and coverage, or require them to pay the levy but exclude them from coverage.

Consultation findings

68. There were concerns from individual submitters and union groups about temporary visa holders paying the levy but not being able to benefit from the scheme. People thought this was unfair and some employers were concerned this could impact the attractiveness of working in New Zealand. However, over half of survey respondents supported limiting eligibility to New Zealand Citizens and residents.[2]

Conclusions and impacts

69. The recommended approach is that citizens, residents and temporary visa holders will be subject to the levy from day one. Citizens and residents be fully covered, and that temporary visa holders reside in NZ continuously for two years before becoming eligible.

70. The key impacts of this choice in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
- **Supports** workers back to good jobs and other sustainable outcomes

[2] 1717 people responded to the statement in the close-ended survey that "Only New Zealand citizens and residents will be eligible for insurance payments". 46% of respondents strongly agreed, 16% agreed, 14% neither agreed or disagreed, 7% disagreed, 14% strongly disagreed, and 3% didn't know.

- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Mixed effects on equity** since New Zealand citizens' and residents' position in the labour market is protected, while holders of temporary visas remain somewhat disadvantaged by the proposed qualifying period.

71. The recommended option supports scheme objectives by covering a broad group of workers, thus supporting more workers back to good work and with income maintenance following job-loss, while avoiding any significant distortion of employer hiring incentives. The broader coverage also ensures broader support for the economy during structural change, shocks and downturns. It is mixed from an equity perspective as there are more stringent requirements for eligibility based on visa status.

72. The option of excluding temporary migrants from levies and coverage entirely was considered because scheme coverage is generally inconsistent with the basis for their eligibility to be in New Zealand. However, excluding temporary migrants from the scheme (and therefore the levy) could disadvantage New Zealand job seekers through reducing the cost of temporary migrant labour relative to residents and citizens.

73. Because of this, the Forum originally proposed in the discussion document that temporary work visa holders would not be eligible for coverage, but they and their employers would still contribute to the scheme's costs. There were strong views from the public that it was not fair to levy workers who would never be eligible for the scheme.

74. The recommended option outlined above strikes a balance between the inequity of levying temporary workers but not covering them, and the labour market risks of excluding them from coverage and levies. It requires temporary migrants to demonstrate a connection to New Zealand, ensuring that those migrants who are well-established in New Zealand would receive support to find good jobs after an ED or HCD related loss of work.

75. Differentiating the requirements for accessing the scheme for temporary migrants may potentially engage the right to be free from discrimination in the New Zealand Bill of Rights Act 1990. This may be justified by the policy objectives, but this proposed limitation and justification will need further testing as the Bill is drafted. Officials have sought further legal advice from the Crown Law Office on this issue.

Multiple claims

Options

76. The scheme could allow a greater or lesser number of claims within a specified timeframe, or it could set limits on the length of time insurance payments can be made within that period of time. Most people are unlikely to need to claim against the scheme repeatedly.

Consultation findings

77. Multiple claims were not a point of focus for stakeholders. Some union and advocacy groups raised the risk of limits disadvantaging workers with a genuine need e.g. workers in an industry in decline, or experiencing significant change, where being made redundant multiple times is feasible, or an employee experiencing recurrent health and/or disability issues.

Conclusions and impacts

78. Officials recommend limiting the duration of insurance payments to a total of six months within an 18-month period.

79. The key impacts of this choice in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
- **Supports** workers back to good jobs and other sustainable outcomes
- **Supports** regulatory costs that are proportionate to intended outcomes.

80. Limiting the cumulative cover in this way helps ensure regulatory costs are proportionate to outcomes intended, primarily by reducing abuse of the scheme. It provides an incentive to return to work in order to retain entitlement if another job loss occurs in the near future, while supporting workers to find good work and maintaining income post job-loss.

81. An alternative of a lifetime maximum on total number of claims was also considered but this has significant negative equity impacts, as people with health conditions and disability are most likely to reach the maximum allowable number of claims and would then receive no cover over their lifetime. Older workers are also, by definition, more likely to lose cover than others.

Entitlements

82. The scheme seeks to minimise the immediate financial impact on workers of losing income and work and support them back into good work. Entitlements need to be designed to smooth incomes effectively following job loss and thereby provide support for claimants to return to good work. Well-designed entitlements are essential to ensuring the scheme meets its objectives, while managing risks.

Options

83. The key entitlement choices relate to:

- the scheme's replacement rate (the percentage of lost income that the scheme replaces)
- the income cap (the upper limit of income protection coverage)
- the duration of entitlement (the maximum period of time the scheme pays for)
- the status of insurance payments and how they interact with other types of payment.

84. These settings can be made more or less generous, depending on policy objectives.

Consultation findings

85. Stakeholders generally agreed that 80% was a sufficient replacement rate, with some individuals and employers thinking it was too high (and hence risks moral hazard effects, high costs). Some welfare advocates were concerned about the discrepancies between welfare support and the scheme. Most stakeholders generally agreed that six months was an appropriate duration for displacement. Health and disability advocates thought it was potentially too short for health conditions and disabilities. Some union groups thought it should be longer to better support re-training.

86. Just over half of survey respondents thought that payments should not be affected if the worker has any assets or they receive money from other sources.[3]

Conclusions and impacts

87. Officials recommend the scheme have a relatively high replacement rate (though consistent with the accident compensation scheme) of 80%, with an income cap of *$136,544* (also consistent with accident compensation), with a relatively short entitlement duration of six months.

88. The key impacts of these policy choices in terms of the assessment criteria (outlined further below) are:

- **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
- **Supports** workers back to good jobs and other sustainable outcomes
- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Improves** equity
- **Supports** regulatory costs that are proportionate to intended outcomes.

[3] 1598 people responded to the statement in the close-ended survey that "Payments should not be affected if the worker has any assets or they receive money from other sources". 36% of respondents strongly agreed, 19% agreed, 11% neither agreed or disagreed, 10% disagreed, 19% strongly disagreed, and 5% didn't know.

89. The relatively high replacement rate and cap will maintain living standards for workers and their families and whānau immediately after job loss by substantially offsetting income loss, and support workers back to good jobs and other sustainable outcomes by reducing the financial pressure to accept poorly matching jobs.

90. The relatively short entitlement duration of six months ensures the immediate loss is covered, providing enough time for an effective job search. A high replacement rate and cap will also ensure the scheme is more effective as an automatic fiscal stabiliser (supporting the economy) by sustaining consumer spending more effectively than lower replacement rates and caps.

91. Overall, because of the higher incidence of ED and HCD amongst lower income earners, and because the scheme provides greater support than welfare, these settings are expected to improve equity. High replacement rates and caps add significantly to costs, but the Case for Change RIS - Regulatory Impact Statement One – New Zealand Income Insurance Scheme - indicates an overall positive cost-benefit ratio, indicating the costs are proportionate to the intended outcomes. The relatively short entitlement duration also ensures costs remain proportionate to benefits.

92. Lower replacement rates, and shorter duration periods would reduce the costs of the scheme, but also reduce how effective the scheme is at maintaining living standards post job-loss. This in turn would likely mean that more workers would face pressure to find work quickly, rather than being supported back to a good job, with consequent equity impacts. This would likely most affect lower income earners, with low levels of household savings (disproportionately Māori and Pacific people).

93. These effects would outweigh the positive equity impacts from a lower levy rate for low-income households.

94. Even higher replacement rates and longer duration of cover would have a positive impact on maintaining living standards post job-loss, but would not be as effective at supporting workers back to good work, because the scheme would be so close to replacing total income that there would be little incentive to find work while receiving cover, and periods longer than six months out of the workforce are known to lead to higher risk of long term wage scarring. This would have impacts across the labour market, and would detract from the scheme's support for the economy to adjust to structural change, shocks and downturns.

95. Officials propose that insurance payments under the scheme are:

- calculated individually (so that insurance payments are not effectively restricted only to single workers, which **supports** the maintenance of living standards for workers and their families and whanau immediately after job loss)
- not subject to asset testing or partner income testing (which **supports** the maintenance of living standards for workers and their families and whanau immediately after job loss)
- where there is additional income, subject to an abatement free threshold until 100% of previous income is reached. Above 100% income would abate at a one-to-one rate (so income replacement by the scheme would maintain income, but not exceed pre-loss income). This reduces a possible disincentive to find work, and thus **supports** regulatory costs that are proportionate to intended outcomes).

96. Officials recommend the scheme payments interact with other types of payment in the following ways (these follow the established approach for payments and interactions between different types of payment, without imposing process requirements that would increase costs, and make it difficult to engage with the scheme, which **supports** regulatory costs that are proportionate to intended outcomes):

- entitlements are generally treated as income to determine eligibility for welfare and student support
- claimants are not eligible for the In-Work Tax Credit, Minimum Family Tax Credit, or Independent Earner Tax Credit
- claimants could receive New Zealand Superannuation or the Veteran’s pensions
- where eligible, claimants could choose whether to access Paid Parental Leave or income insurance and may receive both sequentially
- claimants could also receive ACC weekly compensation where it covers a different income loss.

Claimant obligations

97. Insurance schemes usually require claimants to meet certain obligations. Obligations determine what someone is required or expected to do while receiving financial help, and can vary, depending on the desired goal of the scheme.

98. Some obligations are necessary to underpin the operation of income insurance schemes, such as providing earnings information to the insurer so the correct entitlements can be paid. Other obligations relate to the scheme's intended outcomes, such as obligations to participate in job search or to prepare to return to work to support people into work, whilst mitigating the risk that providing income insurance reduces work incentives.

99. Obligations should be limited to those necessary to meet the scheme's objectives, and should be set at a level that supports the objectives. Overly onerous claimant obligations risk pushing claimants into poorly matched jobs and undermine core scheme objectives, and failure to meet an obligation can lead to a sanction, and there is a risk these could be applied inconsistently between certain population groups resulting in inequities.

100. It is important to ensure that the obligations and sanctions for employees treat Māori equitably, so Māori are not worse off (in both real and relative terms) by being on the scheme.

Options

101. The key choices relate to:

- administrative obligations (such as providing information to the insurer)
- job search obligations, and when these may be waived
- obligations for HCD claimants to participate in work capacity assessments, and vocational rehabilitation where available
- circumstances under which a claimant may be absent from New Zealand
- consequences for not fulfilling obligations (such as financial penalties).

Consultation findings

102. The majority of submitters agreed that claimants should be required to demonstrate that they are searching and preparing for work, and most thought that these obligations should be waived if someone's health condition or disability limits what they can do.[4] Some welfare advocacy groups stressed the importance of having obligations that were supportive of return-to-work activities without being burdensome. Some Māori representatives emphasised the importance of claimants having tino rangatiratanga over their employment decisions. Some union groups also thought that obligations should be waived if someone is pursuing training. [5]

[4] This was also reflected in responses to the close-ended survey on the scheme. 1545 people responded to the statement that "Claimants will need to be able to demonstrate that they are searching for and preparing for work". 48% of respondents strongly agreed, 21% agreed, 10% neither agreed or disagreed, 6% disagreed, 11% strongly disagreed, and 4% didn't know. 1550 people responded to the statement that "Obligations on people receiving payments can be waived if someone's health condition or disability limits what they can do". 22% of respondents strongly agreed, 23% agreed, 19% neither agreed or disagreed, 10% disagreed, 18% strongly disagreed, and 8% didn't know.

[5] Survey respondents were mixed on obligation waiving for training. 1539 people responded to the statement that "Obligations on people receiving payments can be waived if people are in an approved training or rehabilitation programme". 18% of respondents strongly agreed, 25% agreed, 20% neither agreed or disagreed, 10% disagreed, 19% strongly disagreed, and 8% didn't know.

103. Most stakeholders were in support of claimants receiving notice and time to meet obligations in cases of non-compliance, with the majority agreeing that payments could be temporarily stopped as a last resort. Some representatives from advocacy groups emphasised that punitive sanctions would be against the intent of the scheme.

Conclusions and impacts

104. Officials recommend the following administrative obligations:

- claimants required to inform the insurer of any change in circumstance that may affect the eligibility for or rate of income insurance
- claimants required to actively search or prepare for work, demonstrate job search activity or report on progress with preparing for work, accept suitable offers of employment, and complete a return-to-work plan if required
- HCD claimants would also need to provide a further work capacity assessment if they are not ready to meet their work obligations, undertake any independent assessments related to returning to work required by the scheme, and participate in rehabilitation activities and services if these will support a return to good work, where these services are available and appropriate.
- claimants would be required to seek the agreement of the scheme administrator to continue receiving income insurance during travel away from New Zealand for specific reasons, for up to 28 days.
- where obligations are not met, the claimant's entitlement could be suspended. from receiving some or all of their payments. There would be a high threshold for suspension, and claimants would be given sufficient time to re-comply with their obligations before any suspension takes effect
- financial sanctions would be used as a last resort in cases of serious, intentional non-compliance with obligations.

105. The key impacts of these policy choices in terms of the assessment criteria (outlined further below) are:

- **Supports** workers back to good jobs and other sustainable outcomes
- **Some risk** of reduced equity (from discretionary decision-making)
- **Supports** regulatory costs that are proportionate to intended outcomes.

106. The impact of these obligations is to ensure that claimants only receive the payments to which they are entitled, and that they are both supported and encouraged to find good work, and in terms of HCD to return to their current work or other good work.

107. Providing limited flexibility for claimants to be able to travel overseas enhances the scheme's ability to support those who have valid reasons to travel to maintain living standards and find good work post job-loss. Obligations may still be met while overseas, depending on the circumstances, which maintains the intent of the scheme. There is risk that there will be negative equity impacts resulting from the use of discretion in decision-making around agreement to travel.

108. The approach to suspensions and financial sanctions aligns with ACC's approach. The impact of this policy is to encourage compliance, while reducing the likelihood that financial penalties are required, given the high cost of applying financial penalties on the scheme, as well as the impact these can have on recipients (particularly given the scheme's objective of maintaining living standards for workers and their families and whanau immediately after job loss). This supports the scheme's regulatory costs being proportionate to intended outcomes by providing a disincentive to abuse the scheme.

Employer obligations

109. Obligations on employers also have an important role to play in helping to mitigate risk and contributing to the scheme's objectives. Introducing an income insurance scheme could influence layoff decisions. In some cases, terminations (e.g. for performance issues) could be dressed up as redundancies, and, in others, firms could be less restrained in opting to end the employment relationship. Employer obligations can help to mitigate this risk.

Options

110. The key choices about obligations for employers relate to:

- whether to require notice prior to ED taking effect (noting that New Zealand law does not currently specify a statutory minimum notice period)
- what measures to introduce to deter unnecessary redundancies (including instances of collusion between employers and employees to access insurance entitlements)
- what measures to support HCD claimants to remain in their current job.

Consultation findings

111. Survey respondents were mixed on whether permanent employees should be given four weeks' notice and that their employer should pay four weeks of wages at 80 percent when the job ends.[6]

112. Employers and business representatives were generally unsupportive of a bridging payment to deter spurious redundancies. Many thought it was too complex and that it could impact existing redundancy packages in the future. Some large employers shared that the bridging payment would be too small to deter redundancies, while other smaller employers thought it was unaffordable.

113. There was concern from employee representatives and individuals about businesses "ducking" their obligations or not being able to pay it in the case of a closure. Some individuals shared concerns about the moral hazard risk of sham redundancies, which the bridging payment seeks to address.

114. Stakeholders were mixed on obligations for HCD claimants. Individuals, unions, and health and disability advocates generally agreed that it was reasonable to expect employers to support claimants in various ways. Employers and business representatives thought this would be a considerable ask for smaller businesses. Some health and disability representatives thought the scheme represented an opportunity to improve employer's perceptions of their responsibility to HCD employees, such as making reasonable accommodations and supporting people to return to work.

Conclusions and impacts

115. Officials recommend the following employer obligations:

- Require employers to give four weeks' notice to employees before ED takes effect

[6] 1594 people responded to the statement in the close-ended survey that "Permanent employees will be given four weeks' notice and their employer will continue to pay wages for four weeks at 80 percent when the job ends". 23% of respondents strongly agreed, 18% agreed, 13% neither agreed or disagreed, 8% disagreed, 33% strongly disagreed, and 5% didn't know.

- Require employers to make a four week ‘bridging payment’ to employees who are made redundant, scaled downwards for casual, fixed term and seasonal employees.
- To support HCD claimants, employers would be encouraged to make reasonable changes to support employee retention.
- To support HCD claimants further, employers would be encouraged to keep jobs open.

116. The key impacts of these policy choices in terms of the assessment criteria (outlined further below) are:
    - **Supports** the maintenance of living standards for workers and their families and whanau immediately after job loss
    - **Improves** equity
    - **Supports** regulatory costs that are proportionate to intended outcomes.

117. While not always possible, modest notice periods would impose little additional cost on employers but provide a significant opportunity for employees and the insurer to begin responding to the loss of work before the ED takes effect. However, this could affect smaller firms more significantly.

118. Notice periods will improve the ability of the scheme to maintain living standards for workers post job-loss by ensuring income replacement payments can start as soon as a worker is eligible to receive payments. It helps keep regulatory costs proportionate to outcomes, by providing sufficient time for the scheme administrator to robustly assess upcoming claims, without imposing significant costs on the scheme.

119. Bridging payments would help to deter employers from unnecessary redundancies, reducing financial risk for the scheme. This is a a key mechanism that can ensure regulatory costs are proportionate to outcomes, by reducing any incentive employers have to use redundancy in place of performance management or other terminations that the scheme is not intended to address.

120. The bridging payment obligation will be a significant additional cost for employers, and creates a potential liability for each employer relating to every employee, including those not eligible for the scheme (e.g. who have not met eligibility requirements), who will still be eligible for notice and bridging payments).

121. There is an option of exempting employers from the bridging payment obligation if the employee already has negotiated redundancy provisions with at least 4 weeks payment. However, this would be inequitable, given the negotiated nature of those redundancy provisions. It would effectively penalise employees who have negotiated redundancy payments (and sacrificed remuneration, leave, or other provisions in order to have redundancy provisions) by providing the same benefit they have ‘paid’ for, to other employees who have not ‘paid’ for it.

122. Notice periods and bridging payments will apply to fixed term and seasonal work (adjusted so that payments do not extend beyond the contracted end date), and to casual work where a pattern of work can be demonstrated. This is positive from an equity perspective since non-standard workers (more likely to be Māori, pacific people and women) will benefit disproportionately.

123. To support HCD claimants, employers would be encouraged to make reasonable changes to support employee retention. Existing provisions (legal obligation, guidance and financial support), mean that placing additional statutory obligations on employers to make reasonable changes to support employee retention is not necessary.

124. To support HCD claimants further, employers would be encouraged to keep jobs open where a reasonable prognosis is made of return to work within six months. As an expectation, not an obligation, this new policy is not expected to be unduly onerous.

Funding and delivery

126. Choices about the scheme's funding arrangements will have implications for the sustainability of the scheme, how well it is able to support the economy at different stages of the economic cycle and during economic shocks, and how independent the scheme is from extraneous influences. The arrangements will also impact on the scheme's outcomes in terms of maintaining equity and transparency (for instance levy setting will ensure that distributional impacts of the levy and overall scheme are clear).

127. The way New Zealanders view and interact with the scheme is also likely to be affected by the funding arrangements – for instance, the level of visibility each worker has of their own payments is likely to impact their expectations from the scheme, and the way they interact with the scheme.

128. Decisions are required on the specific funding mechanism, how much of the burden of funding will be borne by employers and workers, how any funding shortfall will be addressed during the scheme's initial establishment and its ongoing operation.

129. The choice of which agency will deliver the scheme will impact the scheme's ability to achieve the intended objectives. Having a competent and independent entity is important for providing assurance, for instance, that the scheme's employer and worker levy funding will be used for the purpose for which it is collected (rather than diverted to other uses).

130. ACC shares a large number of clients and also has a number of boundary interactions with the health and disability sector as well as the welfare sector. The scheme will make use of the existing performance monitoring and management instruments.

Funding

Options

131. The key choices for funding relate to:

- the respective roles of funding the scheme via levies and/or general taxation
- for levies, the allocation of levy costs between employers and employees.

Consultation findings

132. Employer stakeholders suggested that there should be tax relief for employer contributions or that employers should not be levied at all because the scheme benefits only employees, or that the levy should be set by employer experience ratings.

133. Employee representatives, welfare advocates and individuals raised concerns about the costs of the levy on low-income workers, noting they would be least able to withstand increases in their living costs, especially as many other entitlements to benefits would remain unchanged because they are calculated on gross, rather than net income.

Conclusions and impacts

134. Officials recommend the scheme is funded by a levy against wages and salaries. Employers will be required to pay a specific levy based on their employees' earnings, and to administer the payment of their employee's levies. Employees will have a levy deducted from their pay. The levy payment model replicates that used for employee related ACC levies. A 50:50 split between employer and employee is proposed.

135. The key impacts of these policy choices in terms of the assessment criteria (outlined further below) are:

- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Improves** equity
- **Supports** regulatory costs that are proportionate to intended outcomes.

136. Levies are a good payment model for social insurance because the revenue is needed for a reasonably defined economic input (labour) and a link exists between the amount paid and the benefit received. Most international income insurance schemes rely on levies to meet their costs.

137. A levy-based system is most consistent with the objectives of ensuring support is available to individuals, family and whanau over time, supporting adjustments in the economy through the economic cycle, and keeping regulatory costs proportionate to intended outcomes. This is because a levy can be adjusted to scheme funding requirements much more easily than general taxation; in being tagged to labour cost, it also avoids disincentivising capital investment (albeit to a very minor extent).

138. Employers will be required to pay a specific levy based on their employees' earnings. A levy arrangement allows employers to contribute to the scheme in a more direct manner and targeted way than through general taxation. Levies also provide potential for different funding approaches down the track, for instance risk sharing arrangements (but this would require time for scheme experience to develop to provide a basis for well grounded arrangements). The levy approach however, involves initial implementation costs for employers to ensure that levies can be administered.

139. Employees will be required to pay a specific levy based on their earnings, likely at a different rate than they would contribute if it were through general taxation.

140. A 50:50 split of the rate between employees and employers is recommended because it is simple and allocates costs to both employers and employees, consistent with both groups benefiting from the scheme as well as contributing to the costs and risks the scheme is intended to address. Employees benefit directly in that they receive entitlement; but employers and other workers also benefit from business and economic efficiencies gained from redundancies and improved allocative efficiency over time.

Delivery

Options

141. The key choices for delivery relate to whether to deliver the scheme through a new crown entity or departmental agency, the Accident Compensation Corporation (ACC), or the Ministry of Social Development.

Consultation findings

142. Some submitters (including beneficiary advocates and representatives of the financial sector) expressed concerns that ACC lacks the capability to support people back to work and argued this would be better managed by MSD or private providers. Other submitters, including several Trade Unions, and Māori/iwi representatives expressed concerns about ACC's track record in relation to outcomes for Māori, Pacific people and women.

Conclusions and impacts

143. Officials recommend the scheme is delivered by the ACC. This:

- **Supports** workers back to good jobs and other sustainable outcomes
- **Supports** regulatory costs that are proportionate to intended outcomes.

144. ACC is recommended as the delivery agency because it has existing expertise and infrastructure for levy administration, fund management, claims administration, and case management.

145. As provider of accident, workers' compensation and social insurance, existing processes designed for a similar system. This will significantly improve the ability of the scheme to ensure regulatory costs are proportionate to intended outcomes.

146. Taking responsibility for delivery of the scheme is a significant new responsibility and will mean a period of significant workforce and organisational expansion (involving risk to existing and proposed organisational outcomes).

147. There are expected benefits from economy of scale, and capability as a result of a broader focus on issues impacting worker's returning to work or finding new work.

Governance

148. Governance is the system by which an organisation is directed and controlled. Effective and efficient governance will be important to the scheme's success.

149. While boards of directors are a central element of governance, a governance system is much wider than just the composition and make-up of the board. For the NZII scheme, key choices about how the Governance system should:

- the roles and expectations of ministers,
- the board collectively, and
- monitoring arrangements.

150. Assuming the ACC delivers the scheme, any governance model must be consistent with the framework set by the Crown Entities Act 2004.

Options

151. The key governance choice is how to configure the board of directors that governs the scheme, and how to give effect to Ministers' direction to ensure participation of social partners (representatives and employers and employees) and iwi/Māori and disabled people's organisations in the scheme's governance.

Consultation findings

152. Governance is of particular interest for iwi/Māori. Some submitters (including individuals, Māori/iwi representatives, and advocacy groups) suggested that Māori need to be represented at every level of the scheme with decision-making rights, and that Māori should be involved in co-design and delivery of services for Māori.

153. Feedback from the disability community emphasised that disability representation in governance is essential and that current processes impacting disabled people should not be replicated.

Conclusions and impacts

154. Officials recommend broadening the existing 'skills mix' which guides the appointment of ACC board members, to invite nominations to the board from social partners, iwi/Māori, and disabled people's organisations, and to establish a statutory requirement for the responsible Minister to give due consideration to these nominations.

155. The key impacts of this choice in terms of the assessment criteria (outlined further below) are:

- **Improves** equity
- **Supports** regulatory costs that are proportionate to intended outcomes.

156. This improves equity by ensuring groups most affected by the scheme (iwi/Māori, disabled people, workers and employers) have a voice at key levels of decision-making, and that scheme design and operation will take their perspectives into account. At the same time, the proposed arrangements are aligned with the Crown Entities Act (2004) by ensuring the Board provides collective leadership and accountability that the scheme cost-effectively meets the objectives specified in the Act governing New Zealand Income Insurance.

Regulatory Impact Statement: Establishing a New Zealand Income Insurance Scheme - *Detailed scheme design settings*

Decision sought	*This analysis has been produced for the purpose of informing Cabinet decisions regarding the detailed policy design of legislation to provide for a New Zealand Income Insurance (NZII) scheme, should a decision be made to proceed.*
Advising agencies	*This RIS has been produced by the Ministry of Business, Innovation & Employment; with input from the Accident Compensation Corporation, Ministry for Social Development and the Inland Revenue Department.*
Proposing Ministers	*The Ministers of Finance, Social Development & Employment and Workplace Relations & Safety.*
Date finalised	*22 June 2022*

Responsible Manager
Authorised by: Name: Francis van der Krogt Policy Manager Social Unemployment Insurance Ministry of Business, Innovation and Employment Privacy of natural persons 22 June 2022
Quality Assurance Reviewing Agency:
A cross-agency, independent quality assurance panel convened by MBIE has assessed the executive summary of RIS Two, which sets out design choices and impacts for the proposed NZII scheme.
Quality Assurance Assessment:
The panel considers that this meets the RIA quality criteria.
Reviewer Comments and Recommendations:
In the time available, the panel was not able to review the body of this RIS (which is very extensive) against the RIA criteria. The assessment of the design choices involves comparing a range of alternatives against consistent criteria. The number of design choices involved necessarily requires that only key design choices are presented in the executive summary and multiple options are not discussed in depth. The panel was assured by the NZII project team that all key design choices included in the body of the RIS are presented in the executive summary.

Comments from the panel on earlier drafts of the executive summary for this RIS were addressed to our satisfaction.

In combination with RIS One, a supplementary RIS will be completed before the New Zealand Income Insurance Bill is finalised, including residual decisions to be made by Ministers and potentially incorporated in the Bill. This will allow for the full RIS to be assessed against the RIA quality criteria.

Section 1: General information

Summary of proposal

The opportunity

Unlike many countries, New Zealand does not offer social insurance for those displaced from their jobs (made redundant), or for people who lose work because of health conditions or disabilities but instead provides support through the welfare system.

The focus of this RIS is the detailed design settings of an income insurance scheme, should Cabinet decide that a scheme is to be introduced[7].

This RIS should be read in conjunction with RIS 1: *New Zealand Income Insurance* which was produced to inform Cabinet about whether an income insurance scheme should be introduced in New Zealand.

Key Limitations or Constraints on Analysis

Limitations and constraints underpinning the analysis fall within the following categories:

- Scope
- Interdependencies
- Evidence of the problem
- Quality of data used for impact analysis; and
- Consultation and testing

Scope

In early 2021 Ministers directed officials to focus their work on the development of an insurance-based model. As a result of Ministerial direction, officials did not undertake further work on assessment of alternatives.

Further, Cabinet agreed that the government work with business and union representatives to design an income insurance scheme for public consultation [CAB-21-MIN-0069 refers]. The proposal for a scheme designed by the tripartite group was released for public consultation in February 2022.

Due to the above, no policy interventions outside of the scope of an Income Insurance Scheme (NZII) were considered.

[7] To aide accessibility the proposals in this RIS are also summarised further in the MBIE document: *New Zealand Income Insurance: Summary of Design Choices.*

The scope of this RIS is a comparison of options for the legislative design components that collectively will become the proposed income insurance scheme, subject to a decision to proceed with the scheme.

Decision making is constrained to the options raised in the February 2022 discussion document, feedback on those options resulting from public consultation, and further policy work carried out since then.

Interdependencies

Active Labour Market Programmes (ALMPs)

Some claimants may need access to ALMPs to get support to return to good work. The proposed scheme is likely to surface new and existing unmet demand for ALMPs in the areas of career and job search support, job brokerage, vocational rehabilitation and wrap-around services.

A lack of access to the right support for people at risk of poor labour market outcomes (e.g., due to obsolete or low skill levels or poor job search skills and confidence) will present risks to the effectiveness of the scheme in terms of helping people return to work. An interdependency is therefore availability of, and eligibility criteria for, relevant ALMPs, and how access to ALMPs is prioritised across the population.

MSD supports people at risk of poor labour market outcomes, with tiered intervention and support depending on need and provides a range of ALMPs. Access is determined by eligibility criteria set in secondary legislation. The introduction NZIIS may surface demand for ALMPs that has implications for the prioritisation model, and to the eligibility criteria and level of investment in ALMPs

A cross-agency review of ALMPs is underway as part of the Government's response to the Welfare Expert Advisory Group's report, Whakamana Tāngata. The review includes work on the sufficiency of support for people experiencing displacement including future NZII claimants. As the scope of the ALMP system is broader than support needed for NZII claimants and ALMPs can be expensive, any greater investment in more return-to-work services for NZIIS claimants will need to be carefully targeted so that those across the system most in need of labour market support benefit.

Vocational education and training

Some claimants will either need or benefit from training after displacement to address skills gaps or to learn new skills if their previous occupation is sunsetting. Some claimants who have lost work capacity due to a health condition or disability may only be able to return to a different type of work that they need training to learn (which may be either through a course or on-the-job training).

The scheme may therefore surface demand for additional investment in tertiary education funding, which if not met may constrain the availability of vocational education and training for claimants.

Health services

A related interdependency is the health sector reforms, both of the Health and Disability System and the Mental Health and Addiction system. Some claimants will need access to services in order to address their health condition or disability to return to work (if possible). Access to health services, including mental health and addiction services, will be based on the health system's prioritisation of level of health need and capacity to benefit as well as the availability of these services. Gaps in services will affect how quickly claimants are able to return to work.

The scheme will interact with primary health care and consideration will need to be given to the capacity and capability and support for health practitioners and what health practitioners can undertake work capacity assessments – as they currently do for ACC and MSD. NZIIS may also surface unmet health needs which may create additional pressure for services.

The scheme will also interact with health system funding where services such as long-term residential care or housing modifications are income-tested, and Individualised Funding for disability support.

Skills system

The work of the Regional Skills Leadership Groups and Workforce Development Councils, both established as part of the programme for reform of vocational education, will be important for NZIIS. Their work will support claimants to identify regional labour market and skills opportunities, and improve access to courses, apprenticeships, pre-employment training and qualifications aligned with a region's needs.

Working for Families

The Government agreed to review Working for Families as part of the Welfare Overhaul work programme. Working for Families is intended to improve income adequacy and reduce child poverty, as well as improving work incentives for low-income families. Any reforms from this review would impact NZII in two ways:

- Some NZII recipients will also receive some Working for Families, affecting the overall level of financial support available to these recipients, impacting both income adequacy and work incentives.
- The NZII levy will reduce people's net income. As Working for Families is based on gross income, the levy will reduce the net income of Working for Families recipients. This impacts on the income adequacy objective of Working for Families.

Better Protections for Contractors

A tripartite working group has recommended changes that would seek to clarify the boundary between employees and contractors. The aim is to reduce misclassification of employees as contractors, by making the decision about how to classify a worker more straightforward and providing more encouragement for employers to get it right up front. Those affected (contractors who most resemble employees) are also those likely to benefit most from NZIIS cover, and whose work (other than for their contractor status) is most compatible with NZIIS cover. This work is on a slower timeframe to the NZIIS project.

Evidence of problem

There is international literature on social insurance schemes, and we have drawn on this whenever possible. There are two important qualifications to the relevance of this literature to New Zealand:

- impacts of changes to social insurance schemes are strongly affected by institutional context, including labour law, the interface with other social security systems, and availability of other supporting services (see below); all of which vary significantly between jurisdictions
- all studies focus on the impact of changes to existing schemes, often at the margin, and findings may not be applicable to the introduction of a completely new scheme as proposed here.

We have drawn on all available, relevant New Zealand data (to the best of our knowledge) to increase the robustness of the conclusions reached and our confidence in the underlying assessments.

Refer to RIS 1 for further detail and evidence of the problem.

Quality of data used for impact analysis

A key limitation is much of the qualitative data is derived from information received during public consultation. There is potential bias in the information provided and uncertainty in the magnitude of unquantified costs and benefits. Areas of uncertainty have been considered during options analysis.

There are limitations to how the impacts of the proposals in this statement can be assessed specifically or quantitatively.

Section 2: Problem definition and objectives

Current state within which the action is proposed (status quo)

Job loss due to displacement or a health condition or disability is common in New Zealand

The problem definition is comprehensively set out in RIS 1: *New Zealand Income Insurance* and is included below.

While most workers and employers benefit from a flexible labour market and dynamic economy, people who bear its cost each year in the form of involuntary job losses go largely uncompensated and can suffer serious consequences.

The number of involuntary job losses due to displacement or HCD is large. Each quarter between 140,000 and 190,000 of jobs are destroyed (from firm closures and downsizing) but also created.[8] Many people who are economically displaced (ie. made redundant) are able to line up a job to go to, but many who lose their job - at least 40,000 New Zealanders in an average year – experience an extended period of unemployment. Similarly, a large number of people are incapacitated to some extent by a health condition or disability (HCD). While many people are able to manage their health and work, at least 20,000 people each year have to stop working.[9]

Such job losses, even those for a short duration, can result in:

- large income drops for households, financial hardship and stress
- longer-term income losses, even after re-employment; and for people with HCDs, a risk of leaving employment altogether
- reduced spending; which if widespread, can cascade to further job losses.

Despite a widespread (and potentially increasing)[10] exposure to risks of job loss, most people are unable to negotiate or afford income protection commensurate with the impacts of job loss (due to bargaining power imbalances and the high cost of insurance options) and have little savings to fall back on. Māori and Pacific people (and some segments of ethnic communities) experience higher rates of redundancy and HCD and more limited income protection and savings than other populations. Many who lose their jobs or need to reduce their hours due to a HCD are either ineligible for, or only receive minimal support from, the welfare system, particularly people in couple households.

[8] Statistics New Zealand's Linked Employer-Employee Data (LEED).
9 Household Labour Force Survey (HLFS) data, 2009-2019. This data counts people who have spent at least a month unemployed, so undercounts the number of people displaced due to redundancy or HCD.
10 Changes in technology, climate and demographics have potential to increase labour market disruption (refer Future of Work Tripartite Forum, 2019). The number of workers with reduced work capacity due to a HCD is expected to increase as the population ages.

The large gap in income protection for involuntary job loss in New Zealand (compared to other developed countries) means that the immediate income loss after job loss is substantial. Re-employment rates in New Zealand are high compared with many OECD countries but immediate and ongoing wage effects are more pronounced. [11]

Indicative estimates of the net-present value of wages lost as a result of displacement are between $3.3 billion in a year of economic upswing) and $15.4 billion in a year of very severe economic downswing.[12] There are also productivity losses to workplaces associated with workers with HCD, for instance presenteeism.[13] Many of the people who are disproportionately affected already experience labour market disadvantages, which are compounded by job loss and poor health..

Previous Government decisions

In 2021 the Future of Work Tripartite Forum (the Forum), invited the Government to consider a new income insurance scheme for New Zealand workers.

On 15 March 2021, Cabinet agreed that the government work with business and union representatives to design an income insurance scheme for public consultation [CAB-21-MIN-0069 refers]. This was publicly announced on Budget Day 2021.

In February 2022 a discussion document "A New Zealand Income Insurance Scheme" was released for public consultation, outlining a proposal developed by the Forum. This document was considered by a RIS panel as an interim RIS. The panel did not review the individual design choices in the discussion document, but assessed the summary of the case for change in the discussion document.

This RIS is constrained by the yet to be made decision to proceed with the proposed NZIIS (outlined in RIS 1: New Zealand Income Insurance). It sets out the preferred package of detailed policy settings should Cabinet decide to introduce a scheme in New Zealand.

The detailed design settings are largely constrained to the options set out in the February 2022 discussion document, and further policy work done since then.

Strategic alignment and Government's priorities/direction

Enhancing support for people who lose work due to displacement or health conditions and disabilities relates to the Government's commitment to building a post-COVID-19 economy that is more productive, sustainable, inclusive, and resilient to future shocks.

The proposal also aligns to the 2021 Wellbeing Budget objective of the Future of Work: Lifting Productivity and Innovation.

Counterfactual

In the absence of intervention, we do not expect there would be material changes to the status quo. This assumes no new regulatory measures to mitigate the impact of job loss.

2.2 Regulatory systems already in place

Regulatory systems

11 (2017) Back to Work: New Zealand: Improving the Re-employment Prospects of Displaced Workers, OECD Publishing, Paris http://dx.doi.org/10.1787/9789264264434-en
12 Hyslop, Dean, Dave Maré, Shakked Noy, and Isabelle Sin (2021) Involuntary job loss: welfare effects, earnings impacts and policy options Motu Working Paper 21-06, April 2021 https://motu-www motu.org.nz/wpapers/21_06.pdf
13 Presenteeism arises where people do not feel they can take time off.

The introduction of income insurance would require new legislation and consequential amendments to existing legislation. The regulatory systems already in place and impacted by the proposals in this RIS include:

Accident compensation scheme: At Budget 2022 appropriations were provided and time-limited enabling legislation, the Income Insurance Scheme Enabling Act 2022, was enacted so that ACC could advance preparatory work to support all necessary work for the NZIIS. The legislation and appropriations are intended to ensure that no ACC levy funding is used to further the work on the proposed scheme, and that ACC's resourcing and operation of the accident compensation scheme is not disrupted.

Employment relations system: it may be necessary to establish clear legal standards for determining what is a genuine redundancy and for redundancy procedures before the scheme goes live. This would most appropriately be managed by the Labour Inspectorate and Employment Relations Authority (ERA) which would require additional funding.

Employment standards and relation matters would continue to be the responsibility of the Employment Relations system. Depending on the nature of the dispute or enforcement action the ERA system may experience increased demand, e.g., disputes about what constitutes a redundancy or redundancy procedural matters and disputes and enforcement related to the bridging payment.

Inland Revenue: Inland Revenue will be impacted by levy collection and information sharing, and there will need to be consequential amendments to Revenue Acts.

2.3 Stakeholder engagement

Who are the stakeholders and what is the nature of their interest?

The main stakeholders are employers and employees who will be subject to the NZIIS should it be implemented.

What consultation has already taken place and with whom?

The Forum's proposal was set out in the discussion document *"An income insurance scheme for New Zealand workers"* released for public consultation in February 2022.

Business New Zealand, the New Zealand Council of Trade Unions (NZCTU) and the Government worked together to develop the proposals and at times have expressed differing perspectives and preferences on individual proposals.

Feedback was sought via public submissions, an online survey and targeted engagement with Māori/iwi and key stakeholders. MBIE received around 250 submissions, 2,000 survey responses and held around 50 targeted engagements.

MBIE has also engaged regularly with the Pou Tangata Skills and Employment Iwi Leaders Group since the release of the discussion document.

Overarching stakeholder views on establishing the scheme

Findings the from engagement show mixed views on the proposal. Just over a third of survey respondents supported the proposed scheme, whereas 60% opposed the proposal. Submissions expressed the following views:

- some submitters consider the proposal should proceed since it would fill a significant gap in income replacement for people who lose their jobs,

- another large group support the intent of the proposal but favour alternative solutions, such as improving existing systems (welfare, Kiwisaver, redundancy payments),
- common across the engagement, irrespective of level of support, was concern about the impact of the levy on low-income workers, and the timing of the proposal, given the low unemployment rate and costs of living, and
- submitters have also raised concerns about the pace of the design and implementation of the proposal.

Stakeholder views on key design settings

Definition of displacement/trigger/entry threshold

For redundancies and layoffs, around half of survey respondents thought that the job had to end to qualify (with a reduction in hours worked at the job not covered by the scheme). [14]

Individual submitters and union groups raised that many low-income workers hold multiple part-time jobs, so excluding part-time job loss would disadvantage this group. Some employee advocates and unions raised that resignations can be a no-fault job loss, such as in cases where an employee might be resigning because of issues like bullying and sexual harassment, where they are effectively being forced out of their role.

Many individual submitters supported coverage for full and partial loss of work capacity. Health and disability representatives saw this as one of the most important features of the scheme. Because some health conditions and disabilities fluctuate or deteriorate over time, limiting coverage to full loss of work capacity was seen as inappropriate. Health representatives and some employee representatives emphasised that early intervention and support is important for health and employment outcomes.

There were views from public engagement that the assessment process could be complex, and workers, employers, and health practitioners would need support and guidance to undertake work capacity assessments.

Non-standard work

There were mixed views on what events the scheme should just cover, even among supporters of the scheme.

Some employers and industry representatives thought seasonal, fixed-term and casual workers should not be covered by the scheme. Conversely, advocacy groups, unions, and Māori/iwi representatives were supportive, with the view that workers in these arrangements are likely to be the most vulnerable. There was particular emphasis on the overrepresentation of women, Māori, and Pacific people in non-standard roles, and the consequential inequitable impacts of their exclusion from the scheme. Union groups also raised concerns that excluding casual workers from the scheme could drive employer behaviour to make more of their staff casual employees to avoid scheme liability.

Stakeholders generally agreed that extending coverage to the self-employed would be complex. There was a preference from submitters for excluding self-employed, or for opt-in bespoke options, to avoid gaming. Māori/iwi representatives and health and disability representatives were generally more supportive of the inclusion of self-employed workers and noted that self-employment offers more flexibility and can be more accommodating than employment.

[14] 1591 people responded to the statement in the close-ended survey that "For redundancies and layoffs, to qualify, the job must end. A reduction in hours worked at the job is not covered by the scheme". 31% of respondents strongly agreed, 22% agreed, 17% neither agreed or disagreed, 13% disagreed, 11% strongly disagreed, and 6% didn't know.

Contribution history

There were views from interest groups, individuals and unions that contribution requirements would disadvantage particular groups or more vulnerable workers, e.g. Māori, Pacific people and women. The Pou Tangata Skills and Employment Iwi Leaders Group has expressed particular concern about the disproportionate impact of the contribution requirements on Māori and recommended revisiting the policy.

Immigration status

There were concerns from individual submitters and union groups about temporary visa holders paying the levy but not being able to benefit from the scheme. People thought this was unfair and some employers were concerned this could impact the attractiveness of working in New Zealand. However, over half of survey respondents supported limiting eligibility to New Zealand Citizens and residents.[15]

Stakeholder views on entitlements

Replacement rate and duration

Stakeholders generally agreed that 80% was a sufficient replacement rate, with some individuals and employers thinking it was too high (and hence risks moral hazard effects, high costs). Some welfare advocates were concerned about the discrepancies between welfare support and the scheme. Most stakeholders generally agreed that six months was an appropriate duration for displacement.

Extension of cover duration up to 12 months

Survey respondents were mixed on whether financial support could be extended for up to 12 months for people undertaking appropriate training or vocational rehabilitation programmes.[16]

Health and disability advocates thought it was potentially too short for health conditions and disabilities. Some union groups thought it should be longer to better support re-training.

Income abatement thresholds and individualised entitlements

Just over half of survey respondents thought that payments should not be affected if the worker has any assets or they receive money from other sources.[17] . The majority of survey respondents agreed that payments should not be affected if others in their house continued earning.[18]

Stakeholders who engaged through targeted meetings and submissions were generally in support of individualised entitlements and ability to take on part-time work.

Case management and other support to return to work

[15] 1717 people responded to the statement in the close-ended survey that "Only New Zealand citizens and residents will be eligible for insurance payments". 46% of respondents strongly agreed, 16% agreed, 14% neither agreed or disagreed, 7% disagreed, 14% strongly disagreed, and 3% didn't know.

[16] 1512 people responded to the statement in the close-ended survey that "While financial support will be for a maximum of six months, this could be extended for up to 12 months for people undertaking appropriate training or vocational rehabilitation programmes". 20% of respondents strongly agreed, 18% agreed, 11% neither agreed or disagreed, 11% disagreed, 37% strongly disagreed, and 4% didn't know

[17] 1598 people responded to the statement in the close-ended survey that "Payments should not be affected if the worker has any assets or they receive money from other sources". 36% of respondents strongly agreed, 19% agreed, 11% neither agreed or disagreed, 10% disagreed, 19% strongly disagreed, and 5% didn't know.

[18] 1599 people responded to the statement in the close-ended survey that "Payments should not be affected if others in their house continue earning". 42% of respondents strongly agreed, 19% agreed, 11% neither agreed or disagreed, 8% disagreed, 16% strongly disagreed, and 4% didn't know

While the scheme will not fund any expansion to existing services or new support services outside of providing case management to claimants, union and employers raised the importance of NZII claimants accessing the right support when they needed it. Without access to the right support, stakeholders thought there would be a risk to the effectiveness of the scheme in terms of helping people return to work.

Concerns were raised by unions, welfare advocates and health experts about the need for greater investment in ALMPs and health services, including integrated employment support for people with mental health conditions.

Stakeholder views on obligations

Work obligations

The majority of submitters agreed that claimants should be required to demonstrate that they are searching and preparing for work, and most thought that these obligations should be waived if someone's health condition or disability limits what they can do.[19] Some welfare advocacy groups stressed the importance of having obligations that were supportive of return-to-work activities without being burdensome. Some Māori representatives emphasised the importance of claimants having tino rangatiratanga over their employment decisions. Some union groups also thought that obligations should be waived if someone is pursuing training.[20]

Most stakeholders were in support of claimants receiving notice and time to meet obligations in cases of non-compliance, with the majority agreeing that payments could be temporarily stopped as a last resort. Some representatives from advocacy groups emphasised that punitive sanctions would be against the intent of the scheme.

Bridging payments and notice periods

Survey respondents were mixed on whether permanent employees should be given four weeks' notice and that their employer should continue to pay wages for four weeks at 80 percent when the job ends.[21]

Employers and business representatives were generally unsupportive of a bridging payment to deter spurious redundancies. Many thought it was too complex and that it could impact existing redundancy packages in the future. Some large employers shared that the bridging payment would be too small to deter redundancies, while other smaller employers thought it was unaffordable.

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[19] This was also reflected in responses to the close-ended survey on the scheme. 1545 people responded to the statement that "Claimants will need to be able to demonstrate that they are searching for and preparing for work". 48% of respondents strongly agreed, 21% agreed, 10% neither agreed or disagreed, 6% disagreed, 11% strongly disagreed, and 4% didn't know. 1550 people responded to the statement that "Obligations on people receiving payments can be waived if someone's health condition or disability limits what they can do". 22% of respondents strongly agreed, 23% agreed, 19% neither agreed or disagreed, 10% disagreed, 18% strongly disagreed, and 8% didn't know.

[20] Survey respondents were mixed on obligation waiving for training. 1539 people responded to the statement that "Obligations on people receiving payments can be waived if people are in an approved training or rehabilitation programme". 18% of respondents strongly agreed, 25% agreed, 20% neither agreed or disagreed, 10% disagreed, 19% strongly disagreed, and 8% didn't know.

[21] 1594 people responded to the statement in the close-ended survey that "Permanent employees will be given four weeks' notice and their employer will continue to pay wages for four weeks at 80 percent when the job ends". 23% of respondents strongly agreed, 18% agreed, 13% neither agreed or disagreed, 8% disagreed, 33% strongly disagreed, and 5% didn't know.

There was concern from employee representatives and individuals about businesses "ducking" their obligations or not being able to pay it in the case of a closure. Some individuals shared concerns about the moral hazard risk of sham redundancies, which the bridging payment seeks to address.

Obligations on employers for HCD claimants

Stakeholders were mixed on obligations for HCD claimants. Individuals, unions, and health and disability advocates generally agreed that it was reasonable to expect employers to support claimants in various ways. Employers and business representatives thought this would be a considerable ask for smaller businesses. Some health and disability representatives thought the scheme represented an opportunity to improve employer's perceptions of their responsibility to HCD employees, such as making reasonable accommodations and supporting people to return to work.

Stakeholder views on funding and delivery

Stakeholder views on funding Employer stakeholders suggested that there should be tax relief for employer contributions or that employers should not be levied at all because the scheme benefits only employees, or that the levy should be set by employer experience ratings.

Employee representatives, welfare advocates and individuals raised concerns about the costs of the levy on low-income workers, noting they would be least able to withstand increases in their living costs, especially as many other entitlements to benefits would remain unchanged because they are calculated on gross, rather than net income.

Stakeholder views on delivery

Some submitters (including beneficiary advocates and representatives of the financial sector) expressed concerns that ACC lacks the capability to support people back to work and argued this would be better managed by MSD or private providers. Other submitters, including several Trade Unions, and Māori/iwi representatives expressed concerns about ACC's track record in relation to outcomes for Māori, Pacific people and women.

Stakeholder views on Governance

Governance is of particular interest for iwi/Māori. Some submitters (including individuals, Māori/iwi representatives, and advocacy groups) suggested that Māori need to be represented at every level of the scheme with decision-making rights, and that Māori involvement should also include co-design and delivery of services for Māori.

Feedback from the disability community includes that disability representation in governance is essential and that current processes impacting disabled people should not be replicated.

Engagement with Māori/iwi and the nature of their interests

Fundamental to the NZIIS design and delivery is ensuring it benefits Māori and honours the Crown's obligations under Te Tiriti o Waitangi. The scheme design is applying the principles of kāwanatanga, tino rangatiratanga and rite tahi.

To ensure the scheme's design applies these principles and the Crown honours the Treaty of Waitangi officials have worked closely with the Pou Tangata Skills and Employment Iwi Leaders Group technicians and engaged with iwi/Māori representatives, including four regional hui.

Findings from this engagement identified that iwi/Māori have interests in the governance model and how Māori will be represented in governance as well as ensuring credibility and trust in the scheme and delivery agency (noting concerns about issues of distrust and track record for achieving outcomes for Māori in the proposed delivery agency) by Māori to remove barriers to access. Delivery of the scheme should be grounded in Kaupapa Māori, including provision of aspects such as case management by Māori/iwi providers.

While some identified the value of the proposal for individual workers and wider whānau and communities, there were concerns raised. In particular about the impact of the levy on low-income earners and that a too stringent contribution history requirement for eligibility would disproportionately impact Māori in terms of being able to access the scheme. There were also concerns about iwi organisations that self-insure and use redundancy as a last resort, so would not stand to benefit.

Further engagement is planned

We intend to continue to engage with the Pou Tangata Iwi Leaders Group technicians and to consult with interested members of the various stakeholder groups as the policy development process and implementation progresses to inform future Cabinet decisions and design.

Objectives sought in relation to policy problem

What are the objectives or outcomes?

Drawing on the above problem definition, the following policy objectives (taken from RIS 1) are proposed.

1. **maintain living standards of workers and their families and whānau in the period after job loss**
    - *reduce direct immediate impacts of economic displacement and health-related job losses*
    - *including short-term income losses and resulting effects on individual, family, whānau and community well-being*
2. **support workers back to good jobs and other sustainable outcomes**
    - *support re-employment of economically-displaced people in jobs with comparable wages and conditions to their previous ones*
    - *support employment of people with HCDs in jobs consistent with their skills and work capacity; or facilitate orderly, dignified exit from employment*
3. **support the economy to adjust more effectively to structural change, shocks or downturns**
    - *reduce productivity losses from poor job matching*
    - *reduce costs of poor health outcomes, including reduced work capacity for health-related reasons*
    - *reduce economy-wide impacts of displacement, including risk aversion (negative consequences and attitudes towards displacement may work against the adaptability and resilience needed in a dynamic economy)*
    - *cyclical macro-economic effects*
    - *impacts on employment and production.*
4. **improve equity**
    - *across the economy (resulting from displaced persons bearing a disproportionate share of the costs of job reallocation)*
    - *between people with different incomes*
    - *between groups of people with 'comparable' circumstances*

5. **ensure regulatory costs are proportionate to intended outcomes including:**
    - *administrative costs (to government)*
    - *financial and compliance costs to businesses*
    - *financial and compliance costs to workers*

Criteria used to evaluate options against the status quo

The primary criteria for assessing the options will be its effectiveness in meeting each of the five objectives derived from the problem definition:

1. Will the proposed option maintain living standards for workers and their families and whānau immediately after job loss?
2. Will the proposed option support workers back to good jobs and other sustainable outcomes?
3. Will the proposed option support the economy to adjust more rapidly to structural change, shocks or downturns?
4. Will the proposed option improve equity?
5. Will the option ensure regulatory costs are proportionate to intended outcomes?

The criteria are equally weighted. They are materially similar to the criteria that were used in the 2022 discussion document and RIS 1, with the addition of criteria 5.

The options have been analysed against these criteria, using the status quo as a baseline.

Tax policy framework criteria

The tax treatment of NZII payments relates specifically to the tax policy framework, the criteria used is consistent with how tax policy is analysed. These are:

1. Certainty – individuals and firms will have a clear understanding of how the scheme works in the context of the tax system.
2. Consistency – maintains consistency with existing tax frameworks, including the tax treatment of the analogous accident compensation scheme.
3. Compliance costs – compliance costs should be minimised as far as possible.
4. Administration – administrative costs should be minimised as far as possible.

Summary of Proposed Approach

How will the agency's preferred approach work to bring about the desired change? How is this the best option?

Introduction of a New Zealand Income Insurance Scheme

In early 2021 Ministers directed officials to focus their work on the development of an insurance-based model. As a result of Ministerial direction, officials did not undertake further work on assessment of alternatives to this proposal.

In February 2022, MBIE released a public discussion document "A New Zealand Income Insurance Scheme" which sought feedback on whether there was a case for a NZII scheme and outlining possible policy settings. Feedback from public consultation has been considered in the development of the advice.

If a decision is made to proceed with the scheme, a number of key design decisions are required. The proposals MBIE recommends constitute the scheme are covered in detail in Parts A – G of this document, as outlined below:

- Part A: Options for scheme coverage
- Part B: Options for entitlements
- Part C: Options for obligations of recipients
- Part D: Options for obligations on employers
- Part E: Options for delivery and funding
- Part F: Options for governance
- Part G: Options for interactions with other legislation

Section 3: Options identification PART A (Options for Scheme Coverage)

PART A - COVERAGE

The scheme's coverage settings are key to meeting the objectives of the scheme. Scope of coverage is a fundamental driver of the scheme's costs. It establishes who can make a claim, the circumstances of job loss that can lead to a claim, and the conditions a worker or their employer must meet to claim. Any significant increase to the scope of cover indicates a higher levy rate would likely be needed, and any decrease would indicate a lower levy.

Coverage decisions have significant impacts on the equity of the scheme. Decisions on which working arrangements will be covered have subsequent equity impacts because workers of different ages tend to be represented more within some working arrangements than others, and similarly there are gender, ethnicity, and other biases towards some working types. Socio-economically disadvantaged groups tend to be overly represented in non-standard working arrangements, so there is a risk that coverage decisions could entrench the existing labour market related disadvantage some groups experience.

Coverage decisions will also impact on the Government's ability to meet its obligations under the Treaty of Waitangi. Māori outcomes are intertwined with the outcomes of those in non-standard work – for instance Māori are over-represented non-standard work and are more likely to be made redundant when in permanent work.

Scheme coverage – Proposal 1: Definition of displacement/trigger/entry threshold

This issue is about defining the scope of coverage by considering the events and/or circumstances that will trigger coverage for job loss. The definition of displacement is important because it forms the trigger for access to the scheme. The scheme's intent is to support workers who have been genuinely displaced for no fault of their own. The definition therefore needs to exclude situations where the employee chooses to end the employment relationship or is dismissed on the grounds of poor performance or misconduct.

The following options were considered:

- *Option 1.1: Displacement defined as involuntary loss of work due to the disestablishment of a job. Excluding voluntary redundancy and situations where an employee chooses to end the employment relationship and where an employee is dismissed on the grounds of poor performance or misconduct, as well as constructive dismissals.*
- *Option 1.2: Displacement defined as involuntary loss of work due to the disestablishment of a job, and including instances of voluntary redundancy, which will be covered. Exclude situations where an employee chooses to end the employment relationship (including where this is determined to be a constructive dismissal) and where an employee is dismissed on the grounds of poor performance or misconduct (Preferred).*

The preferred option is to define displacement as involuntary loss of work due to the disestablishment of a job, including instances of voluntary redundancy (option 1.2). This recognises that a voluntary redundancy, despite the name, is a no-fault job loss - it can only occur following a process initiated and led by the employer to identify jobs that will be lost, and those who accept voluntary redundancy do not 'cause' the job loss.

Excluding constructive dismissals does carry some risk that employees who would have been made redundant but have instead left under circumstances that are later found to be a constructive dismissal, will not be covered by the scheme. Some of these could be employees who have left a job due to bullying or harassment.

However, there is no way to identify these employees prior to a determination by the Employment Court or Employment Relations Authority, and it may not always be possible even with a determination. However, any employees whose job loss is determined to be a constructive dismissal would expect the employer to be subject to a monetary remedy covering any of the employees' losses as a result of the constructive dismissal.

Key impacts on directly affected stakeholders:

Employers – Will support employers offering voluntarily redundancy to workers when the outcomes sought through a change process can be achieved by identifying which specific employees will lose their job through self-selection. This is also likely to lead to higher levels of employee engagement following an organisational change process, because self-selection supports employee engagement, and productivity.

Employees – Covering voluntarily redundancies means that employees most vulnerable to job loss, and most at risk of wage scaring, are more likely to remain employed while others are more likely to opt to leave. It supports employee involvement in decisions affecting them, and positive employer/employee relationships.

Assessment of options for definition of displacement/trigger/entry threshold

	Criteria					
	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment

Options identified							
	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 1.1:	++	++	++	+	+	++
	Option 1.2: (preferred)	++	++	++	++	++	++

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 2: Part-time and partial job loss

Working people can be exposed to total and partial displacement. The proposed scheme could cover total loss only or also cover degrees of partial loss. The main questions are whether to cover the loss of part-time work or the partial loss of a full-time job. Excluding part-time workers would significantly limit insurance coverage. The proposed scheme could exclude coverage for multiple job holders in stances where only one job is lost. However, this would significantly disadvantage this group, because they would only qualify for insurance in the rare event, they lost all of their jobs at the same time. Excluding part time workers would disproportionately disadvantage Māori, Pacific people, and women who are more likely than others to be part time workers.

The following options were considered:

- *Option 2.1: Coverage limited to full time jobs (for displacement the complete loss of the job and for HCD the loss work capacity).*
- *Option 2.2 Coverage for full time and part time work (for displacement the complete loss of the job and for HCD the loss of work capacity to do that job) (Preferred).*
- *Option 2.3 Coverage for reduction in hours in a job, for full time or part time jobs (for both HCD and displacement).*

The preferred option is coverage for full time and part-time work, with the scheme covering people who have experienced full job loss due to displacement, and for people who have experienced the loss of work capacity due to a health condition or disability (option 2.2)'. This approach ensures the most significant instances of displacement would be covered and manages scheme costs.

The option to cover reduced hours (not just job losses) for displacement (not HCD) would add significant complexity and cost to the administration of the scheme (requiring the scheme administrator to determine which employees faced 'no fault' hours reductions, and those which faced reductions for reasons such as performance, personal choice etc). It would also allow employers to avoid the obligation to make bridging payments to employees, while still making those employees eligible for the scheme's income replacement payments (by reducing hours significantly rather than making the employee redundant).

Despite reduced hours situations being excluded from scheme coverage, employees who face a proposal to reduce their hours will have more protection than the status quo. This is due to the scheme's proposed redundancy cover and bridging payment obligations.

An employer cannot unilaterally reduce an employee's contracted hours. Proposals from employers for significant reductions (generally more than 20% reduction is considered significant) will generally trigger a workplace change process, unless the employee agrees to the change, or has previously contractually agreed that their hours can be changed without their agreement (previous contractual agreement to changed hours is not thought to be a common feature in employment agreements, but how often it occurs is not known)

If an employer proposes reducing the hours for the position through a workplace change process, this would generally trigger an offer of redundancy unless the employee can be offered another substantially similar position. This means employers currently face significant costs (redundancy payments) in most situations where they seek to reduce an employee's hours if the employee has negotiated redundancy provisions, but few costs where there are no negotiated redundancy provisions. The universal application of bridging payment obligations means that employers who seek to reduce employee hours will all face that cost if an employee has not agreed to the reduced hours. As well, the income replacement payments employees will be eligible for after redundancy will also mean that for many employees the risk of not accepting a proposal to reduce their hours is reduced significantly.

Reduction in hours for due to health condition or disability is covered, which recognises that a requirement for full loss of work could lead to presenteeism, poorer health and employment outcomes (because conditions would need to become severe before insurance became available) and more people becoming fully detached from employment. The option proposed means cover would be provided where there is significant loss of work capacity and expands the group that the scheme helps with maintaining living standards in these circumstances, supporting more workers back to good jobs (or potentially supporting them to remain in their current job). It has positive equity impacts since Māori, Pacific People and women are more likely to be in the group covered than others.

Key impacts on directly affected stakeholders:

Employers – means that engagement with e employees, including though workplace change processes, remains the primary method to change the conditions of, or disestablish, any position.

Employees – This option does mean that workers with the same level of reduced hours are treated differently, depending on whether the reduction comes from complete loss of a part-time job, or from partial loss of a full-time job, or if was because of economic or health reasons. However, it means that the instances of displacement that are most impactful on employees (full job loss, or significant reduction of hours where the employee does not agree to the change and is made redundant) are covered. It also supports job attachment for those with health conditions and disabilities by allowing cover for partial loss.

Assessment of options for Part-time and partial job loss

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 2.1:	++	+	+	+	+	+

	Option 2.2: (preferred)	++	+	+	+	++	++
	Option 2.3:	++	+	+	+	+	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Scheme coverage – Proposal 3: Health and disability coverage/trigger and assessment

Determining the trigger for health and disability coverage and the corresponding work assessments for income insurance is complex. This is because people's experiences differ significantly, even within a shared condition or disability, and it can be difficult to identify the extent to which a health condition or disability impacts someone's ability to work.

The following options were considered:

- *Option 3.1: Coverage provisions for any health condition or disability that results in a reduction of capacity to work of at least 50% and that is expected to last for no less than four working weeks (Preferred).*
- *Option 3.2: Coverage provision for any health condition or disability that results in a full loss (100%) of work capacity and expected to last for no less than four working weeks*
- *Option 3.3: Coverage provision for any health condition or disability that results in a reduction of least 25% of work capacity and expected to last no less than four working weeks*
- *Option 3.4 Coverage provision for any health condition or disability that is expected to last no less than four working weeks*

The preferred option is for the scheme to cover any health condition or disability that results in a reduction of work capacity of at least 50% and that is expected to last for no less than four working weeks (option 3.1). Health practitioners would certify a claimant's work capacity in the form of a medical certificate with supporting evidence from the claimant's employer as required and appropriate.

Focusing on the extent to which the health condition or disability rather than focusing on the types of health conditions avoids arbitrary distinctions between conditions and reduces the complexity of eligibility assessments. Mental health and musculoskeletal conditions are likely to make-up a significant proportion of claims and given the prevalence of these conditions, broad coverage could increase scheme costs. However, excluding some conditions from the scheme would be seen as unfair and difficult to justify. Additionally, some evidence shows that covering partial loss of work capacity in the early stages of musculoskeletal or mental health conditions leads to savings.[22]

[22] Viikari-Juntura, E., Leinonen, T., Virta, L.G., Hilijanen, I., Husgafvel-Pursiainen, K., Autti-Ramo, I., Rissanen, P., Burdorf, A., & Solovieva, S. (2019). Early part-time sick leave results in considerable savings in social security costs at national level: An analysis based on a quasi-experiment in Finland. Scand J Work Environ Health, Mar 1:45(2), 203-208. Doi: 10.5271/sjweh 3780. Epub 2018 Oct 19. PMID: 30338336

Allowing partial payments to cover lost hours rather than full job loss is associated with shorter sickness absence and higher work participation. This can create gains, such as slowing skill and earnings deterioration, maintaining a connection with the employer and allowing for a gradual return to work, as well as signalling that disabled people and people with health conditions have valuable contributions to make to the workplace.

Further, suitable work can support positive benefits for health, especially mental health. Restricting partial payments to those experiencing a reduction of at least 50% work capacity and expected to last for no less than four working weeks limits costs to the scheme. People experiencing loss of work capacity below this 50% would be expected to use sick leave.

Coverage for loss of 50 percent of work capacity is an important difference from displacement through redundancy, where coverage is only provided for complete job loss. This difference will bring some additional complexity and regulatory costs, e.g., assessment process and support and education for workers, employers and health practitioners. But these costs are outweighed by the benefits of covering workers with health conditions or disability as outlined above. The option aligns with current ACC practice and is similar to assessment processes in the welfare system. ACC considers this option is manageable and will work with health practitioners and people with lived experience to design a feasible and workable, assessment process. People experiencing loss of work capacity who do not meet the eligibility criteria would be able to use sick leave but workers with limited or no sick leave could be disadvantaged.

Key impacts on directly affected stakeholders:

Employers – Supporting workers that are experiencing a reduction in capacity (versus solely supporting full job loss) helps to reduce presenteeism in the workplace that affects workplace productivity.

Employees – People experiencing loss of work capacity below this threshold would be expected to use sick leave. This provision could disadvantage workers who have limited or no sick leave, or incentivise people to reduce their hours in order to qualify.

Assessment of options for HCD coverage/trigger and assessment

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 3.1: (preferred)	++	+	+	++	++	++
	Option 3.2:	+	0	+	+	+	+
	Option 3.3:	++	+	+	++	+	+
	Option 3.4:	++	0	0	++	++	-

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 4: Fixed-term and seasonal employees

Most working New Zealanders (1,702,600 people, at the end of December 2020) are in permanent, full-time employment (at least 30 hours per week). However, a significant portion of the labour force are engaged in non-standard working arrangements.

Coverage of non-standard employment is challenging for income insurance because expectations of ongoing work are less clear, and because 'displacement' events can be less clear-cut.

Covering fixed term and seasonal employees if they are displaced before the planned end of their employment agreement aligns with the intent of the scheme.

The following options were considered:

- *Option 4.1 cover fixed term / seasonal workers if they are displaced before the planned end of an employment agreement(Preferred)*
- *Option 4.2 extended cover in circumstances of regular pattern of work and a reasonable expectation of future work (preferred).*
- *Option 4.3 extended cover for fixed term and seasonal employees for HCD*
- *Option 4.4 exclude fixed term and seasonal employees from the scheme*

The preferred option is to cover fixed term and seasonal workers if they are displaced before the planned end of a time-limited employment agreement, with entitlements covering the remainder of the employment agreement or the maximum length of coverage allowed by the scheme, whatever is shorter (option 4.1).

This option would be paired with option 4.2, which provides coverage to fixed-term and seasonal workers beyond the end of the employment agreement, where a regular pattern of work is evident and a reasonable expectation exists of future income. These are defined as:

- Regular pattern of work: workers may establish a pattern of work by repeatedly taking fixed-term or seasonal contracts with the same employer.
- Reasonable expectation of future income: although an expectation will be clearest in situations where an agreed contract is in place for work, a seasonal worker may have worked regularly for the same employer so that the next season's work is part of their employment expectations.

Covering casual, fixed term, and seasonal employees, but with allowances made for the nature of entitlements and circumstances triggering entitlement, means these workers can be covered with little impact on levy rates, and will broaden the numbers of workers who receive support to find good work post job-loss, and maintain their living standards during that period. It will have positive equity impacts as non-standard workers are more likely to be Māori, Pacific People, and women, however. However regulatory costs will increase somewhat because of the complexity involved in identifying the working arrangement for claims from these groups and assessing / verifying the claim.

Key impacts on directly affected stakeholders:

Employers – May be motivated to avoid giving fixed term and seasonal employees a reasonable expectation of future income, to avoid bridging payments.

Employees – This option covers vulnerable workers, and supports Māori workers, who are overrepresented in fixed term and seasonal work. Fixed term employees who have a reasonable expectation the employment will continue (be rolled over) past the contractual end-date would be eligible for support if they meet the criteria.

Assessment of options for fixed term and seasonal worker

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 4.1: (preferred)	+ +	++	+	++	0	++
	Option 4.2: (preferred)	++	+	0	+	+	++
	Option 4.3:	+	+	+	+	+	+
	Option 4.4:	0	0	0	-	0	-

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 5: Casual workers

It can be complicated to include casual workers in income insurance schemes because there is not always a reasonable expectation of future income, and it can be difficult to prove a job loss has occurred. Casual employees are unlikely to be terminated without the formality of a workplace change process leading to redundancy, but instead may simply not be offered any further work (so other triggering events need to be identified).

The following options were considered:

- *Option 5.1 Casual employees included if conditions are met (Preferred).*
- *Option 5.2 Casual employees are excluded*
- *Option 5.3 Scheme determines nature of employment where an employee worker is clearly permanent part-time even though their employment agreement is casual (preferred).*

The preferred approach is to use a combination of 5.1 and 5.3. Option 5.1 is to include casual workers if conditions are met. Further work is required to determine the triggering events for casual employees to claim for displacement (as for fixed term and seasonal workers). However it is expected that events that would lead to redundancy for other workers would be included, such as large scale weather events, business closures, significant supply chain failures etc (recognising that it is highly unlikely a casual worker would be made redundant in these circumstances (without guaranteed hours of work, it is unlikely a casual employee's position could be identified as one that is affected by a workplace change proposal, or could be made redundant directly as a result of the process).

A principled approach would be taken to inform specific criteria or evidence that would determine whether casual employees' would receive displacement payments, through option 5.3:

- the scheme would pay for the 'loss of reasonably anticipated income'
- income insurance entitlements would be based on an 'established pattern of work'
- where an employee is clearly not casual despite their employment agreement stating they are (for instance where a pattern of work extends back more than a year) the scheme could determine that the nature of employment is permanent part time (and provide cover as such), using the same criteria used by the Employment Relations Authority and the Employment Court (but potentially making a different determination than might subsequently be made by the Authority or Court)

There is a chance that some workers will try to receive coverage when they would not expect to be working otherwise, and it will be more administratively complex to include them. However, including casual workers has benefits for equity reasons, distributional impacts, and because it benefits the scheme to have a wider pool of participants.

Key impacts on directly affected stakeholders:

Employers – Including casual workers means employers are not motivated to make employees casual to avoid scheme costs.

Employees – Casual workers can access income support when experiencing genuine displacement.

Assessment of options for casual workers

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 5.1: (preferred)	+	+	0	+	-	0
	Option 5.2:	0	0	0	-	0	-

	Option 5.3 (preferred)	+	+	0	+	-	+

Key:
++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 6: Contribution requirements

Income insurance schemes usually require claimants to satisfy minimum contribution or employment requirements. A minimum contribution or employment period is a specified period of weeks, months or years during which a worker must have contributed to an insurance scheme, or been in employment, to be eligible for support from the scheme.

Contribution and prior employment requirements can provide incentives to work, mitigate abuse of insurance schemes and promote financial sustainability, but can also mean some groups of workers miss out on insurance support, even if they have contributed, and genuinely need support.

The following options were considered:

- *Option 6.1 To qualify for insurance payments, workers would need to have contributed to the scheme for six months or more, over the 18 months preceding the claim. Time on parental leave would be included in the qualifying period (Preferred).*
- *Option 6.2: 3 months over the previous 18 months*
- *Option 6.3 No contributions requirement*

The preferred option is requiring workers to contribute to the scheme for six months or more, over the 18 months preceding the scheme (not limited to one employer). Time spent on statutory parental leave would be counted towards the requirement.

The six months contributions requirement in each 18-month period recognises that a contributions period does usefully manage some scheme risks, and helps ensure regulatory costs are manageable, without raising excessive barriers to access (as observed in a number of international schemes). It is positive from an equity perspective since statutory parental leave is still accessed almost exclusively by women, and because many non-standard workers will be able to meet the requirement, and these are more likely to be Māori, Pacific People and women. These positive impacts are not universal though, since any contributions history requirement will disadvantage young workers, who are most likely to not be eligible as a result.

A more restrictive contributions history requirement could have the benefit of reducing levies, and therefore regulatory costs, as well as positively impacting equity since low-income earners would benefit more than others from the lower levies. However, these benefits would be outweighed by the negative impacts since fewer workers would receive support to find good work and to maintain their (and their family / whanau's) living standards, with associated equity impacts (non-standard workers would be those most likely to be ineligible, and they are disproportionately Māori, Pacific People and women).

Not imposing any contribution history requirement would have positive equity impacts because young people, followed by Māori, Pacific People and women are more likely than others to be unable to meet any requirement. It would also increase the pool of workers who can benefit from the scheme's income support and assistance into good work. However, these benefits are outweighed by the risk of increased regulatory costs that would be created, and increased scheme costs

Key impacts on directly affected stakeholders:

Employers – This option could result in presenteeism from those experiencing health and disability until they have hit their contribution requirements.

Employees – A generous contribution requirement means that more people in non-standard working arrangements will be eligible for the scheme, and people who have had to take time out of work for various reasons.

Assessment of options for contribution requirements

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 6.1: (preferred)	+	N/A	-	-	+	+
	Option 6.2:	+	N/A	-	-	+	+
	Option 6.3:	++	N/A	+	++	- -	+

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 7: Residency and visa requirements

Income insurance coverage (and contributions) could be limited to certain categories of workers according to their immigration status. Immigration status is a proxy for connection to the New Zealand labour market: the stronger a person's connection to the New Zealand labour market, the more important it is to cover them through New Zealand Income Insurance, since it is desirable to support their return to good work. This is clearly the case for New Zealand citizens and residents.

The case is less strong for temporary work visa holders. Temporary work visa categories vary, and include working holiday visas, international student visas, and partner visas. For working holiday makers and international students, their main purpose for being in New Zealand is to holiday or to study. Employment is a secondary activity.

For closed work visa holders (such as the Accredited Employer work visa which replaces the essential skills visas), employment is their main reason for being in New Zealand, but their visa is linked to a particular employer and generally used to fill skills gaps that cannot be filled by domestic workers. If that worker is made redundant, or becomes unable to work, they will lose their eligibility to work in New Zealand.

How the scheme treats migrants with temporary work rights is a significant issue since they comprise a large group of the workforce. In June 2019 there were 268,883 temporary migrants with work rights. The number is expected to rise this year with border restrictions easing.

The following options were considered regarding the treatment of temporary migrants:

- *Option 7.1: NZ citizens and residents are fully covered (and required to contribute). All other visa holders are excluded from levies and coverage.*
- *Option 7.2 NZ citizens and residents fully covered (and required to contribute) and all other visa holders are excluded from coverage but not levies.*
- *Option 7.3 NZ citizens and residents are fully covered (and required to contribute). All other visa holders will need to reside in NZ continuously for two years before becoming eligible. All visa holders will need to contribute to the scheme (Preferred)*

The preferred option is for NZ citizens and residents to be fully covered and required to contribute, and for all other visa holders to reside in NZ continuously for two years before becoming eligible (option 7.3). This option supports the maintenance of living standards for workers and their families and whanau immediately after job loss, supports workers back to good jobs and other sustainable outcomes, and supports the economy to adjust more rapidly to structural change, shocks or downturns. There are mixed effects on equity since New Zealand citizens' and residents' position in the labour market is protected, while holders of temporary visas remain somewhat disadvantaged by the proposed qualifying period

The proposed option supports scheme objectives by covering a broad group of workers, thus supporting more workers back to good work and with income maintenance following job-loss, while avoiding any significant distortion of employer hiring incentives. The broader coverage also ensures broader support for the economy during structural change, shocks and downturns. It is mixed from an equity perspective as there are more stringent requirements for eligibility based on visa status.

We considered excluding temporary migrants from levies and coverage entirely because scheme coverage is generally inconsistent with the basis for their eligibility to be in New Zealand. However, excluding temporary migrants from the scheme (and therefore the levy) could disadvantage New Zealand job seekers through reducing the cost of temporary migrant labour relative to residents and citizens.

Because of this, the Forum originally proposed in the discussion document that temporary work visa holders would not be eligible for coverage, but they and their employers would still contribute to the scheme's costs. There were strong views from the public that it was not fair to levy workers who would never be eligible for the scheme.

The preferred option outlined above strikes a balance between the inequity of levying temporary workers but not covering them, and the labour market risks of excluding them from coverage and levies. It requires temporary migrants to demonstrate a connection to New Zealand, ensuring that those migrants who are well-established in New Zealand would receive support to find good jobs after an ED or HCD related loss of work.

The proposal to differentiate access to the scheme for temporary migrants may potentially engage the right to be free from discrimination in the New Zealand Bill of Rights Act 1990. This may be justified by the policy objectives, but this proposed limitation and justification will need further testing as the Bill is drafted. We are seeking further legal advice from the Crown Law Office on this issue.

Key impacts on directly affected stakeholders:

Employers – This option does not distort hiring incentives, as exempting migrants from levies all together could make temporary migrant labour more attractive to employers.

Employees – This option means migrants who have contributed in New Zealand for 2 years are eligible for the scheme.

Assessment of options for residency and visa requirements

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
Options identified	Option 7.1:	-	**0**	+	-	0	0
Options identified	Option 7.2:	+	+	+	- -	+	**0**
Options identified	Option 7.3: (preferred)	+	+	+	-	+	+

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 8: subsequent claims

The scheme could allow a greater or lesser number of claims within a timeframe. Most people are unlikely to need to claim against the scheme repeatedly. Repeated insurance claims could suggest that a person was trying to exploit the scheme.

The following options were considered:

- *Option 8.1: Claims should be limited to a total of six months within an 18-month period (Preferred)*
- *Option 8.2 lifetime maximum on total number of claims*

The preferred option is to limit claims to a total of six months within an 18-month period (option 8.1). Limiting the cumulative cover in this way helps ensure regulatory costs are proportionate to outcomes intended, primarily by reducing abuse of the scheme. It provides an incentive to return to work in order to retain entitlement if another job loss occurs in the near future, while supporting workers to find good work and maintaining income post job-loss.

An alternative of a lifetime maximum on total number of claims was also considered but this has significant negative equity impacts, as people with health conditions and disability are most likely to reach the maximum allowable number of claims and would then receive no cover over their lifetime. Older workers are also, by definition, more likely to lose cover than others.

Key impacts on directly affected stakeholders:

Employers – Avoids presenteeism by supporting people experiencing health conditions and disabilities across their lifetime. Limits on claims could deter people from jobs in more dynamic fields, where the chance of displacement is greater.

Employees – Enabling multiple claims within an 18-month period by a person who experiences more than one displacement event and/or loss of work capacity due to a health condition or disability will support affected workers to return to good work or address their health condition.

Assessment of options for subsequent claims

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 8.1 (preferred):	+	+	N/A	+	++	+
	Option 8.2:	-	-	N/A	- -	+	-

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Scheme coverage – Proposal 9: Treatment of self-employed

Income insurance schemes struggle with coverage of self-employed workers. Coverage for displacement is especially complex. This is because it is difficult to exclude the genuinely self-employed without also excluding those employees misclassified as self-employed or contractors.

Irrespective of type of working arrangement, anyone can experience hardship while unemployed. Ideally, self-employed workers should be treated the same as standard employees to ensure they receive the benefits of the scheme. This approach also avoids incentives to reclassify work. For example, encouraging more self-employment or pressure from employers on employees to change their relationship to self-employment to avoid paying the levy

We know less about how often, and for what reasons, self-employed workers move in and out of work, compared with standard workers. Therefore, including self-employed workers may make the cost of the scheme more uncertain and could potentially increase its cost to all workers if self-employed workers move in and out of work more often than other workers.

Coverage for self-employed workers is also difficult because it is hard to define an equivalent to a 'no-fault redundancy' type event, as well as distinguish between standard business risk and a redundancy-type event. This could increase the complexity and uncertainty of the scheme, which may also result in higher costs.

The following options were considered:

- *Option 9.1: Exclude all self-employed workers from the scheme*
- *Option 9.2: Compulsorily include all self-employed workers in the scheme*
- *Option 9.3: Compulsorily include contractors that have similar characteristics to employees.*
- *Option 9.4: Opt-in for self-employed workers*
- *Option 9.5: Include all self-employed for HCD only.*
- *Option 9.6: Exclude all self-employed workers but continue policy work to consider a legislated mechanism to identify and cover specific groups of self-employed workers who have some of the characteristics of employees that are compatible with scheme coverage (Preferred).*

The preferred option is to exclude all self-employed workers but to continue policy work on a legislated mechanism to identify and cover specific groups of self-employed workers who have some of the characteristics of employees that are compatible with scheme coverage (option 9.6).

We consider that there would be clear benefits to including some self-employed workers in the scheme; particularly self-employed workers who closely resemble employees. The risk of employees being misclassified as contractors to avoid employment obligations is being considered as Better Protections for Contractors work. We consider it appropriate to undertake further analysis on options to include some self-employed workers in alignment with the Better Protections for Contractors work. We have requested further advice from officials, and if Cabinet agrees to progress the scheme, we expect to come to a preferred option to be included in the New Zealand Income Insurance Bill.**Key impacts on directly affected stakeholders:**

Employers – will likely increase employers' incentives to misclassify employees (to avoid scheme-related costs).

Employees – increases the risk more workers are shifted into a contracting / self-employment model, and therefore do not receive the rights and protections provided to employees.

Self-employed - Excluding self-employed is generally desirable because many choose the freedoms and accept the risks and rewards associated with self-employment. However there are self-employed workers who are misclassified and should be employees, or who are otherwise vulnerable and could benefit from scheme coverage. The further policy work provides a possible pathway to these workers being covered.

Assessment of options for treatment of self-employed

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 9.1	0	0	0	0/-	0/+	0
	Option 9.2	++	+	+	+	+	+
	Option 9.3	+	+	+	0	-	+
	Option 9.4	+	0	+	-	-	0
	Option 9.5	+	+	+	+	+ .	+
	Option 9.6 (preferred)	+	+	+	+	+	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Section 3: Options identification – PART B: Options for entitlements

Part B - Entitlements

The scheme seeks to minimise the immediate financial impact on workers of losing income and work and support them back into good work. Entitlements need to be designed to smooth incomes effectively following job loss and thereby provide support for claimants to return to good work. Well-designed entitlements are essential to ensuring the scheme meets its objectives, while managing risks.

At the heart of the NZII proposal is the provision of financial support related to an individual's prior income. The provision of such support is essential to ensuring NZII meets its objectives, as it will:

- reduce the impact of sudden large income losses, allowing people time to adjust their circumstances
- reduce the financial pressure to find a new job quickly, allowing time for a thorough job search and to obtain new skills, or to recover from a health condition or disability
- maintain consumer spending through economic shocks and downturns, and keep people connected to their employers.

Entitlements – Proposal 1: Replacement rate for full loss

Higher replacement rates and higher income caps more effectively protect against income loss. This means such an insurance scheme ensures a high level of 'income smoothing', so that recipients do not experience large drops in income when they lose employment due to economic displacement or health conditions or disabilities. High replacement rates and income caps have disadvantages. As well as increasing costs, they can reduce the incentive to search for work at all; some recipients can be content to rely on their insurance payments rather than to search or prepare for work.

The following options were considered:

- *Option 1.1: Provide 80% of pre displacement income (Preferred)*
- *Option 1.2 provide a minimum replacement floor above 80%*
- *Option 1.3 replacement rate steps down during course of entitlement*
- *Option 1.4: Provide 60% of pre displacement income*

This preferred option involves the claimant to be receiving 80% of their pre-displacement income for the cover period (option 1.1). This is the same as what the Accident Compensation Scheme provides, which aims to provide fair compensation for injury in exchange for the loss of the right to sue.

This option would ensure that incomes can be smoothed effectively following job loss so that claimants do not experience large drops in income when they lose employment. This option will also reduce wage scarring by ensuring an incentive to search for a job that pays a similar salary to previous employment. A high replacement rate will also ensure income insurance is more effective as an automatic fiscal stabiliser (supporting the economy) by sustaining consumer spending more effectively than lower replacement rates and caps.

However, this is a relatively high replacement rate which can have disadvantages. As well as increasing costs, the 80% replacement rate could reduce the incentive to search for work as some claimants can be content to rely on their insurance payments rather than to search or prepare for work. Such an effect can be particularly pronounced for higher income earners.

The risks of a high replacement rate is mitigated by other scheme settings such as a shorter duration, abatement, obligations and return to work support.

Overall, because of the higher incidence of ED and HCD amongst lower income earners, and because the scheme provides greater support than welfare, these settings are expected to improve equity. High replacement rates and caps add significantly to costs, but the Case for Change RIS - Regulatory Impact Statement One – New Zealand Income Insurance Scheme - indicates an overall positive cost-benefit ratio, indicating the costs are proportionate to the intended outcomes. The relatively short entitlement duration also ensures costs remain proportionate to benefits

Lower replacement rates would reduce the costs of the scheme, but also reduce how effective the scheme is at maintaining living standards post job-loss. This in turn would likely mean that more workers would face pressure to find work quickly, rather than being supported back to a good job, with consequent equity impacts. This would likely most affect lower income earners, with low levels of household savings (disproportionately Māori and Pacific people).

Even higher replacement rates (and longer duration of cover, covered below) would have a positive impact on maintaining living standards post job-loss, but would not be as effective at supporting workers back to good work, because the scheme would be so close to replacing total income that there would be little incentive to find work while receiving cover, and periods longer than six months out of the workforce are known to lead to higher risk of long term wage scarring. This would have impacts across the labour market, and would detract from the scheme's support for the economy to adjust to structural change, shocks and downturns.

Key impacts on directly affected stakeholders:

Employers – A relatively high replacement rate of 80% has impacts for employers, especially for the bridging payment. However, it will better help reduce wage scarring to the advantage of employers.

Employees – 80% replacement rate is considered relatively high, so claimants have an incentive to look for jobs that pay a similar salary or wages to the jobs they have lost. Higher income replacement rates and caps should therefore help to reduce wage scarring to the advantage of working people, employers, communities, and the economy.

Even with an 80 percent replacement rate, some families may struggle to meet their regular outgoing costs when they have a 20 percent drop in income. Such families may be eligible for welfare support that helps to meet these costs.

Assessment of options for replacement rate- full loss

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 1.1: (preferred)	++	+	++	++	+	++
	Option 1.2:	++	+	++	++	0	+

	Option 1.3:	+	+	+	+	++	+
	Option 1.4:	+	+	+	+	++	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 2: replacement cap

An income cap is an upper limit on insurable income. Any income above the cap is neither insured nor subject to levies. As outlined above in the replacement rate section, income caps influence the overall cost of insurance scheme, protection of income loss, and return to work incentives. The level of insurance payments is defined by a replacement rate and a cap on the amount of income that is insured. The replacement rate is the proportion of lost salary or wages that the insurance pays. An income cap is an upper limit on insurable and leviable income.

The following options were considered:

- *Option 2.1: Income is capped at $136,544 (Aligns with ACC) (Preferred)*
- *Option 2.2 Income is not capped*

The preferred option is to cap income at $136,544 (option 2.1). Having a high-income cap aligns with the purposes of the scheme to smooth incomes effectively following job loss and to reduce wage scarring by ensuring a strong incentive to search for a job that pays a similar salary to previous employment. The income cap of $136,544 is the same as the accident compensation scheme, which aims to provide fair compensation for loss.

Key impacts on directly affected stakeholders:

Employers – The replacement cap will also limit employer liability by reducing bridging payments for employees that earn above the cap.

Employees – Having an income cap will exclude high income earners from receiving insurance for any income over $136,544. This would reduce the extent of income smoothing for this group, though it is worth noting that high income earners may have more ability to meet financial needs through savings, other earnings or private insurance.

Assessment of options for replacement cap

	Criteria					
	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment

Options identified							
	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 2.1: (preferred)	+	+	+	+	+	+
	Option 2.2:	++	++	++	++	0	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 3: Replacement for partial loss (where person has more than one income source and loses part-time job)

Cases will occur where someone may be eligible for income insurance while still retaining some income and hours from employment. For example, they could be multiple job holders who lose one of their jobs or those who have a reduction in work capacity due to a health condition or disability.

While applying the replacement rate to instances of complete job loss is straightforward, choices are available in how the replacement rate applies to partial income loss. These choices have implications for the level of income replacement provided, financial incentives to find additional work, and for the scheme's affordability.

The following options were considered:

- *Option 3.1: the replacement rate is applied to total pre-loss income, to determine a maximum insured amount, and any losses equal to or below this are fully covered*
- *Option 3.2 The replacement rate is applied to the lost income only*
- *Option 3.3 The replacement rate is applied to pre loss income to determine a maximum insured amount and income insurance tops up residual income to this amount (Preferred)*

The preferred option is for the replacement rate to apply to pre-loss income to determine a maximum insured amount, with income insurance topping up residual income to this amount (option 3.3). This option ensures the largest financial incentive to work remains for those who lose their jobs and reduces the scheme's cost for covering partial loss of income. While this option is not as generous as the two others it still provides for 80 percent of income cover to provide a level of income smoothing, consistent with those with a single job.

Key impacts on directly affected stakeholders:

Employers – Ensures employees still have financial incentive to find additional work, maintaining employer labour supply.

Employees – Enables income smoothing

Assessment of options for replacement for partial loss

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 3.1:	++	-	N/A	-	N/A	-
	Option 3.2:	+	+	N/A	+	N/A	+
	Option 3.3: (preferred)	-	++	N/A	+	N/A	++

Key:

++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Proposal 4: Entitlements – base duration

The generosity of income insurance is typically measured by the replacement rate and maximum length of entitlement. For displaced workers, the length of insurance entitlement determines the time over which they will be supported, but also shapes the opportunities available to them.

The following options were considered:

- *Option 4.1 6 months (plus 4-week bridging) (Preferred)*
- *Option 4.2 8 months (plus 4-week bridging)*
- *Option 4.3 11 months (plus 4-week bridging)*

The preferred option is for the scheme's duration to be 6 months (plus 4-week bridging) (option 4.1).

The relatively short entitlement duration ensures the immediate loss is covered, providing enough time for an effective job search. A high replacement rate and cap will also ensure the scheme is more effective as an automatic fiscal stabiliser (supporting the economy) by sustaining consumer spending more effectively than lower replacement rates and caps.

Longer durations can create risks that people face reduced work incentives and reduce their job search efforts, moving them further from the labour market, particularly if a longer duration is combined with a generous replacement rate.

Key impacts on directly affected stakeholders:

Employers – Maintains return-to-work incentives so avoids disrupting labour supply as significantly as other options.

Employees – Provides workers with support to carry out extended job search, reducing wage scarring.

Assessment of options for base duration

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 4.1 (preferred):	+	++	+	**N/A**	++	++
	Option 4.2:	+	+	+	**N/A**	+	+
	Option 4.3:	++	**0**	+	**N/A**	**0**	**0**
	Option 4.1:	+	++	+	**N/A**	++	++

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Entitlements – Proposal 5: extension of duration of cover

Some income insurance schemes provide extensions to coverage so participants can take part in training programmes, rehabilitation, and other longer return-to-work activities. The evidence of extensions benefiting return to work activities is mixed, and it can be difficult to develop criteria that accurately target those who would benefit from extensions most.

The following options were considered:

- *Option 5.1: Allow for extension of cover to a maximum of 12 months for approved training or vocational rehabilitation and implement as soon as the scheme commences*
- *Option 5.2 Allow for extension of cover up to a maximum of 12 months for approved training or vocational rehabilitation and implement at a later date*
- *Option 5.3 Not allow for extensions (Preferred)*

The preferred option is to not allow for extensions (option 5.3). While extensions could be a useful tool for NZII to have, not enough is yet known about the uptake of and targeting of extensions to those who would benefit from it. This uncertainty presents moral hazard risks, increased costs to the scheme, and potential for poor labour market outcomes. An extensions provision would also be very complex for ACC to deliver and not practical if the right training and vocational rehabilitation services are not available.

Optionality to proceed with extensions in the future could be preserved through a regulation making power. But this could create expectations that the extendibility would be provided. Alternatively, extension to NZII entitlement could be introduced through subsequent legislation if desired.

Key impacts on directly affected stakeholders:

Employers – This will not directly impact on employers, but it may mean employees return to work sooner.

Employees – Extensions will not be available for employees. However, we consider the base duration entitlement is sufficient time for a claimant to look for and return to work and mitigates against risks of reduced job search efforts, diminishing work incentives and further detachment from the labour market.

Assessment of options for extensions of duration of cover

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 5.1:	N/A	+	+	+	- -	+
	Option 5.2:	N/A	0	+	0	- -	0
	Option 5.3: (preferred)	N/A	0	-	0	++	+

Key:
++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 6: individualised entitlement

Entitlement to the scheme could consider individual or family circumstances. In the welfare system, entitlement is based on family income, meaning one partner's income can affect the other partner's entitlements. In the social insurance-based accident compensation scheme, entitlement is based on an individual's income only and disregards any partner income.

The following options were considered:

- *Option 6.1: Individualised entitlement (Preferred)*
- *Option 6.2 Based on a family unit of assessment*

The preferred option is for the scheme to have individualised entitlement (option 6.1). This means that insurance payments are not affected by any partner earnings. Individualised entitlement ensures that the income provided effectively smooths a family's combined income and ensures the claimant does not face financial pressure to find an unsuitable job because they have an earning partner. Being able to cover more claimants will increase costs to the scheme.

Key impacts on directly affected stakeholders:

Employers – This option has no impact on employers.

Employees – Smooths incomes and ensures claimants do not face financial pressure to find an unsuitable job because of their partners.

Assessment of options for individualised entitlement

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 6.1: (preferred)	++	++	++	N/A	++	++
	Option 6.2:	- -	- -	- -	N/A	- -	- -

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 7: asset testing

Some payments within the welfare system are subject to asset testing. Individuals and families with assets over specific limits either receive a lower level of support or are made ineligible for support. This ensures individuals and families use the resources available to them before accessing support, and that support is targeting to those in need. There are no asset tests within the ACC system. This proposal relates to whether the scheme should have an asset test.

The following options were considered:

- *Option 7.1: NZII payments are subject to an asset test*
- *Option 7.2: Do not asset test NZII (Preferred)*

The preferred option is not to asset test NZII (option 7.2). This option meets the income smoothing and supporting people into good jobs objective, minimises compliance costs and is administratively straightforward.

Key impacts on directly affected stakeholders:

Employers – There is not an impact on employers.

Employees – Means people don't have to erode their savings which may be needed for other purposes e.g. emergency funds and retirement.

Assessment of options for assets testing

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 7.1:	- -	- -	- -	- -	- -	- -
	Option 7.2: (preferred)	++	++	+	++	++	++

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 8: Abatement threshold and rate

Abatement rules determine how and when earned income reduces insurance payments. Abatement rules should reward work, while ensuring that people are not better off because of losing their employment. This ensures the income insurance scheme incentivises work, whilst also affecting the costs of the scheme.

The following options were considered:

- *Option 8.1: Having an abatement free threshold, until 100% of previous income is reached (Preferred)*
- *Option 8.2 Not having an abatement free threshold, so insurance entitlements would begin to reduce from any income earned from employment.*
- *Option 8.3 Reducing the rate of the abatement*

The preferred option is having an abatement free threshold, until 100% of previous income is reached (option 8.1). Income earned above this point should then abate (reduce) insurance entitlements 'dollar for dollar'. This means, for every additional dollar earned from employment, they would lose a dollar of insurance, reducing the possible disincentive to find work. These proposed abatement settings would mean that people receiving insurance have the ability to 'top themselves up' to their previous level of income through finding some form of employment, providing an incentive to pick up part-time work or increase hours from remaining employment while receiving insurance.

Key impacts on directly affected stakeholders:

Employers – Avoids disincentivising return to work, maintaining labour supply

Employees – Abating (reducing) entitlements dollar for dollar once the recipient has reached 100 percent of their previous income means that no one should be better off financially as a result of their redundancy, health condition or disability than they would have been in work.

Assessment of options for abatement threshold and rate

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 8.1: (preferred)	**N/A**	+	**N/A**	**N/A**	+	+
	Option 8.2:	**N/A**	-	**N/A**	**N/A**	+	-
	Option 8.3:	**N/A**	-	**N/A**	**N/A**	+	-

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Entitlements – Proposal 9: Definition of income

Individuals and families may have income from several sources, including earned income from employment and income from investments. This proposal relates to the sources of income that could affect insurance entitlements.

The following options were considered:

- *Option 9.1 All income counted against entitlements*
- *Option 9.2 Only personal exertion income is counted against entitlements (Preferred)*

The preferred option is to have only personal exertion income counted against entitlements (option 9.2). Personal exertion income means income that is earned, derived or received by a person by way of payment for their active labour, for example, wages, salary or income from self-employed work. This would mean that other income, such as from investments, would not affect entitlements for income insurance.

Key impacts on directly affected stakeholders:

Employers –This option does not impact employers.

Employees – This option ensures that income that could have been received while a claimant was in work would not affect their entitlement.

Assessment of options for definition of income

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 9.1:	-	-	-	N/A	-	-
	Option 9.2: (preferred)	++	+	+	N/A	+	++

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Entitlements – Proposal 10: Day 1 entitlements (transitional provisions)

This proposal relates to the eligibility requirements of the scheme upon its commencement. People that otherwise meet the eligibility criteria will not have had opportunity to contribute to the scheme. Similarly, the scheme will not have built up funds through levy contributions, so providing day 1 entitlements could cause cashflow issues.

The following options were considered:

- *Option 10.1: Until the scheme has been operating for 18 months, work history (in the absence of a record of contributions) will be used as a transitional provision to determine eligibility (Preferred)*
- *Option 10.2 No transitional provision, i.e. no entitlement until the contribution requirement has been met.*

The preferred option is for work history to be used as a transitional provision to determine eligibility. This option will mean that following commencement of the scheme coverage will be determined with reference to work history rather than contributions (levies paid). A person who is displaced on day 1 of the scheme will be covered by the scheme so long as they have been in work for six of the previous 18 months. This option could exacerbate cashflow issues, but the scheme should recoup its funding requirement over the course of the year.

Key impacts on directly affected stakeholders:

Employers – Employers will be paying levy payments for an operational scheme (rather than paying into a scheme that is not available to claimants, which could be seen as inequitable).

Employees – Workers will be eligible for the scheme as soon as it is available, supporting income smoothing, and will be paying into a scheme they can benefit from.

Assessment of options for Day 1 entitlements (transitional provisions)

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
Options identified	Option 10.1: (preferred)	++	++	++	++	+	++
Options identified	Option 10.2:	- -	- -	- -	- -	-	- -

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status qu

Entitlements – Proposal 11: - Crisis payments

The COVID-19 pandemic and other relatively recent crises (e.g. the Global Financial Crisis and Canterbury Earthquakes) have shown both the unpredictability of economic crises and the value of counteractive measures for protecting jobs.

New Zealand (like many other OECD countries) took unprecedented actions in response to the shock of COVID-19. For instance, New Zealand was able to establish wage subsidies and provide a leave support scheme in a short time.

Most other developed countries, however, were advantaged in already having social insurance infrastructure available to automatically deliver generous, widely available income support and economic stimulus to reduce the recessionary effects of the COVID-19 crisis. Many countries also instituted temporary or permanent extensions to their schemes, typically funded by government rather than from levies.

For these reasons, we have considered enabling the scheme to provide additional support during a crisis, funded by the Crown, at times when the economic shock is so significant that additional stimulus may be needed.

The following options were considered:

- *Option 11.1: enable the settings of the scheme to be adjusted in response to a crisis (Preferred)*
- *Option 11.2: do not enable a crisis payment capability*

The preferred option is to enable the scheme settings to be adjusted in a crisis. The Crown would fund any crisis payments made by the scheme. The Minister's power to make a declaration directing ACC to make crisis payments would be limited to the extent that the Crown had made an appropriation for that purpose.

Our intention is for the scheme to have the flexibility to provide additional Crown-funded support during a crisis. We have directed officials to do further work to determine the operational feasibility of the scheme doing so and we will report back to Cabinet by October.

Assuming it will be operationally feasible for the scheme to provide additional support during a crisis, we propose that any additional system capability required would be second-order decisions for implementation, rather than as part of the primary capabilities developed to deliver the scheme.

If enabled, the types of supports in a crisis that the scheme could provide include:

- longer periods of entitlements than the standard six months of cover, and entitlements to claimants who would not otherwise be entitled to NZII, e.g. because they have not met the contributions history requirement, or their loss of work capacity is expected to be for less than four weeks; and
- payments to people still attached to their job but whose employers are unable to continue paying their normal level of wages or salary. Such payments could be either a wage subsidy in return for the employer providing a certain level of employment, or a top-up to a certain level of income while the employee's hours worked reduce (furlough). Depending on the circumstances, the payments might be either paid directly to the worker, or indirectly via their employer.

The scheme could be provided with this type of emergency flexibility by giving the responsible Minister the ability to declare an economic crisis, either due to a specific event (e.g. natural disaster or epidemic) or a severe recession, and to direct ACC to make crisis payments in line with regulations. The declaration-making power could include identifying particular regions and/or certain industries as those the declaration relates to. It would be prudent for such a declaration to expire after a fixed period of time (e.g. no later than three months after it was made) and for the Minister to be empowered to withdraw it at any time.

Regulations relating to the crisis payments would specify the length of any extended entitlement for claimants, any changes to eligibility, and the type and level of payment for people still in employment. In the case of crisis support for firms and workers still attached to their jobs, regulations could set parameters such as eligibility criteria for firms to qualify, maximum payments, maximum duration, and categories of workers.

Key impacts on directly affected stakeholders:

Employers – Has the potential to mitigate the impact of widespread economic disruption, and support labour reallocation

Employees – Has the potential to support workers through times of mass displacement and hardship

Assessment of options for crisis payments

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 11.1: (Preferred)	+	0	++	+	+	+
	Option 11.2	0	0	0	0	0	0

Key:

++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Section 3: Options identification – PART C: Options for obligations of recipients

Part C- Obligations of recipients

A well-designed set of obligations can help the scheme meet its objectives. Internationally, insurance schemes usually require claimants to meet certain obligations. Obligations determine what someone is required or expected to do while receiving financial help, and can vary, depending on the desired goal of the scheme.

Some obligations are necessary to underpin the operation of income insurance schemes, such as providing earnings information to the insurer so the correct entitlements can be paid. Other obligations relate to the scheme's intended outcomes, such as obligations to participate in job search or to prepare to return to work to support people into work, whilst mitigating the risk that providing income insurance reduces work incentives.

Not only can obligations risk pushing recipients into poorly matched jobs and undermine core NZII objectives, but some obligations could result in inequities. Therefore, there needs to be a balance between obligations and incentives to achieve the objectives of the scheme.

Obligation decisions will also impact the Government's ability to meet its obligations under the Treaty of Waitangi. It is important to ensure that the obligations for employees treat Māori equitably, so Māori are not worse off by being on the scheme.

Obligations of recipients – Proposal 1: Recipient administrative and work obligations

Obligations can help mitigate the risk that providing income insurance reduces work incentives. Obligations determine what someone is required or expected to do while receiving financial assistance, and can vary depending on the desired goal of the scheme. Some obligations are necessary to underpin the operation of income insurance schemes, such as providing earnings information to the insurer so the correct entitlements can be paid. Other obligations relate to the scheme's intended outcomes, such as obligations to participate in job search or to prepare to return to work.

Similar obligations to look for suitable work apply to recipients of the main welfare benefits in New Zealand.

The following options were considered:

- *Option 1.1 Recipients have no obligations*
- *Options 1.2 Recipients must meet administrative obligations*
- *Options 1.3 Recipients must meet work obligations*
- *Options 1.4 Recipients must meet administrative and work obligations (Preferred)*

The preferred option is for recipients to meet the following administrative and work obligations:

1. inform the insurer of any change in circumstance that may affect the eligibility for or rate of income insurance
2. actively search or prepare for work
3. demonstrate job search activity or report on progress with preparing for work
4. accept suitable offers of employment (which either offer at least pre-displacement wages and other terms and conditions, or are seen by both claimant and insurer as suitable, given work capacity and childcare responsibilities)
5. complete a return-to-work plan if required.

These obligations support workers back to good jobs and other sustainable outcomes, have some risk of reduced equity (from discretionary decision-making), and support regulatory costs that are proportionate to intended outcomes.

The impact of these obligations is to ensure that claimants only receive the payments to which they are entitled, and that they are both supported and encouraged to find good work.

Key impacts on directly affected stakeholders:

Employers – This option maintains return-to-work incentives, avoiding distorting the labour market

Employees – Encourages workers to return-to-work without being too onerous

Assessment of options for administrative and work obligations

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 1.1:	-	-	**N/A**	-	-	-

	Option 1.2:	++	N/A	N/A	0	0	+
	Option 1.3:	N/A	++	N/A	+	+	+
	Option 1.4: (Preferred)	++	++	N/A	+	++	++

Key:

++ much better than doing nothing/the status quo

\+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

\- worse than doing nothing/the status quo

\- -

Obligations of recipients – Proposal 2: HCD obligations

A feature of most sickness insurance schemes is an obligation for claimants, once they have entered the scheme, to regularly provide a health professional's assessment that their work capacity remains limited by their health condition or disability. An independent and/or more intensive assessment is often required after some time receiving payments. Supporting people with a health condition or disability who have lost significant work capacity to return to good work relies on a case management model and expertise to effectively triage and provide people with the level of support they need at the right time. Because of this, in addition to administrative obligations, an effective scheme requires work obligations that encourage HCD claimants to return to work, where appropriate.

The following options were considered:

- *Option 2.1: Recipients with a health condition or disability have no additional obligations*
- *Option 2.2: Recipients with a health condition or disability must provide additional work capacity assessments*
- *Option 2.3: Recipients with a health condition or disability may be required to participate in an independent assessment*
- *Option 2.4: Recipients with a health condition or disability may be required to participate in rehabilitation to support a return to good work*
- *Option 2.5 Recipients with a health condition or disability may be required to meet additional obligations according to their situation (Preferred).*

The preferred option is to require HCD claimants to meet additional obligations according to their situation. Under this option, claimants who have lost work capacity due to a health condition or disability will have similar administrative and work obligations to displacement claimants, with waivers of the work obligations as appropriate to their current work capacity. In addition, these claimants would be required to:

- provide the scheme with a work capacity assessment in the form of a medical certificate from a health practitioner registered under the Health Practitioners Competence Assurance Act 2003, working within their scope of practice
- Provide a further work capacity assessment completed by a health practitioner if a reassessment of a claimant's work capacity is required within the entitlement period

- participate in any independent assessments related to returning to work required, and funded, by the scheme where it considers there are grounds to seek assurance about the claimant's health practitioner's assessment
- participate in vocational rehabilitation programmes if required.

This option supports recipients to meet the intent of the scheme and supports claimants to pursue a return to work where appropriate. Evidence shows that requiring claimants to engage with a case manager and others (for example, health practitioners, employers) about return to work reduces the length of sickness absences, and the estimated benefits exceed estimated costs.

Key Impacts on directly affected stakeholders:

Employers – Claimants having access to return-to-work planning supports broader matching between labour demand and supply.

Employees – This option encourages HCD claimants to return to work. It is important that obligations are deferred when appropriate, to ensure they are not too onerous.

Assessment of options for HCD obligations

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 2.1:	N/A	-	N/A	- -	- -	- -
	Option 2.2:	N/A	+	N/A	-	+	+
	Option 2.3:	N/A	+	N/A	0	+	+
	Option 2.4:	N/A	++	N/A	+	+	++
	Option 2.5: (preferred)	N/A	++	N/A	0	++	++

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- -

Obligations of recipients – Proposal 3: absence from New Zealand

Overseas insurance schemes often require claimants to remain or reside in the country while receiving insurance payments. This reflects income insurance's intent of supporting workers to focus on return-to-work activities in the country they are receiving payments from. However, in some cases it may be reasonable for someone to travel overseas, for something like visiting ill family, receiving specialist care, and so furth.

The following options were considered:

- *Option 3.1: Recipients may not receive insurance while absent from New Zealand*
- *Option 3.2: Recipients may receive insurance while absent from New Zealand for approved reasons (Preferred)*
- *Option 3.3:* Recipients will receive insurance if absent from New Zealand

The preferred option is for recipients being able to receive insurance while absent from New Zealand for approved reasons, but otherwise be required to remain in New Zealand. Such a requirement signals that the period covered by insurance is intended to be used for job search or to recover from a health condition and not for leisure.

However, it may be that claimants need to travel overseas during their entitlement period for a significant family event, health treatment, or important event (eg participating in a court case, participating in Special Olympic or Paralympic Games). We therefore propose that, for a limited set of permitted reasons, a claimant could continue to receive income insurance when overseas, usually for no longer than 28 days. A claimant is overseas receiving publicly funded specialist health care, the 28-day rule would not apply.

Providing limited flexibility for claimants to be able to travel overseas enhances the scheme's ability to support those who have valid reasons to travel to maintain living standards and find good work post job-loss. Obligations may still be met while overseas, depending on the circumstances, which maintains the intent of the scheme. There is risk that there will be negative equity impacts resulting from the use of discretion in decision-making around agreement to travel.

Key impacts on directly affected stakeholders:

Employers – This option does not impact on employers.

Employees – Supports those who need to travel for specific reasons to do so while signalling that insurance is intended to be used for job search or recovery, not leisure.

Assessment of options for absence from New Zealand

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 3.1:	-	+	0	-	0	-
	Option 3.2:	+	0	0	+.	-	+

	(Preferred)						
	Option 3.3:	+	-	-	0	- -	- -

- -

Obligations of recipients – Proposal 4: deferral or waiving of work obligations

It is likely that people will sometimes not be able to meet some work obligations for good reasons. In particular, a person's health condition or disability may, particularly initially, require some obligations to be deferred. Work obligations may be waived entirely if the person is not expected to recover their work capacity.

The following options were considered:

- *Option 4.1: No deferral or waiving of obligations*
- *Option 4.2 Discretionary deferral or waiving of obligations in specified circumstances (Preferred)*

The preferred option is to be able to defer or waive obligations in specified circumstances on a discretionary basis. This option would provide the scheme administrator discretion to defer, or waive completely, some work obligations in circumstances where the obligation is unlikely to activate the claimant in a positive way.

Key impacts on directly affected stakeholders:

Employers – this option supports suitable matching and avoids workers taking jobs poorly matched to them.

Employees – This ensures that work obligations do not result in barriers for claimants in their return-to-work journey

Assessment of options for deferral or waiving of obligations

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 4.1:	N/A	-	N/A	-	0	-
	Option 4.2: (Preferred)	N/A	+	N/A	+	-	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo

- -	worse than doing nothing/the status quo

Obligations of recipients – Proposal 5: sanctions

Many claimants will be motivated to find suitable employment. Claimants may therefore willingly comply with the scheme's obligations. Compliance is likely to be greater, however, if financial consequences are in place for non-compliance.

The following options were considered:

- *Option 5.1: No sanctions/financial penalties for those who do not meet scheme obligations*
- *Option 5.2 Light financial penalties for those who do not meet scheme obligations, such as the partial loss of payment*
- *Option 5.3 Harsh financial penalties for those who do not meet scheme obligations, such as a 50-100% loss of payment*
- *Option 5.4 Financial penalties, in the form of entitlement suspension, used as a last resort in cases of serious, intentional non-compliance with obligations (Preferred)*

The preferred option is for financial sanctions to be used as a last resort in cases of serious, intentional non-compliance with obligations. This would align with ACC's approach. his would mean entitlements could be suspended for as long as the claimant unreasonably refused or unreasonably failed to meet certain obligations. The claimant would receive written notice of the proposed suspension within a reasonable period of time before it took effect and with the opportunity to re-comply before it took effect. Entitlements would resume once the claimant complied.

The impact of this policy is to encourage compliance, while reducing the likelihood that financial penalties are required, given the high cost of applying financial penalties on the scheme, as well as the impact these can have on recipients (particularly given the scheme's objective of maintaining living standards for workers and their families and whanau immediately after job loss). This supports the scheme's regulatory costs being proportionate to intended outcomes by providing a disincentive to abuse the scheme.

Key impacts on directly affected stakeholders:

Employers – This option does not impact on employers.

Employees – Setting clear obligations and a high threshold for suspension would support people to meet their financial needs, and decline unsuitable job offers without fear of financial consequence

Assessment of options for sanctions

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 5.1:	+	-	**N/A**	-	-	-

	Option 5.2:	0	0	N/A	0	0	0
	Option 5.3:	-	-	N/A	0	0	-
	Option 5.4: (Preferred)	0	+	N/A	0	+	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	

Section 3: Options identification – PART D: Options for obligations on employers

Part D – Obligations on Employers

Obligations on employers also have an important role to play in helping to mitigate risk and contributing to the scheme's objectives. Introducing an income insurance scheme could influence layoff decisions, based on the experience of overseas schemes. In some cases, terminations could be reclassified as redundancies, and, in others, firms could be less restrained in opting to end the employment relationship. Employer obligations can help to mitigate this risk.

Obligations on employers may have significant population impacts. Consultation with Māori has shown that Māori businesses make a strenuous effort to avoid redundancy, so implementing employer obligations could impact the way Māori run their business. Like recipient obligations, employer obligations need to be balanced. There is also a risk that obligations on employers related to health and disability claimants could disincentivise employers from hiring this group.

Obligation decisions for employers will also impact the Government's ability to meet its obligations under the Treaty of Waitangi. It is important to ensure that the obligations for employers treat Māori equitably, so Māori are not made worse off by the implementation of the scheme.

Obligations on employers– Proposal 1: obligations on employers – notice periods

Lack of notice can contribute to the disruptiveness of displacement. New Zealand law currently has no minimum notice period for displacement, although employers are required to give employees 'reasonable notice' of displacement. This proposal relates to the notice period that employers will be required to comply with under the scheme.

The following options were considered:

- *Option 1.1 No notice period required, with encouragement to meet employment law expectations of reasonable notice*

- *Option 1.2 require a minimum notice period - 4 weeks (Preferred)*

The preferred option is requiring a minimum notice period of 4 weeks (option 1.2). Employers would lodge a claim for insurance on behalf of affected employees at the same time as confirming the redundancy to employees, at least four weeks before the redundancy takes effect.

While not always possible, modest notice periods would impose little additional cost on employers but provide a significant opportunity for employees and the insurer to begin responding to the loss of work before the displacement takes effect. However, this could affect smaller firms more significantly.

Notice periods will improve the ability of the scheme to maintain living standards for workers post job-loss by ensuring income replacement payments can start as soon as a worker is eligible to receive payments. It helps keep regulatory costs proportionate to outcomes, by providing sufficient time for the scheme administrator to robustly assess upcoming claims, without imposing significant costs on the scheme

Key impacts on directly affected stakeholders:

Employers – While not always possible, modest notice periods would impose little additional cost on employers. However, this could affect smaller firms more, and most likely employment arrangements with more vulnerable workers.

Employees – Employees would be given sufficient notice of displacement, and in some cases may be able to access relevant ALMPs and return-to-work supports before becoming unemployed or finding new employment.

Assessment of options for notice periods

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 1.1	0	0	0	0	0	0
	Option 1.2 (Preferred)	+	+	-	+	++	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Obligations on employers– Proposal 2: requiring employers to pay bridging payments for redundancies

Introducing an income insurance scheme could influence layoff decisions, based on the experience of overseas schemes. A significant risk is that introducing income insurance in the context of New Zealand's current institutional provisions could result in unnecessary and spurious redundancies. A bridging payment would disincentivise employers reclassifying terminations as redundancies and avoid them being less restrained with ending employment relationships. At the same time, it is important that the cost imposed on employers is not so great as to deter hiring or incentivise unlawful dismissals and disputes.

The following options were considered:

- *Option 2.1 Require employers to make a bridging payment to employees who are made redundant, regardless of whether they are eligible for the scheme (Preferred)*
- *Option 2.2 Require employers to make bridging payments for redundancies to workers eligible for the scheme*
- *Option 2.3 No requirement for a bridging payment*

The preferred option is to require employers to make a bridging payment to employees who are made redundant (option 2.1) .

A significant risk to introducing the scheme is that New Zealand's current institutional provisions could result in unnecessary and spurious redundancies, additional claims costs and undue effects on workers. The need to manage such 'sham' redundancies was strongly emphasised in consultation from both employers and workers. We consider the most effective way to mitigate against unnecessary redundancies is to establish employer-paid bridging payments to cover the first four weeks of the initial period of unemployment based on 80 percent of a worker's normal pay.

This is a key mechanism that can ensure regulatory costs are proportionate to outcomes, by reducing any incentive for employers to use redundancy in place of performance management or other terminations that the scheme is not intended to address. This option also significantly lowers the overall cost of the scheme through reducing the number of claims and ensuring that (for displaced workers) the costs for the first four weeks of entitlement are borne by the 'displacing employers', rather than all employers.

It would be possible to exempt employers from the bridging payment obligation if the employee already has negotiated redundancy provisions with at least 4 weeks payment. However, this would be inequitable, given the negotiated nature of those redundancy provisions. It would effectively penalise employees who have negotiated redundancy payments (and sacrificed remuneration, leave, or other provisions in order to have redundancy provisions) by providing the same benefit they have 'paid' for, to other employees who have not 'paid' for it.

Key impacts on directly affected stakeholders:

Employers – The bridging payment obligation will be a significant additional cost for employers, and creates a potential liability for each employer relating to every employee, including those not eligible for the scheme (e.g. who have not met eligibility requirements), who will still be eligible for notice and bridging payments).

Employees – Protects employees from unnecessary redundancies and provides a guarantee of four weeks payment at 80%, if made redundant.

Assessment of options for requiring employers to pay bridging payments for redundancies

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 2.1: (Preferred)	++	**0**	**0**	+	-	**0**
	Option 2.2:	-	**0**	**0**	-	- -	-
	Option 2.3:	-	**0**	+	-	-	-

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Obligations on employers – Proposal 3: bridging payment coverage for medical dismissals

The main rationale of the bridging payment is to mitigate the risks of unnecessary and spurious redundancies, additional NZII claims and undue effects on workers.

In the case of medical dismissals, we considered the primary rationale was to incentivise employers to make best efforts to support HCD claimants return to work before deciding to medically dismiss a worker.

With further consideration on the bridging payment for medical dismissal, including consideration of concerns raised during public consultation, we think the case for proceeding with the HCD bridging payment is not as strong as for redundancy, namely:

a) employers are likely to have already made efforts to support HCD claimants ahead of decisions to end the employment relationship because of existing obligations.
b) the relatively onerous process for medical dismissal is likely to be a sufficient grit to make employers carefully consider medical dismissals
c) it is understood that medical dismissals are relatively rare.

The following options were considered:

- *Option 3.1 Cover bridging payments for all medical dismissals*

- *Option 3.2 Bridging payment paid by employers for medical dismissals*
- *Option 3.3 No bridging payment payable by employers for medical dismissal (Preferred)*

The preferred option is for there not to be a bridging payment payable by employers for medical dismissal (option 3.3).

This option would be simple to administer and does not impose any costs on businesses related to employees who are disabled or have health conditions. It would be consistent with medical terminations for those on ACC and means there would not be a disincentive on employers to employ people who have chronic health conditions or disabilities.

Key impacts on directly affected stakeholders:

Employers - This option could encourage employers to seek to dismiss workers on medical grounds rather than redundancy, although third party capacity assessments will limit the scale of that risk. It avoids perverse incentives for employers to release HCD staff after NZSII support has finished or to avoid hiring disabled people or people with health conditions.

Employees – This option would mean there is different support for workers who lose job for medical reasons and redundancy. It may be seen by some as unfair and creating inequity in duration of NZII financial payment for HCD claimants, i.e., six months for HCD and up to seven months for redundancy.

Assessment of options for requiring employers to pay bridging payments for medical dismissals

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 3.1:	+	-	0	+	- -	+
	Option 3.2:	+	0	0	- -	-	+
	Option 3.3: (Preferred)	0	0	0	-	++	+

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Obligations on employers – proposal 4: duration of bridging payment

The duration of bridging payment affects the scale of liabilities employers face for making people redundant and the deterrent effect on employer behaviour. It also affects the value to employees of the bridging payment, and the time before the scheme needs to step in and provide support to those who lose their jobs. All options are contingent on a decision to require a bridging payment for redundancy and/ or medical dismissal, as set out in the previous section. They are also closely linked to the quantum of the bridging payment, set out in the following section.

The following options were considered:

- *Option 4.1: Bridging payment for 12 weeks*
- *Option 4.2 Bridging payment for four weeks (Preferred)*
- *Option 4.3 Bridging payment for two weeks*

The preferred option is to have a four weeklong bridging payment. This option would have a deterrent effect on employers, reducing cost risks to the scheme without being too significant a cost for businesses.

Key impacts on directly affected stakeholders:

Employers – This option would impose costs on firms who make people redundant, so increasing employer liabilities and restructuring costs.

Employees – A bridging payment at this level may result in some 'gaming' that impacts employees, as it may be a cheaper alternative to dismissing a poor performer through a formal process.

Assessment of options for duration of bridging payment

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 4.1:	++	+	- -	++	- -	+
	Option 4.2: (Preferred)	+	+	-	++	-	+
	Option 4.3:	0	0	+	0	0	-

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Obligations on employers – proposal 5: scaling notice periods and bridging payments for fixed term employment

Imposing an obligation on employers for notice periods and bridging payments is problematic for fixed-term employment, where any employer obligation is time-bound, and therefore any requirement to pay beyond the contracted end date is unjustified. These obligations are also challenging for casual employment, where the obligation does not align with the informal nature of the arrangement, where generally there is no expectation on an employee for future work, nor on the employer to offer it.

Both working arrangements are generally expected to have a reduced level of commitment to future work, because of the shorter term of most such arrangements. However, not imposing these obligations for both working types could incentivise employers to use these arrangements to avoid the cost of the notice period and bridging payment.

Note: all options interact with previous sections on scheme coverage, notice periods and bridging payments.

The following options were considered:

- *Option 5.1 Use complex scaling to determine bridging and notice periods, where the remaining time is used as a proportion of 6/18 months entitlement up to 8 weeks in total*
- *Option 5.2 Pro-rate the notice period and bridging payment for fixed term and casual employment, based on the length of employment (including where contracts have rolled over) (preferred).*
- *Option 5.3 Do not scale bridging payments and notice period*

The preferred option is to pro-rate the notice period and bridging payment for fixed term and casual employment (option 5.2). The pro-rating would be based on length of employment (including where contracts have been rolled over): Those employed for:

- more than six months would receive the full four-week notice period and four-week bridging payment
- between three and six months would receive a two-week notice period and two-week bridging payment
- less than three months would receive a one-week notice period and one-week bridging payment

For fixed-term employees, the notice and bridging payment could only cover the period to the contracted end date. This option is simple for employees and employers to understand, and ensures that employers are not incentivised to put people on fixed-term or casual contracts to avoid bridging payments.

While a more specific scaling process would mean bridging payments that more accurately reflect individual circumstances, it would be complex to explain and could drive lots of complaints or confusion for workers and employers. It would also mean the most vulnerable workers will get the least, as it will require an 18-month contract to get maximum notice, bridging and scheme entitlement.

Not scaling bridging payments and notice periods would be the most generous for those on shorter terms. It is simple to explain and understand. It causes friction for employers looking to make workers redundant, aligning with the purpose of the scheme, and it is the least expensive for the scheme. However, this option would be expensive for employers - they will have to pay people in full (or almost) for the final eight weeks of a contract regardless of whether there is any work for them. This could set perverse hiring incentives.

Key impacts on directly affected stakeholders:

Employers – This option means the employer is required to pay bridging payments for this group of employees, avoiding perverse incentives.

Employees – A simplified calculation should make it easy for workers to understand what they are owed from their employers, reducing the risk of underpayment

Assessment of options for duration of bridging payment

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 5.1:	-	0	-	-	0	-
	Option 5.2: (Preferred)	+	0	0	+	+	+
	Option 5.3:	++	-	-	0	+	0

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Obligations on employers – proposal 6: quantum of bridging payments

The quantum of a bridging payment affects the deterrent effect on employer behaviour, and also the scale of liabilities employers face for making people redundant. It links directly with the duration of the scheme.

The options would set a minimum requirement for employers and is in addition to any existing redundancy provisions. All options are contingent on a decision to require a bridging payment, and interacts with duration of bridging payment, set out in the previous section.

The following options were considered:

- *Option 6.1: Employers to pay wages in full for duration*
- *Option 6.2 Employers to pay 80% of wages for duration*
- *Option 6.3 Employers to pay 80% of wages for duration up to a cap (Preferred)*

- *Option 6.4 Employers to pay 50% of wages for duration*

The preferred option is for employers to pay 80% of wages for the full duration up to a cap in line with payments under the scheme (option 6.3). This option would place a significant deterrent effect on employers, reducing costs for the scheme. It would also provide financial support to those made redundant at a slightly reduced level compared with their previous wages.

Key impacts on directly affected stakeholders:

Employers – This option would impose significant costs on employers to pay staff despite them not working.

Employees – This option pays 80% of wages for the bridging payment, mitigating immediate income drop from loss of a job. However, any effect of this option on job search or other sustainable outcomes is likely to be negligible.

Assessment of options for duration of quantum of bridging payments

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 6.1:	++	0	0	0	+	0
	Option 6.2	++	0	0	0	+	0
	Option 6.3 (Preferred)	+	0	0	0	++	+
	Option 6.4	- -	0	0	-	- -	-

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo- - much worse than doing nothing/the status quo

Obligations on employers – proposal 7: refunding bridging payments made by employers

Restructuring businesses who help their employees find alternative work could qualify for a refund of their bridging payment. This could offset costs to the scheme by helping people find work faster, and offset bridging payment costs to firms. The discussion document proposed partially refunding bridging payments to employers who help their workers find alternative employment. This proposal received little feedback in public consultation.

There is a direct trade-off between a light touch regime making lots of refunds and a higher bar that takes greater administrative effort to process. Any refund option will also face practical challenges, such as the impact of timing of a displaced worker starting a new job.

The following options were considered:

- *Option 7.1 Set a high evidence threshold for paying refunds to employer*
- *Option 7.2 Set a low evidence threshold for paying refunds to employer*
- *Option 7.3 Enable refunds in legislation but defer implementation until there is a clearer case for needing to influence employer behaviour*
- *Option 7.4 Exclude refunds from the scheme (Preferred)*

The preferred option is to exclude refunds from the scheme (option 7.4). Initial design work suggests refunds could be complex to administer and add costs liabilities to the scheme. Nor is it clear at this stage what effect, if any, refunds would have on employer behaviour. We therefore propose not including any refund of bridging payments to employers at this stage.

Key impacts on directly affected stakeholders:

Employers – This option would mean there is no financial incentive for businesses to help their employees find alternative work.

Employees – Employees may not get support that they otherwise would receive if employers were incentivised.

Assessment of options for refunding bridging payments

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 7.1:	N/A	0		N/A	- -	
	Option 7.2:	N/A	0	+	N/A	- -	
	Option 7.3:	N/A	0	0	N/A	0	0

	Option 7.4: (Preferred)	N/A	0	0	0	++	+

Key:

++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Obligations on employers – proposal 8: Role of the scheme where employers cannot make bridging payments

There will be situations such as insolvency where an employer is unable to make bridging payments due to employees. There is a scale of options ranging from the scheme making all payments on behalf of employers, through to leaving bridging payments solely as an employment relations issue.

There are substantial trade-offs between options – a higher level of scheme involvement in administering bridging payments offers greater security that workers will receive the bridging they are entitled to, but it increases the administrative complexity of bridging and financial risk to the scheme.

The following options were considered:

- *Option 8.1 Scheme to pay bridging to everyone (including those not eligible for the scheme), recovering costs from employers.*
- *Option 8.2 Scheme to pay bridging payment in cases of insolvency, including those not covered by the scheme, recovering costs from employers (Preferred)*
- *Option 8.3 Scheme to pay bridging payments in cases of insolvency only for those eligible for the scheme, recovering costs from employers*
- *Option 8.4 Treat bridging payments as an employment dispute between employee and employer*

The preferred option is for the scheme, to pay bridging to all those who are owed bridging in situations where the employer is unable to pay. This would guarantee bridging payments to workers who would not qualify for payments under the scheme, e.g. due to migration status or contribution history. Where the scheme makes such payments, it would seek to recover the funds from the employer as an ordinary unsecured creditor. This will add administrative complexity and financial risk to the scheme.

Key impacts on directly affected stakeholders:

Employers – It would be the responsibility of the employer to pay the bridging payment or to refund the scheme if unable to do so immediately.

Employees – This option ensures that all workers will receive the bridging payment, including those who do not qualify for the scheme itself.

Assessment of options for role of the scheme in administrating bridging payments

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 8.1:	++	0	+	++	- -	+
	Option 8.2: (Preferred)	++	0	+	+	- -	+
	Option 8.3:	+	0	+	-	- -	0
	Option 8.4:	0	0	0	-	+	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Obligations on employers – proposal 9: reasonable steps to support HCD employees to continue working

A common criticism of overseas health- and disability-related income insurance schemes has been that they do not adequately incentivise employers to engage in preventive and reintegration activities for employees with a health condition or disability. As a result, international jurisdictions have placed greater obligations on employers to support work retention and return to work for claimants with health conditions and disabilities.

Employers have existing statutory obligations under the Human Rights Act 1993 to take reasonable measures, i.e. provide services and facilities where this is reasonable, to meet an employee's needs. This can also be described as making "reasonable accommodation". Information and advice for employers about how to meet this obligation is available from the

Human Rights Commission and other expert not-for-profit organisations. Some government funding is available for equipment and modifications.

The following options were considered:

- *Option 9.1 Introduce new measures*
- *Option 9.2: Encourage employers to make reasonable efforts to support work retention (Preferred)*

The preferred option is to encourage employers to make reasonable changes to support work retention (option 9.2). Given existing provisions (legal obligation, guidance and financial support), placing additional statutory obligations on employers to make reasonable changes to support work retention are not necessary. However, the scheme will be in a position to provide guidance and encourage employers to meet their existing obligations.

Under this option, employers will continue to be required to meet the existing statutory obligation to make reasonable accommodations for a worker with a health condition or disability, and the scheme will ensure employers and employees receive advice and guidance about reasonable accommodations.

Key impacts on directly affected stakeholders:

Employers – Employers will be expected, where possible, to support claimants remaining at work.

Employees – Because this option leaves it up to employers to provide reasonable measures without strengthening statutory obligations, it risks employers choosing not to provide accommodations that could support claimants to return to work.

Assessment of options for reasonable steps to support employees to continue working.

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 9.1:	+	+	N/A	+	-	+
	Option 9.2: (Preferred)	+	+	N/A	+	+	+

Key:
++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo- - much worse than doing nothing/the status quo

Obligations on employers – proposal 10: keeping jobs open for people who stop working due to a health condition or disability

In New Zealand, an employer has no statutory obligation to keep a job open for a person who temporarily stops working due to a health condition or disability. Requirements to keep jobs open are likely to discourage employers from hiring disabled people or people with health conditions, but support to return to work can significantly impact someone's employment outcomes.

Options 10.1 to 10.3 relate to obligations on employers for keeping jobs open for claimants who have to stop working due to a health condition or disability.

The following options were considered:

- *Option 10.1: Maintain status quo (no requirement to keep jobs open for HCD)*
- *Option 10.2 New rules and requirements to keep jobs open*
- *Option 10.3 New expectations about keeping jobs open (Preferred).*

The preferred option is to have new expectations about keeping jobs open. Under this option employers would be expected to make reasonable efforts to protect a job where a reasonable prognosis is made of return to work within six months, but this would not be an obligation. Employer practice can be monitored by the scheme. Job protection while on the scheme could be strengthened in future if a significant increase occurred in dismissals for medical reasons.

Key impacts on directly affected stakeholders:

Employers – These expectations aim to encourage employers to support return to work, without setting perverse incentives.

Employees – This would support a person's return to work and reduce the risk of poor labour market outcomes.

Assessment of options for keeping jobs open for people who stop working due to a health condition or disability

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 10.1:	N/A	0	N/A	0	0	0
	Option 10.2:	N/A	+	N/A	0	-	0
	Option 10.3: (Preferred)	N/A	++	N/A	0	+	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Obligations on employers – proposal 11: requiring employers to pay an initial period for HCD

Most European countries require employers to meet the cost of an employee's initial absence from work. This cost-sharing is intended to encourage employers to help keep their employees at work and avoid the need to claim for insurance. Employers in most of these schemes bear a greater portion of the costs of short-term sickness (often referred to as sick pay), while the cover for workers with longer-term sickness is financed by health and social insurance funds. Employer-funded absence periods for health conditions and disability vary considerably but many are less than one month.

In a New Zealand context, such an absence period could be equated with mandated sick leave. Countries where employers cover an initial period of absence tend to have lower absence rates than countries where employers can pass the costs of sickness absence on to the insurance scheme. However, the optimal time-profile for benefits during a spell of sickness is unclear.

Note: This option does not relate to medical dismissals. As outlined above, existing arrangements in New Zealand obligate employers considering a medical dismissal to ensure deliberation is fair and actions reasonable, and they are relatively rare.

The following options were considered:

- *Option 11.1: No requirement, with the scheme funding payments from the outset*
- *Option 11.2 Require employer to cover initial period*
- *Option 11.3 Include an employer experience rating*
- *Option 11.4 Include requirement to use statutory sick leave prior to claim (Preferred).*

The preferred option is to include a requirement to use statutory sick leave prior to the insurance claim (option 11.4). This creates an incentive to use sick leave before entering the scheme because paid leave provides a higher replacement rate and potentially reduces costs to the scheme.

Key impacts on directly affected stakeholders:

Employers – This option avoids setting significant perverse incentives. If employers were obligated to directly bear the costs of workers' poor health, they may terminate the employment of these workers or not hire them, or put pressure on them to continue working in poor health.

Employees – Over time, employers could respond by reducing sick leave requirements to the statutory level.

Assessment of options for requiring employers to pay an initial period for HCD

	Criteria					
	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment

Options identified							
	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 11.1:	+	0	N/A	+	0	0
	Option 11.2:	+	+	N/A	+	-	+
	Option 11.3:	0	0	N/A	0	-	0
	Option 11.4: (Preferred)	+	+	N/A	0	+	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Section 3: Options identification – PART E: Options for funding and delivery

Part E – Funding and delivery
Choices about the schemes funding arrangements will have implications for the long term viability of the scheme, how well it is able to support the economy at different stages of the economic cycle and during economic shocks, and how independent the scheme is from political influences. The arrangements will also impact on the scheme's outcomes from an equity perspective (for instance any over-collection from one group resulting in a transfer of wealth from that group to others).

The way New Zealanders view and interact with the scheme is also likely to be impacted by the funding arrangements – for instance, the level of visibility each worker has of their own payments is likely to impact their expectations from the scheme, and the way they interact with the scheme.

Decisions are required on the specific funding mechanism, how much of the burden of funding will be borne by employers, employees or others, how any funding shortfall will be addressed during the scheme's initial establishment or its ongoing operation.

Funding and delivery – Proposal 1: Funding the scheme

Governments can raise revenue in different ways, including through levies and through general taxation.

The following options were considered:

- *Option 1.1: fully fund the scheme by a levy against wages and salaries (Preferred)*
- *Option 1.2: fully or partially fund the scheme from general taxation.*

Fully funding the scheme by a levy against wages and salaries is preferred (option 1.1). Levies are a good payment model for social insurance because the revenue is needed for a reasonably defined group of people (working people) and a link exists between the amount paid and the benefit received. Most international income insurance schemes rely on levies to meet their costs.

A levy-based system is most consistent with the objectives of ensuring support is available to individuals, family and whanau over time, supporting adjustments in the economy through the economic cycle, and keeping regulatory costs proportionate to intended outcomes. This is because a levy can be adjusted to scheme funding requirements much more easily than general taxation; in being tagged to labour cost, it also avoids disincentivising capital investment (albeit to a very minor extent).

A contributory system, with a clear relationship between levies and benefits better guarantees:

- benefits payable will be maintained over time, as a form of social contract
- levies will be managed in a transparent way so that the scheme is sustained.

In these regards, a levy funded scheme offers a better guarantee that the scheme will offer support to workers and their families and whanau over time.

Key impacts on directly affected stakeholders:

Employers – will be required to pay a specific levy based on their employees' earnings. A levy arrangement allows employers to contribute to the scheme in a more direct manner and targeted way than through general taxation. Levies also allow for different collection and payment mechanisms, for instance as part of payroll or via direct invoice arrangement (based on schemes overseas and the ACC scheme's levies in New Zealand) which involves initial implementation costs for employers to ensure that levies can be administered.

Employees – will be required to pay a specific levy based on their earnings, likely at a different rate than they would contribute if it were through general taxation. They will also have greater visibility of their specific payments made.

Assessment of options for funding the scheme

	Criteria					
	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall

							assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 1.1 (Preferred)	++	++	+	+	-	++
	Option 1.2	+	-	+	+	+	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Funding and delivery – Proposal 2: Funding share

Note these options are based on the preferred option for funding the scheme through levies.

Internationally, most schemes derive funding from both employers and workers, but in differing proportions.23 Some are funded in equal measure between employees and employers (eg. Austria, Germany), others have higher proportions of funding from employers (eg. France, Spain), and a small proportion derive either all or most funding from employees (eg. Denmark).

The following options were considered:

- *Option 2.1: Levies are paid in equal proportions by employers and employees (Preferred)*
- *Option 2.2: Levies are paid by employers only*
- *Option 2.3: Levies are paid by workers only*

A 50:50 split of the rate between employees and employers is preferred (option 2.1) because it is simple and allocates costs to both employers and employees, consistent with both groups benefiting from the scheme as well as contributing to the costs and risks the scheme is intended to address. For instance:

- Employee levies reflect that workers derive the benefit of personal insurance (particularly the estimated ~70% of workers who do not currently have redundancy provisions in their employment contracts).
- Employer levies reflect that employers create or are able to influence the circumstances that lead to a redundancy, and benefit from efficiencies gained from restructuring and improved allocative efficiency over time.

Key impacts on directly affected stakeholders:

[23] Asenjo, A., and Pignatti, C. (2019) Unemployment insurance schemes around the world: Evidence and policy options. Research Department Working Paper No. 49, International Labour Office

Employers – will be required to pay an amount on top of existing payroll costs (at proposed settings estimated to be 1.39% on top of all employee's wages up to $136,544 per annum).

Employees – will see a deduction from each pay packet (at proposed settings estimated at 1.39% on wages up to $136,544 per annum)

Assessment of options for funding share

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 2.1 (Preferred)	**0** **N/A**	**0** **N/A**	**0** **N/A**	++	-	+
	Option 2.2	**0** **N/A**	**0** **N/A**	**0** **N/A**	-	-	-
	Option 2.3	**0** **N/A**	**0** **N/A**	**0** **N/A**	-	-	-

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Funding and delivery – Proposal 3: Ensuring cashflow is sustained

Note these options are based on the preferred option for funding the scheme through levies.

There is a high likelihood that the scheme will not have sufficient cash at points in a year to meet payment obligations upon go-live, its transition phase and over time due to:

- levy income and claims incurred differing over any given year
- uncertainties relating to the scheme's true cost upon the scheme's introduction and economic cycle timing issues, and
- recessionary events

The likelihood of cashflow issues arising will generally be higher in the initial few years of scheme operation because initial levies will be set on the basis of assumptions and estimates rather than information derived from the scheme's operation and in light of workers' and employers' interactions with the scheme.

There are options to address the risks through provision of specific funding for a buffer, delaying the scheme becoming fully operational to provide time for workers and employers' levies to establish a large enough buffer to cover any foreseeable risks, or to allow for the Crown to cover any shortfall in the short term, to be repaid by the scheme over time.

The following options were considered:

- *Option 3.1: the scheme is able to access a Crown liquidity facility (Preferred).*
- *Option 3.2: the scheme is appropriated a start-up buffer fund*
- *Option 3.3: the scheme accumulates a larger funding reserve, more quickly*

The preferred option is that the scheme is able to access a Crown liquidity facility (option 3.1)

This option would establish a Crown liquidity facility that the scheme could call upon subject to Ministerial agreement, and repaid according to a timeframe established as part of the funding policy. It would be subject to commercial terms, including an interest cost established by New Zealand Debt Management (part of the Treasury). Drawdowns could be paid back over a period of time considered to manage levy stability (determined by a Ministerially directed funding policy statement for the scheme).

This option would not remove the need for the scheme's outgoings and revenue to be maintained at a sustainable level; rather it would allow for any significant period where costs exceed payments into the scheme to be covered not just from levies already collected, but from levies to be collected in the future.

Many international income insurance schemes have recourse to a Crown funding facility. Guaranteeing access for the scheme to such a facility would give stakeholders confidence that the scheme will be sustained and will offer support to workers and their families and whanau over time.

Access to the funding on commercial terms will help ensure the scheme is disciplined in managing its costs. It will also help to avoid the need to maintain a large funding reserve, avoiding detrimental impacts for economic efficiency, or a protracted period where workers and employers must pay levies but would not be able to benefit from the scheme (which disproportionately disadvantages workers nearing retirement).

This approach involves slightly higher administration costs for ACC and the Crown than the alternatives. The facility would not be costless even when undrawn, however, the opportunity cost would be less than the alternative options, as the facility would provide greater natural scale, and flexibility of funding than other options.

Key impacts on directly affected stakeholders:

Employers – will be able to know levies being paid will result in the benefits they and their employees expect, during establishment of the scheme, and regardless of the economic cycle.

Employees – will be able to know levies being paid will result in the expected benefits, regardless of the economic cycle and during establishment of the scheme, and will not have to wait for an extended period of levy payments where no benefits from the scheme are possible. Compared to other options this option is fairer to employees nearing retirement, and fairer to existing workers compared to future entrants to work and the scheme who would benefit disproportionately from a larger than necessary buffer being funded by current workers.

Assessment of options for ensuring scheme cashflow is sustained

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 3.1 (Preferred)	++	0	+	++	-	++
	Option 3.2	++	0	0	-	-	0
	Option 3.3	-	0	-	-	- -	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Funding and delivery – Proposal 4: structuring the displacement and HCD levies

Note these options are based on the preferred option for funding the scheme (through levies) being implemented.

HCD and economic displacement claims differ in their dynamics over time and through the economic cycle. We also expect the claims profiles to change over longer periods of time, for instance due to deeper structural changes, for instance in the age structure.

The different claim types are also subject to very different behavioural drivers.

How levies are structured (particularly whether a single levy covers both scheme aspects, or whether each is levied separately) will impact how well they can be tracked and managed over time.

The following options were considered:

a) *Option 4.1: Displacement and HCD levies are accounted and set separately (Preferred)*

b) *Option 4.2: Displacement and HCD levies are accounted and set as a single levy.*

The preferred option is that displacement and HCD levies are accounted and set separately (option 4.1).

This is the best option for maintaining transparency for levy payers, particularly given some employers have expressed opposition to funding the HCD levy. Most importantly separate accounting will enable claims costs, and funding requirements to be monitored so that any claims or funding trends can be identified and addressed more effectively. Separate accounting also allows for separate funds investment strategies to be adopted, which may be appropriate given the different claims dynamics over the economic cycle.

The options do not differ in how they affect the collection of overall levy cost, and therefore will not influence how well the scheme helps maintain living standards for workers and their families and whanau.

Key impacts on directly affected stakeholders:

Employers **–** no impact on amount, timing, or method of payment (other than requiring payroll system changes to show one levy, instead of two), but lacks transparency of where levies are covering HCD compared with displacement.

Employees **–** no impact on amount, timing, or method of payment but lacks transparency of where levies are covering HCD compared with displacement (albeit this information will be available at the aggregate level from scheme documents etc).

Assessment of options for structuring the displacement and HCD levies

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 4.1 (Preferred)	0	++	0	+	-	+
	Option 4.2	0	+	0	-	-	-

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Funding and delivery — Proposal 5: Options for delivery agency

The choice of which agency will deliver NZII will affect how efficiently and effectively the outcomes of NZII will be achieved. Having a competent and independent entity is important for providing assurance, for instance, that the scheme's employer and worker levy funding will be used for the purpose for which it is collected (rather than diverted to other uses).

The following options were considered:

- *Option 5.1 Establishing a new Crown entity or departmental agency*
- *Option 5.2 Delivering the scheme through ACC (Preferred), or*
- *Option 5.3 Delivering the scheme through the Ministry of Social Development.*

The preferred option is that ACC deliver the scheme (option 5.2), as:

- *Existing expertise and infrastructure* - It has existing expertise and infrastructure for levy administration, fund management, claims administration, and case management
- *public trust and confidence* – being a Crown Agent enables ACC to operate independently, managing levy payers' funds and administering claims at arm's length from government influence
- *organisational capability* – ACC is already functionally equipped to deliver the scheme, enabling it to leverage existing capabilities in levy administration, fund management, claims assessment, payment, case management, actuarial expertise, data management and analytics, and dispute resolution systems
- *value for money* - while using ACC could present risks for delivery of the accident compensation scheme, it also presents opportunities to strengthen ACC's capabilities for rehabilitation through improving return-to-work practices. It is also the best option for managing resourcing across the schemes and avoiding disruption in this regard.
- *financial sustainability* - using ACC would be the most cost-effective approach to establishing the social insurance scheme (estimated at around half the cost)[24], and would also provide a small ongoing cost efficiency (estimated at approximately 3% savings against a shared services model).
- *achievability* – implementation through ACC was considered the only feasible option within the Government's timing and budget objectives.

Assessment of options for delivery entity

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A

	Option 5.1	++	++	++	0	--	-
	Option 5.2 (Preferred)	++	++	++	0	++	++
	Option 5.3	++	++	++	0	-	+

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Funding and delivery — Proposal 6: Options for dispute resolution

Any scheme with defined entitlements will lead to disputes. NZII disputes are likely to occur in a small number of cases relating to issues of entitlement and eligibility.

The following options were considered:

- *Option 6.1 A consensual process where the outcome of the dispute is decided agreed by the parties themselves (e.g., negotiation or mediation)*
- *Option 6.2 A determinative process (e.g., where a third party decides)*
- *Option 6.3 A tiered process that involves both consensual and determinative elements (preferred)*

The preferred option is option 6.3, with the following elements:

1. Internal review: the insurer would undertake an internal review of a review application. It is expected that a large proportion of disputes would be resolved at this stage.
2. Mediation: For reviews unable to be resolved internally, mediation could be offered as an alternative dispute resolution tool.
3. Formal review: unresolved disputes would be referred to an independent, third-party reviewer for a legislatively defined formal review. Claims could be withdrawn or settled before a review hearing took place.
4. Appeal to the courts: any review decision would be fully appealable to the District Court and from there to the High Court.

This option would be the most efficient and fair approach and provides several points of intervention, including independent third-party review, if required. This option also aligns with and can leverage the existing ACC disputes process.

NZII disputes are likely to occur in a small number of cases and most disputes will be managed in the first instance by the internal review and mediation. There is some uncertainty about the number of Court appeals. Based on the experience of ACC we have assumed about 98 appeals each year. As is the practice with the accident compensation scheme, ACC would fund judicial and

Court capacity to manage NZII appeals. The scheme would pay for the costs of an independent review process.

One of the main principles underpinning the disputes process is to resolve disputes as soon as possible with timeframes to allow for the time-limited nature of insurance payments. Time frames for each stage of the disputes process should be clearly set out in regulations.

Where a dispute exists over eligibility, the requestor would not receive insurance payments until the dispute is resolved. An NZII claimant may apply and, where eligible, be granted assistance through the welfare system until entitlement can be determined. We did consider whether insurance payments should continue while eligibility is established, with insurance payments being repaid by the NZII applicant if they were determined not to be eligible. This approach would create significant debt for individuals and the scheme and is therefore not preferred.

Assessment of options for disputes resolution

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 6.1	+	0	0	0	0	0
	Option 6.2	+	0	0	0	-	0
	Option 6.3 (Preferred)	+	0	0	+	+	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Section 3: Options identification – PART F: Options for Governance

Part F – Governance – Ministerial involvement in direction setting

Governance is the system by which an organisation is directed and controlled and therefore effective and efficient governance will be important to the scheme's success. While boards of directors are a central element of governance, a governance system is much wider than just the composition and make-up of the board. Governance as a system includes:

- the roles and expectations of ministers,
- the board collectively, and
- monitoring arrangements.

The scheme requires a governance model that is consistent with the framework set by the Crown Entities Act (2004) (CEA).

[Note: there is information on intended monitoring and evaluation of the scheme in RIS 1. The preferred approach at this stage is to use existing monitoring functions, as this carries limited costs.]

Governance – Proposal 1: Board skills and composition

Governance of the scheme needs to support the ongoing operation of the scheme. Participation in the board provides for stakeholder influence in governance. ACC is subject to the Crown Entities Act, and the convention that boards are appointed based on having the skills required to govern a crown entity. We consider that including Māori/iwi, and employer and employee perspectives would benefit both the AC scheme and NZII.

The following options were considered:

- *Option 1.1: Leave the existing ACC Board unchanged*
- *Option 1.2: Broaden skills mix of existing ACC Board to reflect responsibility for social insurance scheme*
- *Option 1.3: Broaden skills mix and set a requirement for Ministers to seek nominations from key groups prior to appointment (Preferred)*
- *Option 1.4: Reserve Board seats for representatives of key stakeholder organisations*
- *Option 1:5: Create a separate board with responsibility for the scheme*

The preferred option is to broaden skills mix and set a formal requirement for Ministers to consult with key groups prior to appointment (option 1.3). This approach would leverage ACC's structure and capabilities while reflecting the ambition to ensure:

- Iwi/ Māori voice, because Māori interests are directly affected by the scheme, and to honour te Tiriti o Waitangi
- Worker and employer voices – building on Tripartite Forum's role in creating and shaping the scheme
- Disability and health sector – as a significant stakeholders in the scheme
- Wider stakeholder perspectives or subsets, e.g. Pacific peoples, Tāngata whaikaha.

This option improves equity by ensuring groups most affected by the scheme (iwi/Māori, disabled people, workers and employers) have a voice at key levels of decision-making, and that scheme design and operation will take their perspectives into account. At the same time, the proposed arrangements are aligned with the Crown Entities Act (2004) by ensuring the Board provides collective leadership and accountability that the scheme cost-effectively meets the objectives specified in the Act governing New Zealand Income Insurance.

Options 1.2 and 1.3 are similar in that both allow greater engagement from stakeholders in the decision-making process, but 1.3 provides a stronger stakeholder voice for in the appointment process which should increase confidence that the scheme is delivering for those stakeholders.

Key impacts on directly affected stakeholders:

Employers – Would support the employer perspective being incorporated into the scheme.

Employees – Would support the worker perspective being incorporated into the scheme, including Māori/iwi and disabled people.

Assessment of options for Board skills and composition

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 1.1	N/A	N/A	N/A	N/A	0	0
	Option 1.2	N/A	N/A	N/A	N/A	+	+
	Option 1.3 (Preferred)	N/A	N/A	N/A	N/A	+	+
	Option 1.4	N/A	N/A	N/A	N/A	-	-
	Option 1.5	N/A	N/A	N/A	N/A	- -	-

Key:

++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Section 3: Options identification – PART G: Options for interactions with other legislation

Part G- Interactions with other legislation

The scheme will interact with the existing tax and transfer system, including the welfare, student support, Paid Parental Leave, and accident compensation systems. We propose a set of rules to guide these interactions which aim to uphold the intent of NZII and the other government institutions it is interacting with.

Interactions with other legislation – proposal 1: Welfare, Working for Families, and student support

A range of support is available for individuals and families with low or no income. This includes (but is not limited to) main benefits, Working for Families tax credits, supplementary assistance to help with specific costs such as the Accommodation Supplement, Disability Allowance and Childcare Subsidy, hardship assistance, as well as student support and the Independent Earner Tax Credit.

Almost all of this support is income tested on the basis of family income (and family assets), with the family defined as the nuclear family (that is, adults and any dependent children). The income tests and abatement settings in the income support system mean the amount of income a family has affects the amount of income support they are entitled to (if any).

Some tax credits, such as the In-Work Tax Credit, Independent Earner Tax Credit, and Minimum Family Tax Credit, are designed to encourage people into employment, ensure people are better off in work than on a benefit, and help with in-work costs. Therefore, they are generally only paid to people in employment. Income from ACC Weekly Compensation and Paid Parental Leave is considered income from work for these tax credits, allowing recipients to access the IWTC even if they are no longer in employment (so long as they are otherwise eligible). However, beneficiaries cannot receive the IWTC, even when they have some income from work. A policy decision is required on whether NZII entitlement is considered employment income for the purposes of these tax credits.

The following options were considered:

- *Option 1.1: Treat NZII entitlements as income (preferred option, in combination with 1.4)*
- *Option 1.2 Do not treat as income*
- *Option 1.3 Direct deduction of NZII payments*
- *Option 1.4: Treat NZII entitlements as employment income for IWTC, MFTC, and IETC (Preferred option, in combination with 1.1)*
- *Option 1.5: Do not treat NZII entitlements as employment income for IWTC, MFTC, and IETC.*

Options 1.1 to 1.3 relate to how NZII payments will be treated for the purpose of existing income support. These will determine how much (if any) other income support someone is eligible for while receiving their insurance payments. The preferred option is to treat NZII entitlements as income. This option is:

- generally consistent with how other forms of income is treated and is therefore consistent with the objectives of the welfare and student support systems
- provides clarity for agencies and individuals
- is administratively achievable and proportionate, as it is consistent with how income is generally treated in the welfare system.

Options 1.4 and 1.5 consider whether NZII entitlements should be treated as *employment* income for the purposes of the IWTC, FMTC, and IETC. These options are mutually exclusive from each other but could be combined with options 1.1 – 1.3. These options are finely balanced, with both options justifiable, but option 1.4 is on balance preferred. This option would align the treatment of NZII entitlement with ACC weekly compensation and statutory paid parental leave, so that NZII recipients could access these tax credits. This option:

- would uphold the objectives of NZII, as it improves the level of income smoothing
- is not inconsistent with the objectives of these tax credits, which aim to incentivise work. However, there is already exceptions to this, as ACC Weekly Compensation and Paid Parental Leave are treated as employment income.
- provides clarity for agencies and individuals
- is administratively straightforward

Key impacts on directly affected stakeholders:

Employers – This option does not directly impact on employers.

Employees – Avoids distorting existing incentives in the welfare system.

Assessment of options for interactions with Welfare, Working for Families, and student support

		Criteria					
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Overall assessment
Options identified	Status quo	0 N/A	0 N/A	0 N/A	0 N/A	0 N/A	N/A
	Option 1.1: *(preferred option)*	++	++	0	0	++	++
	Option 1.2:	++	--	0	0	--	--
	Option 1.3:	++	--	0	0	--	--

	Option 1.4: *(preferred option)*	++	0	0	0	0	+
	Option 1.5:	+	+	0	0	0	+

Key:

++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

Interactions with other legislation – proposal 2: Defining NZIIS payments for income tax purposes

Options 2.1 relates to how payments under the scheme (both NZIIS entitlements and bridging payments) may be defined under the Income Tax Act 2007 (ITA). How payments are defined will have implications for the overall tax treatment of the scheme.

As this section relates specifically to the tax policy framework, criteria that is consistent with how tax policy is analysed will be used to assess these options. These are:

1. Certainty – individuals and firms will have a clear understanding of how the scheme works in the context of the tax system.
2. Consistency – maintains consistency with existing tax frameworks, including the tax treatment of the analogous accident compensation scheme.
3. Compliance costs – compliance costs should be minimised as far as possible.
4. Administration – administrative costs should be minimised as far as possible.

The following options were considered:

- *Option 2.1: Define NZIIS payments as salary and wages*

Under this option, an amendment would be made under section RD 5 of the ITA to include "an income insurance earnings-related payment" and "an income insurance employer bridging payment" under the definition of salary and wages. This means that payments under the scheme would be subject to PAYE deductions, which would be withheld by ACC (for NZIIS entitlements) and employers (for bridging payments). These deductions include income tax, ACC levies, KiwiSaver employee contributions, Student Loan repayments, and child support deductions. This is consistent with how pre-displacement income and payments under the AC scheme are treated.

Defining payments as salary and wages means that employees cannot deduct the cost of the levies they pay when calculating their taxable income, since the ITA limits deductions for costs incurred when deriving employment income. This creates further consistency with the treatment of the ACC Earner levy.

Key impacts on directly affected stakeholders:

Employers – There is a risk that denying employees a deduction for the levies they pay is inconsistent with the treatment of private income protection insurance premiums. Under private schemes, employees can deduct the cost of premiums paid against their income if payments under the scheme are taxable.

Employees – Avoids distorting existing incentives in the welfare system.

Assessment of options for Defining NZIIS payments for income tax purposes

		Criteria				
		Criteria 1	Criteria 2	Criteria 3	Criteria 4	Overall assessment
Options identified	Status quo	**0** N/A	**0** N/A	**0** N/A	**0** N/A	N/A
	Option 2.1: *(Preferred option)*	+	++	++	++	++

Key:
++ much better than doing nothing/the status quo
\+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
\- worse than doing nothing/the status quo
\- - much worse than doing nothing/the status quo

Together the above proposals will form the NZII scheme (and related changes to minimum employment standards), the aim of which is to:

- reduce income-shock for these workers and their households when steady salary/wage is lost
- provide displaced workers with the time to look for a job well-suited to their skills
- provide workers affected by a health condition or disability with the ability to take time out to recover and return to work
- give confidence to workers that they will have income security in the face of change and uncertainty, and
- improve resilience for the macro-economy during a downturn or a recession.

This approach is reflected in the Cabinet papers.

Section 4: Conclusions

Who are the main expected beneficiaries and what is the nature of the expected benefit?

The main beneficiaries of the NZIIS will be economically displaced people and people with HCDs. The expected benefit of replacement income is in avoiding actual hardship for some households and reducing financial stress from an unknown but potentially significant number of households who are either unemployed and searching for another job (displaced people) or who are taking time away from work for recovery and rehabilitation or searching for another job (for HCD). There will be other benefits such as a likely reduction in wage scarring. The benefits are expected to be moderate but in line with upper estimates of international evidence. Benefits are discussed further in detail in RIS 1.

Where do the costs fall?

The costs of the NZII scheme will be met through a compulsory levy that will be paid in equal proportions by employers and employees.

Employees: The actual levy and reduction in net income individuals will face will depend on their gross income. A reduction in net income is likely to be material for families already struggling to meet their fixed outgoing costs. Given entitlement to existing support through the welfare system is based on gross rather than net income, entitlements to other support (such as the Accommodation Supplement and Working for Families tax credits) will not increase, even with a net decrease in income from the income insurance levy.

The recommended options will see coverage for a variety of non-standard working arrangements, including fixed-term, seasonal and casual, where there is a regular pattern of work and a reasonable expectation of future income. This will reduce issues of inequity (where some workers pay a levy but are not eligible for cover) and protect against people being forced into insecure working arrangements to avoid the levy.

While the material effect of the levy could be greater for those on lower incomes, evidence suggests a greater incidence of economic displacement amongst those on lower incomes. Consequently, lower income workers would use and benefit from the scheme more frequently than those on higher incomes and will likely benefit from improved labour market outcomes over the longer term.

Employers: Like employees all employers will bear the cost of the levy. Subject to whether a total REM policy is in place, some of this cost may be passed on to employees over time through reduced wage increases and lower wage rates depending on relative bargaining power and the extent to which wage the workforce is subject to the minimum wage rate. As a result of the initial cost to business, all costs for businesses will increase and small businesses may particularly feel the effect of increasing costs on earnings. The cost of a four-week bridging payment for a business making a median income earner redundant would be around $3,400.

Government: The main ongoing costs to government are the costs assumed by ACC for levy collection, payment of claims and case management. ACC's costs have been calculated as 9.5% of total claims values, which in 2025/26 (the first full year of the scheme's operation) are estimated at ~$355m. These costs are to be fully funded from the levy. There are some relatively minor ongoing expenditures by other agencies, of ~$3m per annum, for interfaces with the scheme (eg information sharing) and policy advice. Further information is included in RIS 1: *New Zealand Income Insurance*.

The Crown will act as funder and / or lender of last resort when required. This arrangement will be on commercial terms, whereby the scheme delivery agent is charged interest on the use of any funding provided by the Crown.

In the short term, it is estimated the scheme delivery agent may be required to draw down around $300 million in a year to cover cashflow shortfall relating to the disjunct between the timing of levy income and claims outgoing.

In the longer term, during a crisis period, the scheme may need to draw down up to $1 billion per year, which will need to be paid back over a period of time.

What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

Impacts on regulatory systems

ACC: There are benefits from economies of scale and related expertise by having ACC as the delivery agent of the scheme. However, as ACC will need to add a new aspect to its business and grow to deliver both accident compensation and income insurance well, there could be risks to it as an organisation. These risks can be mitigated by establishing suitable governance arrangements that ensure both schemes will be delivered well and by putting in place appropriate business change processes.

Employment standards regulatory system: The creation of minimum employer obligations for giving notice and making bridging payments will add complexity to the administration of the employment standards system, and may increase the number of disputes at the end of employment.

Impacts on employers

The obligation for additional payments to employees will immediately increase liabilities for all employers, and in some cases is likely to affect their trading position as a going concern. In addition, by treating the employer obligation as wages, the increase in liabilities to employers will mean less is available for other creditors in cases of insolvency or liquidation.

Impacts on workers

The requirement to pay a levy will immediately reduce the take home earnings of workers and will have a disproportionate impact on low impact earners.

The availability of replacement insurance may increase rates of displacement and incentivise displaced workers to take an unnecessarily long time to secure another job, which may be little or no better than what would be found with shorter job search periods.

Impacts on the economy

There will be positive and negative impacts across the economy from extended job searches.

These impacts are discussed further in RIS 1.

Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'

We have not identified any significant incompatibilities with the Government's 'Expectations for the design of regulatory systems'.

Agency rating of evidence certainty?

Overall, we have a high level of confidence in the evidence base for the opportunity and problem definition. This RIS is confined to considering the detailed policy settings of an insurance scheme compared with the status quo.

New Zealand is almost alone in the developed world in not having some kind of mandatory, nationwide income insurance scheme or other protection, such as mandatory redundancy payments, for people who lose their jobs. There is an extensive international literature on social insurance schemes (albeit not always consistent or unambiguous), and we have drawn on this whenever relevant when considering options for scheme design settings. The literature that we examined is summarised in RIS 1 and summarised in this RIS.

A key limitation is much of the qualitative data is derived from information received during public consultation. There is potential bias in the information provided and uncertainty in the magnitude of unquantified costs and benefits. Areas of uncertainty have been considered during options analysis. There are limitations to how the impacts of the proposals in this statement can be assessed specifically or quantitatively.

Conclusion on preferred package of options

Preferred package

MBIE's preference is to move forward with the following combination of options to address the problems outlined in Section 2.

The table below summarises our preferred package (by part)

PART A – Coverage

Options identified		*Policy Objectives*				
		Objective 1 *Maintain living standards of workers and their families* ***and whānau in*** *the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.2	✓	✓	✓	✓	✓
	Option 2.2	✓	✓	✓	✓	✓
	Option 3.1	✓	✓	✓	✓	✓

Option 4.1 (pairs with 4.2 below)	✓	✓	✓	✓	
Option 4.2 (pairs with 4.1 above)	✓	✓		✓	✓
Option 5.1 (pairs with 5.3 below)	✓	✓		✓	
Option 5.3 (pairs with 5.1 above)	✓	✓		✓	
Option 6.1	✓	✓			✓
Option 7.3	✓	✓	✓		✓
Option 8.1	✓	✓	✓	✓	✓
Option 9.6	✓	✓	✓	✓	✓

PART B – Options for entitlements

Options identified		*Policy Objectives*				
		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.1	✓	✓	✓	✓	✓
	Option 2.1	✓	✓	✓	✓	✓
	Option 3.3		✓		✓	✓
	Option 4.1	✓	✓	✓		✓
	Option 5.3					✓
	Option 6.1	✓	✓	✓		✓
	Option 7.2	✓	✓	✓	✓	✓

	Option 8.1:		✓			✓
	Option 9.2	✓	✓	✓		✓
	Option 10.1	✓	✓	✓	✓	✓
	Option 11.1	✓		✓	✓	✓

PART C – Obligations of recipients

Options identified		***Policy Objectives***				
		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.4	✓	✓		✓	✓
	Option 2.5		✓			✓
	Option 3.2	✓			✓	
	Option 4.2		✓		✓	
	Option 5.4		✓	✓	✓	✓

PART D – Obligations of employers

Options identified		***Policy Objectives***				
		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.2	✓			✓	✓
	Option 2.1	✓			✓	

	Option 3.3					✓
	Option 4.2	✓	✓		✓	
	Option 5.2	✓			✓	✓
	Option 6.3	✓				✓
	Option 7.3					✓
	Option 8.2	✓		✓	✓	
	Option 9.2	✓	✓		✓	✓
	Option 10.3		✓			✓
	Option 11.4	✓	✓		✓	✓

PART E – Funding and delivery

Options identified		***Policy Objectives***				
		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.1				✓	✓
	Option 2.1				✓	✓
	Option 3.1			✓	✓	✓
	Option 4.1		✓		✓	
	Option 5.2	✓	✓	✓		✓
	Option 6.3	✓			✓	✓

PART F —Governance

Op tio		***Policy Objectives***	

		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.3				✓	

PART G – Interaction with other legislation

Options identified		*Policy Objectives*				
		Objective 1 *Maintain living standards of workers and their families and whānau in the period after job loss*	Objective 2 *Support workers back to good jobs and other sustainable outcomes*	Objective 3 *Support the economy to adjust more effectively to structural change, shocks or downturns*	Objective 4 *Improve Equity*	Objective 5 *Ensure regulatory costs are proportionate to intended outcomes*
	Option 1.1	✓	✓			✓
	Option 1.4	✓	✓			✓

Options identified		*Policy objectives for defining NZIIS payments for income tax purposes*			
		Objective 1 *Certainty – individuals and firms will have a clear understanding of how the scheme works in the context of the tax system.*	Objective 2 *Consistency – maintains consistency with existing tax frameworks, including the tax treatment of the analogous accident compensation scheme.*	Objective 3 *Compliance costs – compliance costs should be minimised as far as possible.*	Objective 4 *Administration – administrative costs should be minimised as far as possible*
	Option 2.1	✓	✓	✓	✓

What are the marginal costs and benefits of the preferred package of options?

This analysis includes:

- analysis of monetised benefits and costs
- assessment of any intangible benefits and costs
- vis-à-vis the status quo ('do nothing') as the counterfactual.

The results have been presented in the following table:

- impacts on affected groups (the standard RIS template)

All values are Net Present Values (NPVs) in $ million in current (2021/22) prices, over a fifty-year time horizon, calculated using the Treasury's CABx tool. The assumptions used in estimating monetised benefits and costs are set out after the tables.

Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups			
Employers	Financial costs - levies net of GST plus bridging payments • *ongoing, increasing in line with growth of the labour force* • *subject to considerable uncertainty about most key parameters*	$575,390	Medium
	Compliance costs - calculating and forwarding levies • *some initial costs but mostly ongoing* • *assumes NZII levy is aligned with ACC levy*	Low	High
Workers	Financial costs - levies including GST • *ongoing, increasing in line with growth of the labour force* • *subject to considerable uncertainty about most key parameters*	$560,670	Medium
	Compliance costs - lodging claims • *processes not yet designed, unknown how user-friendly these will be*	Medium	Low

Continued: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional costs of the preferred option compared to taking no action			
Provider (ACC)	Costs of levy collection, payment of claims and case management • *estimated at 9.5% of value of claims* • *increasing in line with growth in claims* • *funded through levies* • *subject to considerable uncertainty as a result of uncertainty about number and value of claims*	$3,550	Low/ Medium
Other government agencies	Crown funded expenditures		
	• Confidential advice to Government		
	• *operating costs (ongoing)*	$871	High
	Additional complexity in the interface between welfare, ACC and tax	Low	Low
Wider community	Losses in employment and production • *effect of reductions in labour supply (through longer job search duration) and increased labour costs*	Medium/ high	Medium
Total monetised costs		$1,136,968	LOW
Total non-monetised costs		MEDIUM/LOW	LOW
Additional benefits of the preferred option compared to taking no action			
Regulated groups			
Employers	More certainty of process for employees with HCDs	Low	Low
Displaced workers	Receipt of replacement income for up to 30 weeks • *enables workers and their families and whānau to maintain living*	$549,082	Low

	standards after losing their jobs and while searching for new work		
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress for 20% of claimants*	$128,064	Low

Continued: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional benefits of the preferred option compared to taking no action			
Regulated groups			
Displaced workers	Reduced long-term wage scarring • *extended job search will enable 20% of claimants (22,460 people) to secure jobs with better wages and less wage scarring (10%)* • *for many people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain*	$31,786	Low
Workers with HCDs	Receipt of replacement income for up to six months • *enables workers and their families and whānau to maintain living standards while taking time away from current jobs for recovery and rehabilitation, or while searching for new work*	$417,446	Low
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress 10% of claimants*	$77,146	Low
	Better long-term employment and health outcomes: • *some claimants will use replacement income to take time out from work for recovery and rehabilitation to achieve better outcomes* • *proportion unknown, could be significant* • *reinforced by requirements on employers to keep jobs open, accommodate different circumstances*	Low/ medium	Low

	• *for many people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain* • *some people may leave the labour force because of their HCD – enables considered and dignified exit, may support better health outcomes*		
	• *benefits assume 10% of people have better mental health outcomes and 10% have better physical health outcomes*	$55,841	Low

Continued: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional benefits of the preferred option compared to taking no action			
Workers with HCDs	Reduced long-term wage scarring • *existing evidence of wage scarring and possibility of better employment/health outcomes implies some likelihood of this occurring*	$31,473	Low
Provider (ACC)	None		
Other government agencies	Fiscal offset • *changes to welfare payments and tax as a result of NZII levies and payments*	$77,146	Medium
Wider community	Better job matching results in higher productivity • *theoretical argument but little or no supporting evidence* • *only relevant study (OECD 2017b) indicates key instruments relate to housing not the labour market*	-	Low
	Better health outcomes result in higher productivity • *reduced work absences and presenteeism among workers with HCDs in the long-term should improve their and employers' productivity* • *little supporting evidence*	Low	Low

	Reduced risk aversion among workers, firms and the wider community • *willingness to offer and accept 'risky' jobs supports movement of people from low- to high-productivity jobs* • *theoretical argument but little supporting evidence*	-	Low
	Smoothing consumption and economic cycles • *payments to displaced workers strengthen the 'automatic stabilisers' by enabling them to maintain consumption during recessions, offsetting downward economic pressures* • *well accepted argument* • *impacts likely to be significant but not feasible to estimate in advance*	High	Medium
Total monetised benefits		$1,367,985	LOW
Total non-monetised benefits		MEDIUM/HIGH	LOW/MEDIUM

Continued: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact	Evidence certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups			
Employers	Financial costs - levies net of GST plus bridging payments • *ongoing, increasing in line with growth of the labour force*	$529,000	Medium
	Compliance costs - calculating and forwarding levies, notice and bridging • *some initial costs but mostly ongoing* • *assumes NZII levy is aligned with ACC levy* • *notice and bridging payments*	Medium	High
Workers	Financial costs - levies including GST • *ongoing, increasing in line with growth of the labour force*	$516,000	Medium
	Compliance costs - lodging claims • *processes not yet designed, intention for user-friendly approach; HCD claims will involve medical assessment and therefore medical practitioner co-payments*	Low-medium	Low

Confidential advice to Government	[redacted] • [redacted] [redacted]		[redacted] [redacted]	[redacted] [redacted]
Wider community	Losses in employment and production • *effect of reductions in labour supply (through longer job search duration) and increased labour costs*		Low-Medium	Medium
	Total monetised costs	**$1,045,000**		**LOW-MEDIUM**
	Total non-monetised costs		**LOW/MEDIUM**	**LOW**
Additional benefits of the preferred option compared to taking no action				
Regulated groups				
Employers	More certainty of process for employees with HCDs	Low		Low
Displaced workers	Receipt of replacement income for up to 30 weeks • *enables workers and their families and* whānau *to maintain living standards after losing their jobs and while searching for new work*	$549,000		Low
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress for 60% of claimants*	$152,000		Low
	Reduced long-term wage scarring • *extended job search will enable 60% of claimants (26,667 people) to secure jobs with better wages and less wage scarring (10%)* • *for some people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain*	$37,000		Low
Workers with HCDs	Receipt of replacement income for up to six months • *enables workers and their families and* whānau *to maintain living standards while taking time away from current jobs for recovery and rehabilitation, or while searching for new work*	$418,000		Low
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress 60% of claimants to a small extent*	$101,000		Low

	Better long-term employment and health outcomes: • *some claimants will use replacement income to take time out from work for recovery and rehabilitation to achieve better outcomes* • *proportion unknown, could be significant* • *reinforced by requirements on employers to keep jobs open, accommodate different circumstances* • *for many people, better outcomes may be dependent on access to ALMPs – availability and suitability uncertain* • *some people may leave the labour force because of their HCD – enables considered and dignified exit, may support better health outcomes* • *benefits assume 30% of people have better mental health outcomes and 30% have better physical health outcomes*	$55,000	Low
	Reduced long-term wage scarring • *existing evidence of wage scarring and possibility of better employment/health outcomes implies some likelihood of this occurring*	$29,000	Low
Other government agencies	Fiscal offset • *changes to welfare payments and tax as a result of NZII levies and payments*	$55,000	Medium
Wider community	Better job matching results in higher productivity • *limited direct evidence*	Low-Medium	Low
	Better health outcomes result in higher productivity • *reduced work absences and presenteeism among workers with HCDs in the long-term should improve their and employers' productivity*	Low	Low
	Smoothing consumption and economic cycles • *payments to displaced workers strengthen the 'automatic stabilisers' by enabling them to maintain consumption during recessions, offsetting downward economic pressures* • *impacts likely to be significant but not feasible to estimate in advance*	High	Medium
Total monetised benefits	**$1,396,000**		**LOW**

Total non-monetised benefits	**MEDIUM/HIGH**	**LOW/MEDIUM**

Comparing costs and benefits:

Analysis of the scheme monetised costs and benefits is subject to significant uncertainties. The analysis draws on an extensive international literature on social insurance schemes, however, there are two qualifications to the relevance of this literature to New Zealand:

- impacts of social insurance schemes are strongly affected by institutional context, including labour law, the wider social security system, and availability of supporting services (see below); all of which vary between jurisdictions
- all studies focus on the impact of changes to existing schemes, at the margin, and findings are likely to understate the impacts of the introduction of a new scheme.

Subject to these significant limitations, introducing the scheme is estimated to involve a Net Present Value (NPV) over 50 years of $351 billion (a ratio of 1:1.34).[25]

The surplus of benefits over costs is largely a result of the reductions in stress and improved health outcomes.

Non-monetised benefits, particularly the value of the scheme for automatically stabilising the economy in a recession, and distributional considerations, are expected to be amongst the largest benefits, but are unquantifiable. Equally, to the extent the scheme supports better skill-matching, better health and reduced absenteeism, and reallocation of workers to higher productivity jobs we expect to see improvements in labour productivity, but the scale of impact is uncertain.

Implementation of the proposals

It is proposed that the Accident Compensation Commission (ACC) will deliver NZIIS

Time-limited legislation has been enacted to support ACC to carryout preparatory work in anticipation of a formal decision to proceed with the NZII scheme. This work is detailed in a previous MBIE RIS: *Preparatory work to enable a New Zealand Income Insurance scheme.*

ACC and MBIE will have a close working relationship throughout the system build and test phase, and the development of substantive legislation so that (1) policy is not locked in that is not achievable operationally and (2) operational build is not locked in that does not reflect policy. IR and MSD will also be closely involved for these reasons. Having an effective and collaborative process involving all agencies including viewing early drafts and thinking relating to legislation will ensure that the impacts of the draft legislation are monitored.

Better Business Case

[25] This analysis uses the cost-benefit analysis framework set out in The Treasury (2015). Monetary benefits and costs have been estimated using the Treasury's CBAx tool to model potential impacts. Some impacts have been quantified using the '*Valuing Wellbeing Outcomes*' framework set out in Smith and Davies (2020), which places a value on a number of changes in life circumstances, and have been incorporated in the CBAx tool. The calculation uses a technique known as *subjective wellbeing valuation* which involves measuring the monetary value of wellbeing outcomes, by indirectly valuing these outcomes relative to the importance of income to wellbeing. Base data on positive and negative impacts of specific events on life satisfaction were collected by Statistics New Zealand through the New Zealand General Social Survey (NZGSS).

The scheme will be subject to the development of a detailed business case and assurance requirements.

Monitoring, evaluation, and review

Monitoring

The proposals in this RIS will form the basis of a NZII scheme. The scheme will be monitored by Treasury as a major project.

Evaluation and review

It is proposed that existing monitoring arrangements (MBIE and Treasury) will continue.

Monitoring, evaluation and review arrangements are covered in detail in RIS 1.