

AIDE MEMOIRE

Ministerial discussion on financial security for displaced workers, 18 February 2020

Date:	13 February 2020		Priority: Medium			
Security classification:	In Confidence		Tracking number:	BR 2320 19-20		
Information for I	/linister(s)					
Hon Grant Robert Minister of Finar						
Hon Phil Twyford Minister for Eco	nomic Developme	ent				
Hon lain Lees-Ga Minister for Worl	lloway kplace Relations a	and Safety				
Contact for telep	hone discussion	(if required)	g g			
Name	Position		Telephone		1st contact	
Jivan Grewal		Manager, Skills & Employment Policy		al persons		
Francis van der K	rogt Principal Adv	Principal Advisor			✓	
The following de	partments/agenc	ies have bee	en consulted	_	ű.	
The Treasury, Mi	nistry of Social Dev	velopment				
□ No		☐ Approve☐ Noted☐ Seen☐ See Min	id	☐ Need	☐ Declined☐ Needs change☐ Overtaken by Events☐ Withdrawn	
Comments						



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Purpose

This aide memoire provides context for the 18 February Ministerial discussion on financial security for displaced workers, and provides an A3 paper to inform that discussion.

Privacy of natural persons

Jivan Grewal

Manager, Skills & Employment Policy
Labour, Science, and Enterprise, MBIE

13 / 02 / 2020

BR 2320 19-20 In Confidence 2

Developing a work programme on financial security for displaced workers

- 1. Displacement or redundancy is a regular feature of dynamic, productive economies. Ideally, displaced workers are re-employed promptly, and in work that makes best use of their skills. But there can also be a risk of long-term unemployment, and/or reduced earnings in subsequent employment ("wage scarring"). The latter appears to be a greater problem in New Zealand than other OECD countries.
- 2. There is work underway that will contribute to supporting displaced workers more effectively. This work includes the welfare overhaul, Reform of Vocational Education, Careers Strategy, and industry transformation plans.
- 3. Financial security is one important element of supporting displaced workers, since it can enable a longer and more successful job search, especially when combined with active labour market programmes. Relative to other countries, New Zealand generally offers displaced workers less financial support, such as access to "income smoothing" arrangements.
- 4. A policy programme for enhancing support for displaced workers should therefore consider options for specifically enhancing financial security. This would also contribute to a Future of Work Tripartite Forum priority.
- 5. Officials have completed an initial scan of options¹. There are now key questions for Ministers to consider, concerning:
 - the range of financial security instruments to analyse further (if any), and
 - whether to extend the analysis beyond displaced workers to include other groups, such as workers with health conditions and disabilities.
- 6. At the Future of Work Ministers meeting on 12 March, officials will seek direction on these scope questions. Based on Ministers' scope choices, officials could deliver a further tranche of more detailed analysis by June. Any subsequent analysis after June could focus on those options with a reasonable prospect of being implemented.
- 7. The purpose of the 18 February meeting is to hold an initial discussion with officials. No decisions will be sought at this meeting. By holding an initial discussion, Ministers will be well-placed for the subsequent Future of Work Ministers discussion on 12 March, at which officials will seek direction on the scope for the work programme to June.
- 8. Attached to this aide memoire is an A3 paper that provides context for the 18 February discussion, and summarises a range of work programme choices.

Annexes

Annex One: Financial security for displaced workers: Work programme choices

BR 2320 19-20 In Confidence 3

¹ Exploring social insurance and other options to enhance financial support for displaced workers, 1954 19-20 refers

Annex One: Financial security for displaced workers: Work programme choices

1 Purpose

- For Future of Work Ministers to provide direction about the ambition and scope for a policy programme on financial security for displaced workers.
- Officials could provide an indicative cost-benefit analysis of a selection of the options (overleaf) by June to inform next steps.

2 Context

- The Government aims to **help workers find and keep decent jobs**, and to identify priorities to support workers who are displaced or at risk of displacement. This is especially relevant in a future of work context, where displacement may become more common.
- "Displacement" usually describes when workers lose their jobs due to economic or structural reasons (ie redundancy).
- Displacement is one of many reasons why people involuntarily cease work. Other reasons can include poor health, disability, the completion of temporary, seasonal, or fixed-term contracts and trial periods, and dismissal. Self-employed people can also find themselves without work.
- A key objective is reducing the effects of "wage scarring" the reduction in wages that
 workers often experience upon re-employment. Wage scarring appears to be a relatively
 greater problem in New Zealand than other OECD countries.
- **Income smoothing** is a further objective that may also help reduce wage scarring. Income smoothing provides a wage-related replacement income while workers search for work.

4 What would effective financial support look like?

- Effective financial support for displaced workers needs to:
 - smooth incomes through a period of unemployment,
 - help minimise wage scarring effects,
 - · complement active labour market programmes and education and training,
 - share costs fairly between government, workers, and employers, and be fiscally sustainable,
 - support, not undermine, labour market dynamism,
 - avoid unduly extending unemployment spells.
- The scoped options are presented on the following page, with suggestions for further work.

3 Key elements of a system for supporting displaced workers

- Effective support for displaced workers needs to include access to:
 - employment opportunities,
 - advice and brokerage services,
 - · education and training,
 - financial support.
- The Government can play an important role in each of these areas to help displaced
 workers resume good employment. One rationale for government intervention is that "market
 failures" mean that purely private provision creates inequitable population coverage gaps (eg
 gaps in income insurance markets, gaps in private employment services).
- This suggests that the Government's role could be to ensure better coverage by marketbased services (eg - ensuring better access to income insurance for displaced workers, complemented by employment support from recruitment firms). Government-provided services are possible too.
- The RoVE, Careers Strategy, welfare overhaul, and industry transformation plans are making important contributions to help displaced workers resume good employment.
- This advice on financial security addresses a gap in this work programme (MBIE's December 2020 report: Exploring social insurance and other options to enhance financial support for displaced workers, 1954 19-20 refers).

5 Work programme choices to consider, depending on Ministers' appetite for change and cost...

incremental change...

more substantive change...

Current state

Key Features

- low & tightly targeted welfare benefits
- redundancy payments by negotiation
- could make incremental changes to status quo - eg tweak tax credits, improve take-up of existing support

Impacts

· rapid returns to work

But

- · high incidence of wage scarring
- not well-placed for rapid increase in displacement (Future of Work)
- employment support closely linked to welfare receipt

Access to KiwiSaver

Key Features

- enable displaced workers to access KiwiSaver accounts, up to a cap
- · could establish rapidly

Impacts

 depends on level of worker's savings, and age profile

But...

diminishes retirement savings (unless a worker can repay through remaining career)

Statutory redundancy

Key Features

- regulate for statutory minimum redundancy payment
- could finance via a national fund (with employer and government contributions)
- could establish basic scheme rapidly

Impacts

 cushion immediate blow of redundancy for all workers

But...

- increased cost for firms (and perhaps fiscal impacts)
- may have chilling effects on employment/firm dynamism
- · payment not linked to need
- insolvent firms may be unable to pay (unless national fund established)

Displaced worker loan scheme

Key Features

- government lending facility (like student loans)
- · could establish rapidly

Impacts

 cushion immediate blow of redundancy

But...

- indebted workers & higher effective marginal tax rates through repayment period
- fiscal impacts

Social Unemployment Insurance

Key Features

- auto-enrol all workers (with opt-out)
- pay 50-80% of prior wage up to fixed duration (cap for high earners)
- obligations, incentives and support to return to work
- multi-year programme to assess, design and establish

Impacts

- improved income smoothing for all participants
- may reduce wage scarring if welldesigned (for higher wage earners especially)
- may lead to wider economic benefits (Productivity Commission arguments)

But...

- new levies on firms and workers
- new fiscal cost (met via tax increases or trade-offs)
- overall annual cost of around \$1B?
- risk of delaying returns to work
 interactions with tax and welfare systems need care

comprising a minimum redundancy payment and time-limited social unemployment insurance, followed by minimum welfare safety net). Further, these supports could be complemented by labour market regulations (such as notice periods), improved access to education and training, and coordinated industry/economic development policy (eg through Industry Transformation Plans).

6 Next steps...

Further work

- Officials propose that Future of Work Ministers identify which of the options above warrant further analysis.
- This analysis would include providing a sharper problem definition, and indicative cost-benefit analysis. With support from relevant agencies, this work could be completed by June 2020.

Note - a future support system for displaced (and other) workers could combine several of these financial supports (eg multi-layered support

Better understanding the full economic and social costs of wage scarring will be an important aspect of the proposed further work.

Population scope choices

- Work so far has focussed on displaced (redundant) workers. The proposed additional work could also consider other groups of workers who involuntarily cease work such as people who develop health conditions and disabilities not covered by the ACC scheme.
- Do Ministers wish to expand the scope of work? This would increase the scale and complexity of the policy work (and potentially delay further advice), but allow for a much more comprehensive consideration of support for workers at risk of job loss.