MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

New Zealand Income Insurance – Draft Cabinet Legislation Committee paper for Ministerial consultation

Date:	24 January 2023	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2223-1702

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Carmel Sepuloni **Minister for Social Development and Employment** **Minister for ACC**	**Agree** to the three additional policy proposals identified through the drafting of the Bill and ongoing consultation	25 January 2023
	Provide officials with feedback on the attached draft Cabinet paper	25 January 2023
	Agree to undertake Ministerial consultation on the attached draft Cabinet paper by 26 January 2023 for feedback by 3 February 2023	26 January 2023
	Approve, subject to any changes from consultation, lodgement of the paper with Cabinet Office	9 February 2023
Hon David Parker **Minister of Revenue** Hon Michael Wood **Minister for Workplace Relations and Safety**	**Agree** to the three additional policy proposals identified through the drafting of the Bill and ongoing consultation	25 January 2023
	Note the contents of this Briefing	N/A

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Jivan Grewal	General Manager, Employment Skills and Immigration Policy	Privacy of natural persons [redacted]	
Libby Gerard	Manager, Income Insurance Policy		✓
Leeza Boyd	Senior Policy Advisor, Income Insurance Policy		

The following departments/agencies have been consulted
For this briefing: The Accident Compensation Corporation and Inland Revenue were informed. *For Cabinet paper, draft Bill, and attachments:* The Accident Compensation Corporation, the Ministry of Social Development, the Treasury, the Ministry for Primary Industries, Inland Revenue, Te Puni Kokiri, the Ministry for Education, Te Arawhiti, the Ministry for Pacific Peoples, the Ministry for Ethnic Communities, the Ministry for Women, the Ministry of Health, Health New Zealand, Te Aka Whai Ora, Whaikaha, the Ministry of Justice, Veteran's Affairs New Zealand, the Ministry of Foreign Affairs and Trade, the Public Service Commission, the Office of the Privacy Commissioner, and Crown Law were consulted. The Department of Prime Minister and Cabinet and the Parliamentary Counsel Office were informed.

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

Comments

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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BRIEFING

New Zealand Income Insurance – Draft Cabinet Legislation Committee paper for Ministerial Consultation

Date:	24 January 2023	**Priority:**	High
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Purpose

This paper provides you with the draft Cabinet paper *New Zealand Income Insurance Bill: Approval for introduction*, the draft New Zealand Income Insurance (NZII) Bill, and other accompanying documents. It also updates you on key matters in relation to the Bill, including feedback from social partners, the Pou Tāngata Skills and Employment Iwi Leaders Group, the approach taken to recent emerging issues, and three minor changes to policy settings.

We seek your agreement to circulate the material for Ministerial feedback, ahead of submission on 9 February 2023, for consideration at the Cabinet Legislation Committee on 16 February 2023.

Recommended action

The Ministry of Business, Innovation and Employment recommends that the **Minister of Finance** and **Minister for Social Development and Employment, and for ACC**:

a. **Note** that in November 2022 Cabinet agreed to some policy proposals for key outstanding decisions on the design of the NZII Bill and noted their earlier agreement that the legislation should be passed no later than July 2023 [CAB-22-MIN-0484 refers].

Noted

b. **Note** that we provided initial advice in December 2022 on three emerging issues and sought Ministerial direction. As we did not receive ministerial direction on these issues, they have been treated in line with our recommended approaches:

I. for third party involvement in the delivery of the Scheme - we are progressing a non-legislative option that mirrors the Accident Compensation Scheme's approach to contracting services

II. for legislative provision for the use of automated decision-making - we are progressing a broad legislative option accompanied by guiding principles, and

III. for data and information sharing with Iwi/Māori - we are progressing a non-legislative option by retaining the existing Bill provisions and relying on other existing legislation.

Noted

c. **Agree** to undertake Ministerial consultation on the attached draft Cabinet paper and accompanying attachments from Thursday, 26 January 2023 until Friday, 3 February.

Agreed / Not agreed

d. **Approve,** subject to any changes that are required from Ministerial consultation, to lodge the paper and attachments with Cabinet Office on 9 February 2023 for consideration at the Cabinet Legislation Committee on 16 February 2023.

Agreed / Not agreed

e. **Note** that if you wish to introduce the Bill in late February, only minor amendments can be addressed as a result of ministerial consultation. Any more substantial amendments will require a revision of the timeline for introduction of the Bill.

Noted

The Ministry of Business, Innovation and Employment recommends that the **delegated Ministers:**

f. **Agree** to the following minor policy proposals, which were identified through the drafting of the Bill and ongoing consultation:

I. to provide for automated decision-making - agree that the legislation deem any decision made by the automated system to be a decision made by ACC and include guiding principles for the use of automated decision-making *(note this proposal is included in the attached draft Bill and Cabinet agreement is sought in the attached Cabinet paper)*

Agreed / Not agreed

II. to ensure employers make notifications to the Scheme - agree it should be an offence for employers to fail to notify the Scheme of a potential employee claim liable on conviction to a fine not exceeding $5000 *(this proposal is included in the current draft Bill, and Cabinet agreement is sought in the attached Cabinet paper)*

Agreed / Not agreed

III. to reduce gaming risk – agree to increase the period that the calculation of the bridging payment is based on from 4 weeks to 26 weeks *(this proposal is included in the attached draft Bill, and the decision can be made by delegated Ministers).*

Agreed / Not agreed

Privacy of natural persons

Libby Gerard
Manager, Income Insurance Policy, MBIE

..... / ...... / ......

Hon Grant Robertson
Minister of Finance

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Hon Carmel Sepuloni
Minister for Social Development and Employment, and Minister for ACC

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Hon David Parker
Minister of Revenue

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Hon Michael Wood
Minister for Workplace Relations and Safety

..... / ...... / ......

Background

1. On 4 July 2022, Cabinet:
   a. agreed to proceed with the New Zealand Income Insurance (NZII) Scheme,
   b. made decisions on the detailed design of the Scheme (coverage, entitlements, claimant and employer obligations, funding, delivery, dispute resolution, and governance),
   c. authorised the Minister of Finance to issue drafting instructions to the Parliamentary Counsel Office (PCO) to give effect to the decisions, and
   d. authorised delegated Ministers to make additional policy decisions, minor and technical changes on issues arising in drafting of the Bill [CAB-22-MIN-0250 and CAB-22-MIN-0250.02 refer].

2. On 7 November 2022, Cabinet made a further set of decisions on the outstanding policy matters (income replacement rate, levy structure, coverage of self-employed people, notice period and bridging payment eligibility, and commencement date) for the Scheme [CAB-22-MIN-0484 refers]. Some recommendations in this paper were agreed in-principle and will be confirmed by Cabinet in the upcoming paper.

3. Delegated Ministers have also taken a number of additional decisions on minor policy decisions and technical changes, to resolve issues arising in drafting of the Bill, in October and November [2223-1111 and 2223-1384 refer].

4. Since the July 2022 Cabinet decisions, we have continued to work at pace with the PCO and key agencies to give effect to the policy settings in the draft NZII Bill. During this process, we have identified some areas where additional policy decisions are required.

Papers for Ministerial consultation

5. We now provide you, for your feedback, with:
   a. a draft Cabinet Legislation Committee (LEG) paper - which seeks Cabinet's approval to final decisions and to introduce the NZII Bill to the House, and
   b. the accompanying attachments – being the draft NZII Bill, Regulatory Impact Statement, Privacy Impact Assessment, and the Disclosure Statement.

6. Relevant Ministries were consulted on these papers and their feedback is either addressed, incorporated or outlined in the relevant sections below.

7. We invite you to circulate the Cabinet paper and attachments to your Ministerial colleagues for consultation, from Thursday, 26 January 2023 with feedback on any required changes due by Friday, 3 February.

8. Confidentiality [redacted]

[redacted] Confidentiality [redacted]

10. If you wish to introduce the Bill in late February, only minor changes can be addressed as a result of ministerial consultation. This is to allow adequate time for PCO's processes, and to ensure the Bill does not vary considerably from the version vetted by the Ministry of Justice.

11. We also expect further feedback from the Pou Tāngata Skills and Employment Iwi Leaders Group (SE ILG) on the Bill on 25 January 2023. We have made amendments based on their feedback on an earlier version of the Bill, where required. We will update your offices if substantial amendments are required.

12. If more substantial amendments to the Bill are identified through ministerial consultation, we will provide you with advice about revising timing for the introduction of the Bill.

Draft Cabinet paper

13. The Cabinet paper seeks agreement to introduce the Bill on 20 February, with a view to completion of the legislative process and enactment in July 2023.

14. Due to the tight timeframes for introduction of the Bill, the paper also:
    a. updates Cabinet on the decisions Ministers have taken under delegated authority
    b. seeks Cabinet agreement to two further policy proposals to:
        i. enable automated decision-making, and
        ii. ensure the Scheme is notified about potentially eligible employees, by introducing an offence.
    c. seeks final agreement to the four recommendations agreed in principle in the November 2022 Cabinet paper.

15. The Office of the Privacy Commissioner (OPC) has asked for an agency comment to be inserted into the draft Cabinet paper, refer paragraph 64-68 in the Cabinet paper. The current agency comment reflects OPC's review of an earlier version of the Bill. MBIE has since revised the Bill to address a number of OPC's comments and we envisage that OPC will revise its comment. Refer to paragraph 42 in the Privacy Impact Assessment section later in this briefing, for more information.

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Other supporting material

The Regulatory Impact Statement

35. The two Regulatory Impact Statements (RIS) that were attached to the July Cabinet papers (for the decisions to proceed, and the detailed design choices) have now been combined into a single, final RIS [CAB-22-MIN-0250 and CAB-22-MIN-0250.02 refer].

36. The RIS includes an MBIE recommendation that the proposed scheme be established, based on our consideration that the benefits of the proposed scheme would outweigh its costs. The RIS concludes that the NZII will pay for itself on quantified monetised benefits with a 1.13 positive cost-benefit return. It also identifies important difficult to value non-quantified benefits, which if valued would considerably increase the net benefit of the proposal. These benefits include improvements to productivity, macro-economic stability, the wellbeing value of knowing workers and their family and whānau will be protected in the event of redundancy or a health condition or disability (HCD), and the positive distributional outcomes for lower income individuals and families from the Scheme.

37. It should also be noted that the cost benefit analysis is conservative in that it has drawn values from literature on schemes which have undergone marginal changes, whereas the proposal here is for a much more significant change; the introduction of a new scheme.

38. The RIS has been updated to reflect the revised indicative levy rate of 2.0 per cent, with the exception of the quantitative distributional analysis. This still draws from modelling of the potential impact of the Scheme costs and benefits across families undertaken by the Treasury early in 2022 based on assumptions associated with the 2.77 per cent levy rate.

39. The Treasury have not had capacity to update the modelling for the RIS. MBIE and the Treasury consider that the modelling remains relevant in terms of the overall distributional impact across family deciles. However, the magnitude of the re-distributional impact across deciles will be substantially reduced, as will the contribution of this factor to the overall net benefit of the proposal given the change in assumed claims volume and cost.

40. The cross-agency panel reviewing the RIS is yet to finalise its assessment of the RIS against the RIA quality criteria. The panel has currently included a caveat in its assessment statement, indicating that the RIS would meet the quality criteria if the distributional analysis is updated to reflect the revised indicative levy, but will only partially meet the criteria if this analysis cannot be completed.

41. Indications are that the panel will assess the RIS as partially meets. Publication of this RIS will coincide with the introduction of the Bill to the House.

The Privacy Impact Assessment

42. The Privacy Impact Assessment (PIA) explains the process followed, the factors considered, and the steps taken to ensure the information sharing for NZII does not adversely affect the privacy of New Zealanders.

43. Without information sharing between agencies, NZII would not be able to operate efficiently or effectively. The Scheme would be completely reliant on individuals providing information for levy administration, NZII notification, claims eligibility, and any other NZII purposes.

44. To fully rely on consent or authorisation would shift the burden to individuals to critically analyse and decide whether they should disclose their correct personal information in return for the benefits of NZII. This would be inefficient and unrealistic, could open opportunities for fraud, and would go against the policy intent of the Scheme.

45. One of the key benefits of a publicly provided income insurance scheme is that it creates a pool of funding, spreading the risk of income loss across the working population. This allows people to protect themselves at a lower cost. This is a key advantage over private provision of insurance. Voluntary insurance schemes are 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. Not having legislatively mandated information sharing would make the Scheme essentially voluntary, leading to higher levies and lower coverage, undermining the rationale for the Scheme.

46. Furthermore, it would also go against the aims of the Government’s Better Public Services reforms to ensure the public sector undertakes a more collaborative, cross agency approach to supporting individuals and gaining efficiencies. Officials are comfortable that any negative impacts on individual’s privacy through legislated information sharing are proportionate to the benefits received.

47. On balance, we are satisfied that the hybrid model of information sharing provisions in the draft NZII Bill, combined with authorisation from individuals provides the best overall outcome, delivering to all Scheme needs while reasonably protecting individual privacy.

48. As noted above, officials have engaged extensively with the OPC on the proposed information sharing mechanism, the draft Bill, and the Privacy Impact Assessment. We have shared all relevant advice and analysis on information sharing.

The Office of the Privacy Commissioner’s comment

49. The OPC have requested the inclusion of a comment into the Cabinet paper. This reflects the OPC’s review of an earlier version of the Bill. Key concerns as expressed in the current comment are as follows:

    49.1 The Privacy Commissioner has not been provided with the final information sharing provisions in the NZII Bill, and as such continues to have reservations about the privacy impacts of the Scheme.

    49.2 The Bill will override the Privacy Act 2020 by enabling information sharing between government agencies outside the protections provided by the Privacy Act.

49.3 The version of the Bill lacks a privacy-by-design approach. There is a lack of specificity on the information collection needed for the administration of the Scheme and on the purposes for information sharing.

49.4 There are some key provisions in the version of the Bill reviewed by the Privacy Commissioner that create a high level of privacy risk. In particular, the direct access agreements and the purpose provision regarding sharing of personal information to support other agencies to operate with correct information create a high level of privacy risk.

50. MBIE has since worked with the OPC to address a number of their comments through subsequent iterations of the Bill, and we envisage that the OPC will revise its comment. For instance, the current version of the Bill (which has been provided to the OPC):

50.1 is more specific regarding what categories of information can be shared between specific agencies,

50.2 includes additional protections, such as an obligation for ACC to annually report on the operation of information sharing arrangements which are provisioned by the legislation.

51. MBIE considers that the information collection and sharing provisions of the Bill are necessary to:

51.1 ensure a good customer experience,

51.2 avoid the exclusion of people disadvantaged in the labour market, including Māori, Pacific People, and people with disabilities,

51.3 avoid unnecessary compliance costs for businesses, and

51.4 reduce administrative costs and the risk of fraud for NZII, and consequent costs for NZII levy payers.

52. Key protections included in the Bill are:

52.1 that agencies will only be able to share personal information that is considered necessary to meet the purposes of the Scheme and manage the Scheme's interplay with other government support systems,

52.2 information categories that can be shared between agencies will be clearly identified in schedule, and

52.3 more generally sharing will be subject to consultation requirements and reporting to the OPC.

53. Direct access provisions are not uncommon in sharing arrangements under the Privacy Act 2020, and we consider mutual sharing will reduce risks of agencies operating with incorrect information, which can have adverse impacts on citizens (e.g. debt accumulation).

54. It is likely that the OPC will wish to include some form of comment in the final Cabinet paper. We are continuing to work with the Office to ensure the Bill has appropriate privacy protections.

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Other matters of note

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Next steps

83. The table below sets out the timeframes for progressing the NZII Bill.

Deliverable	Date
PCO begins peer review and proofing of the Bill	Between 24 January and 3 February
Ministry of Justice undertakes BORA vet	Thursday 2 February

Ministerial consultation ends	Friday 3 February
Cabinet paper lodgement	Thursday 9 February
Considered by the Cabinet Legislation Committee	Thursday 16 February
Considered by Cabinet	Monday 20 February
Bill introduced to the House	Monday 20 February
First reading of Bill and referral to Select Committee	Thursday 23 February

Free and frank opinions

Annex 2 – Draft NZII Bill

Draft NZII Bill

Legal professional privilege

Annex 3 – Regulatory Impact Statement

Regulatory Impact Statement

Regulatory Impact Statement: Proposed New Zealand 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.
Proposing Ministers:	The Ministers of Finance, Social Development & Employment and Workplace Relations & Safety.
Date finalised:	XX December 2022

Problem Definition

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

Every year hundreds of thousands of jobs are destroyed by firm closures or restructures. Many people find new jobs quickly, including newly created jobs, but a large number of people experience extended periods of joblessness – ~ 40,000 people at any one time. Similarly, a large number of people are unable to work the required hours or continue in their job due to an HCD – ~ 20,000 people at any one time.[1] Such job losses can result in:

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

Despite a widespread and potentially increasing exposure to risks of job loss, most people in New Zealand are unable to negotiate or afford income protection for the impacts of job loss (due to bargaining power imbalances and the high cost of insurance options), have little savings to fall back on, and do not qualify for, or take up, welfare support.[2]

The large gap in income protection in New Zealand means that the immediate income loss after losing a job is substantial and that the ongoing wage effects are higher compared with many OECD countries (OECD 2017a). Indicative estimates of the net-present value of wages lost as a result of displacement are up to $15.4 billion in a year of very severe economic downswing (Hyslop et al. 2021). There are also large employment and wage losses associated with HCD (Dixon, 2015; OECD, 2018). Māori and Pacific peoples are particularly affected by displacement and HCD, and are less likely to have income protection and savings, compounding labour market disadvantages.

[1] Household Labour Force Survey (HLFS) data, averaged over 2007-2020.

[2] MBIE analysis of IDI data for 2016-2022 indicates that 60% of people economically displaced and 35% of those who had to stop work due to HCD did not receive government support within six months of losing their jobs.

Executive Summary

Our objectives for proposing the New Zealand Income Insurance (NZII) scheme are that:

- living standards of workers and their families and whānau would be maintained in the period after job loss or when unable to work due to a HCD
- workers would be supported into suitable employment and other sustainable outcomes
- the economy would adjust more effectively to structural change and 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 2 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[3]. 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[4]
- provide replacement income:
  - of up to 80% of prior wage/salary earnings up to an indexed cap [5]
  - for up to six months
- include return to work planning, obligations and case management to support workers to return to, or remain in, work (except for people clinically unable to work).

Employers would also be required to give four weeks' notice prior to displacement and pay the first four weeks of income replacement to people who are displaced as a 'bridging payment' (satisfied in full or part by any contractual notice or redundancy provisions) and encouraged to make accommodations and keep jobs open for people with HCD.

For more detail on the proposed settings, refer Annex 1.

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.

Crown costs

Confidential advice to Government

[redacted]

The scheme will also from time to time need to borrow from the Crown to manage cash shortfalls. In initial years the timing of levy income is unlikely to completely align with

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

4 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.

5 The cap would align to the cap adopted for the Accident Compensation scheme, currently $136,544 p.a., which is indexed annually to average wage growth.

scheme expenditure, for instance, at scheme start up, and due to seasonality in employment and levy collection timing. This issue should be alleviated over time as the scheme builds a small funding reserve.

In the longer term, however, funding shortfalls may infrequently arise during significant economic downturns. Such impacts would be offset by the build up of a small reserve. To ensure the scheme is able to discharge its obligation to pay for and administer claims as they arise, legislation will provide for the Crown to be a funder of last resort for the scheme. Any funding drawn from the Crown would be paid back over a period of time to smooth out the impact on the scheme. This approach is broadly consistent with the German and the US schemes.

Costs to employers and workers

Based on the above scheme specification, the ongoing financial cost of running the scheme is estimated at $3.396 billion per annum from 2025/26, funded by compulsory levies of ~2.00% (incl. GST) paid in equal share by employers and employees of ~1.00% (incl. GST) on wages and salaries up to the wage/salary cap. This will fund replacement income entitlements (~89% of costs), ACC's case management and administration of the scheme (~11% of costs).

These overall costs are uncertain. There is high sensitivity to changes in 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 higher than the numbers of current job losses observed in New Zealand 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, covered for a period of time off work or reduced hours, resulting in a much larger number of claims (i.e. Partial time-off claims can be up to half of claims in overseas schemes).

Recognising the uncertainty, a plausible range of scheme uptake assumptions were generated based on New Zealand data and comparison schemes from overseas chosen on the basis of being present in similarly sized and flexible labour markets, and having similar scheme characteristics to the one proposed. The estimated range of economic displacement claims were informed by Massachusetts' scheme's claims rate, and the number of HCD claims were informed by Denmark's disability scheme's claims rate, adjusted to allow for differences in scheme conditions such as replacement rates and the possible impact this would have on behaviour.

The modelling generated a feasible range of costs of running the scheme (including claims, admin and GST) at introduction of $2.965 billion to $5.168 billion per annum from 1 April 2025 (on average over an economic cycle), representing a levy rate of between 1.7 percent and 3.0 percent on wages and salary (the higher rate is an adjusted rate corresponding to the rate set out in the public discussion document). The actual costs of the scheme are uncertain and it remains possible that costs could fall outside this range. Officials have continued to refine the modelling, including an assessment of the risks of under or over funding for the Crown and levy payers.

The indicative levy rate of 2.00% (incl. GST) adopted from the above range was based on a consideration of the relative impacts on the Crown and levy payers of under- as opposed to over-funding the scheme from its outset. Adopting a higher cost assumption and levy rate at the outset runs a higher risk of unnecessarily burdening workers and businesses in the short term. A lower levy would lessen this risk but increase the likelihood of the scheme requiring Crown financing to cover any shortfall. As financing charges are likely to be more expensive than investment returns for a short-tail Scheme this would be inefficient. Hence neither the higher nor lower bound modelled rates were considered appropriate, and an indicative 2.00% (incl. GST) levy rate was adopted.

The indicative levy would fund an estimated average ~114,000 economic displacement claims, and ~130,000 HCD claims per annum across an economic cycle.

As with the ACC levy, it is intended that the levy be calibrated over time to satisfy legislated funding principles, of scheme sustainability, economic efficiency (for the Crown and levy payers) and levy stability. Upon the scheme going live officials will monitor claims costs against expected experience, and will recommend any necessary levy adjustments within two to three years.

This costing will continue to be refined and publicly consulted on in 2024, prior to the scheme going live.

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, which may be satisfied by contractual provisions. The bridging payment is estimated to cost employers ~$486 million per year from 2025/26, which will rise with labour force and wage growth.

The added bridging payment and levy costs will be partially 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 in recognition of the cover provided by the NZII scheme.

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 (for employers who do not already meet the proposed standard), 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 or be offset for different groups of people over time in relation to future wage increases according to differing levels of bargaining power (on-going)
- low compliance costs associated with making a displacement claim, but moderate cost in making a HCD claim (e.g. medical practitioner co-payments).

Implications for other regulatory systems

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

- Health - extra demand may 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 would create additional pressure for services in a system already subject to significant constraints. Both of these factors could 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. People living in some areas of the country may lack access to health services necessary to assess their HCD, and have difficulty accessing the scheme.
- Employment, education and training - Some people may need to access additional services to support their return to suitable work, eg 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 minimum 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). 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 (e.g. 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 between ACC claimants and workers with HCDs who are not able to access ACC.

The proposed scheme would minimise the immediate financial impacts of job loss

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 ~$3.146 billion per annum from 2025/26 (including bridging payments).

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[6].

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 most other OECD countries (OECD, 2022a), 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 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 65-90% for scenarios of low income example families covered by the welfare system, whereas replacement rates are estimated to be 91-100% 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 health and wellbeing benefits.

For people that are unable to return to work, the scheme will provide support for 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.

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6 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.

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 by NZII. 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 suitable 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.

The scheme could also indirectly help to increase the prevailing average wage rate, for example by increasing workers' reservation wage for accepting a job (refer Acemoglu and Shimer, 1999; Dahl and Knepper, 2022).

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 risk of poor outcomes, NZII will complement replacement income with:

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

We expect NZII to have moderately positive longer term wage impacts by improving bargaining power and match quality, but a small increased duration of unemployment. We expect impacts to be at the upper end of international estimates[7], because NZII would be:

- a new scheme (overseas research relates to changes to existing schemes)
- much more generous than a number of overseas schemes, and is likely to promote a relatively strong behavioural effect
- introduced to a labour market with relatively quick re-employment and high wage scarring.

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 contract or shut down, workers can have little money to fall back on. This can have an immediate and impact on other businesses and the local economy, and reduce workers and communities' ability to adapt to the situation.[8] Payments from the proposed scheme will cushion workers and communities from such abrupt income losses, allowing more time to adapt.

[7] Much of the literature has not detected material wage effects, but this is suggested to be due to the scale and methodological power of these studies (Schmieder, von Wachter, 2016). Recent studies such as Dahl and Knepper (2022) suggest large changes in scheme generosity are positively associated with changes in starting salaries for the same job (5.5% effect size in a large reform State) and negatively associated with employment growth (2.4% effect size in a large reform State).

[8] Coleman and Zheng (2020) find that some of the largest wage effects are observed for workers relocating from slower to faster growing and larger cities, larger firms, and higher productivity industries. However, research also suggests that people can face significant barriers to relocation, including housing costs (Coleman and Zheng, 2020) and lack of social networks and support.

The scheme will be equitable for working people, 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.

Additionally overall, taking account of both scheme payments and levies payable, the proposed scheme is likely to redistribute income from higher- to lower-income 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. Modelling indicates that low income families 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 families to be net payers.

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 fund the scheme.

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 high representation of Māori and Pacific peoples) 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 direct 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 unable to work the required hours or continue in their job due to an HCD. The net financial cost over time would be for scheme administration, which relative to the expected number of entitlement claims in a given year is comparable to the cost of administering the Accident Compensation scheme accounts.

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 HCD.

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	The proposed NZII
Will NZII maintain living standards for workers, their families and whānau after job and income loss?	++ • 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 NZII support workers to retain or return to suitable employment and other sustainable outcomes?	+ • Moderate reductions in wages scarring, improvements in tenure, and therefore improvements in incomes for people displaced and with HCD • Risk for some that too long a period of 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?	++ • Likely to moderately reduce economy-wide impacts of displacement during recessions • Better matching contributes to improved labour productivity • However, small impact on labour supply
Will the proposed NZII improve equity?	+ • 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?	-- • 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 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 $6,447 million over 50 years; and a cost-benefit ratio of 1:1.13).[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 and benefits are summarised in the tables below.

Table 2: Proposed scheme costs

Affected groups	Description	Impact ($m)	Evidence certainty
[redacted]	Confidentiality [redacted]	[redacted]	[redacted]
Employers	Financial costs – levies net of GST plus bridging payments	$25,300	Medium
	Compliance costs – administering levy, notice periods, bridging payments	Medium	Low
Workers	Financial costs – levies including GST	$22,000	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	[redacted]	**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).

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*	$25,000	Medium
	Reduced financial stress and hardship	$2,200	Low
	Reduced long-term wage scarring. *Extended job search to secure jobs with better wages*	$3,600	Low
Workers with HCDs	Receipt of replacement income, *maintain living standards*	$13,600	Medium
	Reduced financial stress and hardship	$1,700	Low
	Reduced long-term wage scarring. *Extended job search to secure jobs with better wages*	$1,900	Low
	Better health outcomes: *time out for recovery; better transition*	$3,700	Low
Other government agencies	Fiscal offset, *changes to welfare payments and tax as a result of levies and payments*	$2,700	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	Confide ti l	**Low-Medium**
	Total non-monetised benefits	**MEDIUM/HIGH**	**MEDIUM**

Sensitivity analysis

Both the costs and benefits are highly sensitive to assumptions.

The main cost factors which are most sensitive are claims rate, duration and average replacement payable. However, any cost deviation will be addressed over time by adjustments to levy rates and revenue, which should balance out the NPV over time.

However, changes in the ongoing administration cost as a proportion of overall costs, could materially affect the overall cost-benefit analysis. For example, a 50% increase / decrease in ongoing administration cost would change the net benefit by 6 points up or down.

The largest driver of benefits is the provision of income replacement for consumption smoothing (~71 percent of PV benefits). The scheme is also expected to provide significant benefits for financial wellbeing (~7 percent of PV benefits) and health benefits (~7% of PV benefits), and improved longer-term income from enabling people to obtain better jobs than they would otherwise under the status quo (~10% of PV benefits) and a fiscal offset for welfare and tax systems (~5 percent of PV benefits).

The main benefit which is assumption-sensitive and could materially affect the overall cost-benefit analysis is the assumed reduction in post-displacement wage scarring benefit (a 50% change in this benefit would change the net benefit by 6 points up or down). The assumed benefit of enabling people to obtain better jobs was subject to conservative assumptions based on the international literature, however, this impact could be considerably more favourable in the context of a new scheme.

It should also be noted that the different cost and benefit elements of the CBA model are affected by different cost of claims assumptions (ie. claims numbers, average duration and average income-related payment and administration loading). Levy and bridging payment costs, income replacement and reduced wage scarring benefits broadly move in line with the overall cost of claims assumptions. However, some costs and benefits are only driven by claims volumes, and therefore change to differing degrees relative to overall costs and benefits and affect the overall NPV of the CBA.

The Government's revised levy rate, and change in underlying claims cost assumptions (refer page 35) impact the cost and benefit PVs in differing proportions, and have the effect of raising the NPV slightly from 1.09 to 1.13 relative to the initial levy rate and assumptions adopted for public consultation, due to the following effects:

- While the overall administration cost decreases with the reduced assumed claims numbers, the component increases as a proportion of overall costs, from 9.5% to 11% reducing the NPV by 2 points
- The better long term physical and mental health benefits and improved financial wellbeing benefits are only influenced by claims numbers, and the PVs each only decrease slightly due to the decrease in overall claims numbers (-~8%) being much lower than the decrease in overall cost of claims (-~37%). This increases the NPV by a total of 6 points.

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 255 submissions, 1,819 survey responses and held 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]

Most of the submissions disagreed with the proposal (76%), as did most of those who opted to take the survey (60%). Submissions expressed the following views:

- Some submitters supported the proposal 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 group supported 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.
- Concern about the impact of the levy on low-income workers, and that the scheme would help mid- and high-wage earners at the expense of more vulnerable workers.
- Many submitters expressed concern about the timing of the proposal, given the current low unemployment rate and costs of living.

Common across the engagement, irrespective of level of support, was concern about the timeframe for implementing the proposal.

Findings from engagement with the Pou Tangata Skills and Employment Iwi Leaders Group and hui identified that iwi and Māori have interests in how Māori will be represented in governance to ensure the scheme and delivery agency delivers well for Māori (noting concerns about how ACC has delivered for Māori to date). There is also an interest in seeing the scheme's deliver being 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, concerns were raised:

- about the impact of the levy on low-income earners
- that a too stringent contribution history requirement for eligibility would disproportionately impact Māori in accessing the scheme
- iwi organisations that self-insure and use redundancy as a last resort would not benefit
- about ACC's track record for delivering for Māori.

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

[10] Stakeholder views on the detailed policy parameters for the scheme are discussed in more detail in Annex 1.

- 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.

The CBA suggests that the NZII will pay for itself on quantified monetised benefits. The CBA also identifies important non-quantified benefits that are difficult to value and therefore are not captured in the 1.13 return calculated for monetised costs and benefits. These benefits include improvements to productivity, macro-economic stability, the wellbeing value of knowing workers and their family and whānau will be protected in the event of redundancy or HCD, and the positive distributional outcomes for lower income individuals and families from the scheme. Neither does the CBA does not capture flow on welfare benefits of income security, such as the avoidance of negative consequences on family functioning, and children's educational outcomes being affected, for instance. More generally, the CBA is conservative in that it has drawn values from literature on schemes which have undergone marginal changes, whereas the proposal here is for a much more significant change; the introduction of a new scheme.

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 2: 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.

The distributional assessment is subject to a key limitation. It includes Treasury modelling of the potential impact of the scheme costs and benefits across families. The analysis is based on earlier modelling of scheme demand and income replacement that would be received, and levy cost that would be paid across family deciles. The demand and cost assumptions have since been revised downwards overall reducing costs by ~37% and benefits by ~35%. We consider that the modelling remains relevant in terms of the overall distributional impact across family deciles, but the magnitude of the re-distributional impact across deciles will be substantially reduced, as will the contribution of this factor to the overall net benefit of the proposal. This analysis will be updated prior to publication of the RIS in February 2023.

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 to support return to work planning and 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 applicable and 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)

Libby Gerard

Policy Manager

Income Insurance Policy

Ministry of Business, Innovation and Employment

XX November 2022

Quality Assurance	
Reviewing Agency:	*Ministry of Business, Innovation and Employment*
Panel Assessment & Comment:	A cross-agency panel, chaired by an MBIE representative, with members from MSD and IRD, has reviewed this updated regulatory impact statement (RIS) and earlier regulatory impact analysis for the consultation document and attached as a preliminary RIS to the Cabinet papers which sought a decision to establish the New Zealand Income Insurance Scheme (NZIIS). The panel has one caveat to its assessment, which can be removed when the required updating of analysis of distributional benefits has been completed. Subject to this caveat the following statement applies: The panel considers that the updated RIS for the NZIIS meets the RIA quality criteria. Earlier comments by the panel on the overall costs and benefits of introducing the proposed NZIIS, demographic analysis, distributional analysis, clarity and consistency of language, and clarity on examples compared to the status quo, were addressed to our satisfaction. Changes in response to our feedback meant that the RIS is more complete and convincing, clearer, more concise, and better reflects consultation feedback. The option assessment, including of different uptake assumptions and how these impact on the expected levy rates, has been improved to better meet the RIA quality criteria. The proposed NZIIS will result in substantial costs for employers and workers of levies and bridging payments, with most of those costs matched by benefits received by workers (the difference being administration costs). 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.

The panel considers that the approach to this RIS where detailed scheme design settings are presented at a high level is appropriate for a policy proposal of this magnitude. The panel considers that this analysis in Annex 1 is sufficient for Cabinet to make decisions on the introduction of the proposed NZIIS. In reaching this view, the panel has relied on an assurance from the NZIIS project team that all of the key scheme design settings are included in Annex 1.

CAVEAT: An update of analysis on the re-distributional impacts of the NZIIS is still to be undertaken, to reflect the changes to levy rates, uptake rates, duration of claims and payment rates. Without this analysis being updated, the panel would consider that this RIS partially meets the RIA quality criteria, as it would not be complete. This update of analysis is due to be completed in early 2023.

The panel has been assured that the qualitative description of re-distributional impacts will not be changed by this update of analysis.

Subject to review by MBIE's RIARP Chair of the updated analysis, the panel is comfortable that this caveat can be removed from this assurance statement, without the updated RIS needing to be considered by the panel again.

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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 immediate policy context concerns the impact 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 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 risk 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 to significant income loss upon job loss 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 (e.g. 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. The Financial Services Council (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, and in some instances may face discrimination.[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. The availability of reduced hours or additional time off work is likely to be of greater importance 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 will depend, 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. 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. MBIE analysis indicates that 60% of people economically displaced and 35% of those who had to stop work due to HCD did not receive government support within six months of losing their jobs. Of those who remained out of work, both groups received higher rates of government support in the subsequent 6-12 month period.

Many who lose their jobs 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 (e.g.

[11] Flett et al., 2020 found that of the fifth of respondents who experienced mental distress, 16% reported they had experienced discrimination in the insurance market.

preparing meals at home rather than eating out). Some work-related expenses such as transport or childcare may be avoided.

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. It is estimated that of overall job ends annually[13]:

- 116,000 are due to redundancy
- 67,000 are due to HCD.

Household Labour Force Survey (HLFS) data understates the level of displacement, but is a good indicator of trends, and the population affected. Between 2007 and 2020 HLFS data suggest that during an average quarter, of people who are unemployed or not in the labour force, an average of 40,000 people were out of work due to displacement, and 20,000 people were out of work due to HCD each year.[14]

The figure below shows that numbers of people displaced 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.

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[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.

[13] These estimates are calculated using Statistics New Zealand's Household Labour Force data to estimate the proportion of job losses associated with redundancy and HCD applied to Statistics New Zealand's Linked Employer-Employee Data (LEED) overall job ends data for 2018 - 873,000 job ends. Most job ends relate to movements between jobs.

[14] These figures undercount the actual level of job loss, as they do 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.

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)

Figure 3 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.

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

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 and financial stress 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 (Avendano, et al., 2017; Cylus, et al., 2015; Kuka, 2020; Shahidi, et al., 2019).

Workers with HCDs can be presented with particularly problematic trade-offs between obtaining treatment and continuing to work to retain their 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 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.

A key policy objective therefore is to more effectively ensure workers (and their families and whanau) have financial security if they are economic displaced or have to take time out from work to recover or adjust to an HCD. This in turn would help to reduce secondary wellbeing impacts on individual, family, whānau and communities.

Financial stress associated with job loss can influence job search behaviours and labour market 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.[15]

> *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 percent lower earnings in the first year after job loss (compared to equivalent workers who do not lose their jobs), and about 15 percent lower earnings five years later. Though the results are not directly comparable (due to different reference periods and methods),

[15] 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.

indicative estimates of post-displacement wage losses in OECD countries are around 6 percent in the United States and Portugal and negligible in Germany and the United Kingdom (OECD, 2017a).

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, 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 percent 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 transitions people with HCDs face can be more complex than the 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.[16] The majority of people experiencing most types of HCD are able to remain in or return to work, albeit often with lower earnings.

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), to
- people whose HCDs are so severe that they are unable to return to work and leave the labour market (eg. terminal illnesses, dementia).

In between these groups are people whose recovery may be partial. Their outcomes might include remaining in their existing job with some adjustments to hours or duties (e.g., moving

16 HLFS data suggests that many people with disabilities work part-time.

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. This can be particularly beneficial for people given work also has an important therapeutic quality (Waddell and Burton 2006). Continuing to work can support stable or improved health, and loss of work can worsen an HCD.

The best guarantee a person has of returning to work is if they are able to retain their employment. People with HCDs can find it difficult to return to work because of barriers such as inaccessible workplaces, additional work-related costs to offset their HCD, lack of support, and employers' having incorrect perceptions about their ability to do the job (Gaulke, 2021).

A second policy objective therefore is to support workers back to sustainable employment, or maintain their employment in the case of HCD.

Negative effects on individuals can impact the wider economy

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 given evidence for the relationship between skill match quality and productivity (refer Rujiwattanapong, 2018; Papageorgiou, 2022).

Productivity and output 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* (2011) 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 negatively 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.

A third policy objective therefore is to support the economy to adjust more effectively to structural change, shocks or downturns, and consequently improvements to productivity, less risk aversion and greater participation by people with HCD, and a more stable macroeconomy over time.

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 significantly affected[17]:

- Māori are particularly exposed to greater risks of job loss due to displacement or a health condition or disability compared to other groups. Māori make up 13 percent of employed people but are 23 percent of displaced people and 22 percent of HCD related job loss. Māori also have lower average incomes, and are less likely to have insurance or savings, but a strength is that Māori generally have strong financial planning and preparedness relative to their pay.18 Māori also have a comparatively high disability rate for a population with a relatively young age structure, and a high susceptibility to disabling HCDs as they age (likely due to being more highly represented in manual occupations); therefore the incidence of HCDs among Māori is expected to increase as the Māori population gets older.
- Pacific peoples (and some segments of ethnic communities) are also particularly exposed to greater risks of job loss due to displacement or a health condition or disability compared to other groups. Pacific peoples make up 5 percent of employed people but are 7 percent of displaced people and 8 percent of HCD related job loss. Pacific peoples overall also have lower average incomes, and are less likely to have insurance or savings.[19] 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).
- Young people, aged 15 to 24 years, are slightly more likely to be displaced (26 percent) than older workers aged over 55 (23 percent). Older workers who are displaced,

[17] HLFS data for 2007-2020 regarding people unemployed or not in the labour force who left their last job due to economic displacement or sickness, illness or injury.

[18] Te Ara Ahunga Ora, Retirement Commission (2022). New Zealand Financial Capability: Focus on Māori.

[19] Te Ara Ahunga Ora, Retirement Commission (2022). New Zealand Financial Capability: Focus on Pacific Peoples.

however tend to experience longer periods of joblessness and wage scarring. Older workers are also more likely to leave work due to a health condition or disability. 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, an emergent trend over the past decade (in this country and abroad) is an increase in HCD in younger and middle aged workers, with a high prevalence of mental health conditions.

- 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 experience most displacement (28 percent and 33 percent respectively of all household compositions) and most job loss associated with HCD (22 percent and 36 percent respectively of all household compositions). These groups often face the largest income impacts associated with job loss, given these people are less likely to be able to access welfare benefits if their partner is earning.

A fourth policy objective therefore is to improve equity across the economy, between people with different incomes and between groups of people with comparable circumstances.

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 suitable employment 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. The key question is, are the regulatory costs proportionate to intended outcomes? The costs considered include:

- administrative costs (to government)
- regulatory and compliance costs to businesses
- regulatory and compliance costs to workers

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 2: 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 *Annex 1*, but can be briefly summarised as follows:

Scheme coverage

The scheme will 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 an indexed income cap equivalent to the Accident Compensation scheme's income cap ($136,544 in 2022/23), 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 (the latter obligation applying to all employees displaced).

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. Return to work planning and case management would be provided to encourage and assist workers return to work.

If claimants have not found another job after six months on the scheme, their NZII payments will cease and they may 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, estimated at ~$486 million for 2025/26. 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 suitable employment where they need additional support. The scheme would provide case management services which link to existing services, including ALMPs.

The Government has updated the indicative cost of the scheme from that which was publicly consulted in early 2022 based on further modelling of a range of cost scenarios and risks for the Crown and levy payers of under or over-funding the scheme at its outset. The revised indicative cost of the scheme is $3.396 billion per annum from 1 April 2025, funded by compulsory levies of ~2.00 percent (incl. GST) paid in equal share by employers and employees of ~1.00 percent (incl. GST) on wages and salaries up to the wage/salary cap.

This annual amount would cover:

- Claims costs of just over $2.660 billion
- ACC's administration and claims management cost of 293 million
- GST payable of $443 million (noting employers will deduct GST).

This costing will continue to be refined for a public consultation in 2024 on a levy rate, prior to the scheme going live. The modelled range of costs and risks is outlined below.

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 (refer above section *How large is the problem of involuntary job loss and who is affected?)*. 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.

Recognising the uncertainty, a plausible range of scheme uptake assumptions were generated based on New Zealand data and comparison schemes from overseas chosen on the basis of being present in similarly sized and flexible labour markets, and having similar scheme characteristics to the one proposed.

The estimated range of economic displacement claims and duration were informed by a mid point between an estimation of job ends and unemployment duration in New Zealand and Massachusetts' scheme's claims rate and duration applied to the number of employees in New Zealand (lower end estimate) and Massachusetts' scheme's claims rate and duration applied to New Zealand adjusted to allow for differences in scheme conditions such as replacement rates and the possible impact this would have on behaviour (upper end estimate). The number of HCD claims and durations were informed by Denmark's disability scheme's claims rate for claims of over 30 days (lower estimate) and under and over 30 days (upper estimate).

The average income assumptions are based on HLFS linked tax data of incomes observed for those displaced and who lost their jobs due to HCD at the point of job loss (for the lower bound estimate). However, the upper bound HCD estimation assumes that this cohort would have income according to the overall average employee wage, based on an assumption that the observed income underestimates the income people would have at an earlier point of illness or disability before a person opts to reduce hours and income, but at introduction the scheme would provide support at that earlier point in time of higher income. The indicative scheme costing and levy adopts the observed income level for HCD. This is considered a reasonable assumption and remains conservative in that the scheme will cover partial time off work / partial income for up to half of the HCD cohort (based on experience internationally), which will have the effect of reducing the average replacement income provided by the scheme to people with HCD.

The modelling generated a feasible range of costs of running the scheme (including claims, admin and GST but excluding bridging payments) at introduction of $2.966 billion to $5.168 billion per annum (on average over an economic cycle), representing a levy rate of between 1.7 percent and 3.0 percent on wages and salary (the higher rate is an adjusted rate corresponding to the rate set out in the public discussion document).[20] Assumptions and the modelled cost range (assumed to represent a 'normal' year across the business cycle) are set out in the below table:

Scenario	Number of Claims in Yr1 (2025/26)		Claim Duration (Months)		Average Annual Income for Claims (2025/26)*		Levy Rate	2025/26 cost ($bn)
	ED	HCD	ED	HCD	ED	HCD	Total	
Lower bound	97,000	111,000	4.2	2.9	$63,997	$45,481	1.7%	$2.966
Indicative levy	**114,000**	**130,000**	**4.2**	**2.8**	$63,997	$45,481	**2.00%**	**$3.396**
Upper bound	120,000	145,000	4.9	2.7	$67,448	$77,785	3.00%	$5.168

*Wage assumptions have been inflated to 2025/26 using 2022 Budget Economic and Fiscal Update wage inflation assumptions

Adopting a lower cost assumption and initial levy would minimise the initial financial impact of the introduction of the Scheme on businesses and workers but would entail a greater risk that the levy is set too low and would need to adjust upwards, and be more likely to require a claim against the Crown's current liquidity holdings. Whereas adopting a higher cost assumption and levy rate at the outset runs a higher risk of unnecessarily burdening workers and businesses in the short term but could be more efficient for levy payers over time and would position the Scheme to be more resilient to economic shocks. A higher levy is more

[20] Total scheme cost is based on combining the above parameters, and including a administration loading (11% of claims costs) and GST. The estimated levy rate is generated by dividing the total cost by total payroll for wages and salary paid up to the income cap.

likely to enable the Scheme to embed a small surplus position for long-term Scheme financial efficiency, as financing charges are more expensive than investment returns for a short-tail Scheme. It is also possible that the actual costs of the scheme could fall outside this range, being either lower or higher than expected.

ACC modelling indicates that small levy differences, of up to 0.5 percentage points, could tolerably be managed with relatively small adjustments within the first ten years. However, if the difference in experience from expectations are in the order of over 1.0 percentage points, large funding shortfalls could accumulate quickly, and a return to a sustainable funding track would be more challenging. For instance, with a 2.0 percent levy but experience approximating a 1.5 percent levy (requiring a 0.5 percentage point reduction), the Scheme's funding requirement could face a surplus of $1.9 billion over 3 years, which could be resolved over four years with a 1.25 levy rate (before reverting to the long-term rate). However, a scenario where a 3.0 percent levy is required (a 1.0 percentage point difference), the Scheme would accumulate a deficit of $5.9 billion over 3 years.

Once the Scheme is introduced it is likely that experience will differ from assumptions, and the Scheme will require levy adjustments to retain a sustainable funding track. In a situation where a substantive deficit or surplus surfaces, Government will have choices as to the timing (including acting sooner than three years if a substantial difference emerges early on) and spread of levy adjustments, and it could consider in exceptional circumstances grants to enable the Scheme to adopt a sustainable levy track without the need to additionally make up any initial underfunding. In a situation where there is a substantial surplus, the Government will again have choices as to the timing and spread of levy adjustments in relation to macroeconomic expectations.

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 percent 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. However, as with the ACC levy, it is intended that the levy be calibrated over time to satisfy legislated funding principles, of scheme sustainability, economic efficiency (for the Crown and levy payers) and levy stability.

The proportion of people who would be in receipt of replacement income at any given time[21] would be approximately 40,000 economically displaced people (1.3 percent of the labour force), and 30,000 people who left their jobs for health-related reasons (1.0 percent of the labour force).

21 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	The proposed NZII
Will the proposed NZII maintain living standards for workers and their families and whānau immediately after losing jobs and incomes?	++ • 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 suitable employment and other sustainable outcomes?	+ • Moderate reductions in wages scarring, improvements in tenure, and therefore improvements in incomes for people displaced and with HCD • Risk for some that too long a period of 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?	++ • 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
Will the proposed NZII improve equity?	+ • 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?	-- • 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
- workers and their households have differing levels of savings and income protection (though as noted above, New Zealand has low overall levels in both regards)
- the ability for households to adjust to reduced earnings varies considerably; different households have differing levels of discretionary vs non-discretionary expenditure, which do not necessarily correlate to income. A major issue in New Zealand is the relatively high housing costs faced by many low and higher income households.

The benefits of replacement income are in avoiding actual hardship for some households, and reducing financial stress, i.e. 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 most other OECD countries (OECD, 2022a), and a large proportion of households have limited savings to weather even a short period of joblessness.[22]

We conclude that this impact will be clearly positive.

2 Will the proposed NZII support workers back to suitable employment and other sustainable outcomes?

In New Zealand re-employment is reasonably rapid for a significant proportion of people, with 33 percent unemployed for less than three months and a further 25 percent for between three and six months[23]. At the same time New Zealand workers tends to experience

[22] 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). Finder research indicates that 39% of New Zealanders do not 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 https://www.finder.com/nz/press-release-feb-2020-1-in-3-new-zealanders-are-living-paycheque-to-paycheque

[23] 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.

comparatively higher levels of wage scarring from unemployment than workers in other countries. Very basic estimates suggest displaced workers in New Zealand have three to five times larger wage drops than displaced workers in the US, and much larger wage drops again than workers in Germany.

With the introduction of a NZII 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 (e.g. 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 NZII scheme. This could help to improve job matches and limit wage scaring for some people (Centeno, 2004; Nekoei, A. and Weber, 2017; Farooq, Kugler & Muratori, 2020). However, other people are likely to spend longer periods of time unemployed and obtain similar, or even worse, jobs than they otherwise would have (Card, Chetty & Weber, 2007; Kroft, Lange, Notowidigdo, 2013. The net effect is highly variable across studies, and may 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 percent of the extensions in job search and moral hazard the other 40 percent.

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 generosity of income support can promote a reasonably large change in job match quality and post-displacement wages, as well as wages more generally by changing 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 percent of the wage effect
- with the remainder due to a decline in either unobserved match quality or worker bargaining power.

The study also however found that a change in generosity was negatively associated with employment growth. We assume that the effects identified in this study hold in the opposite direction, which is consistent with the body of literature.

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.*

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 but small employment impacts, at the upper range of international estimates. Much of the literature has not detected material wage effects, but this is suggested to be due to the scale and methodological power of these studies (Schmieder, von Wachter, 2016). Dahl and Knepper (2022) estimate that large changes in scheme generosity are positively associated with changes in starting salaries for the same job (5.5 percent effect size in a large reform State) and negatively associated with employment growth (2.4 percent effect size in a large reform State).

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 moderately positive 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 and the opportunity for additional skill development 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. It is clear 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 1.00 percent 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, 1.00 percent of taxable earnings up to the income cap, will reduce take home pay, and for some workers this may result in their leaving employment or reducing hours worked.

However, most of the existing literature has generally not found sizeable employment responses to changes in unemployment insurance benefits.[24] 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.

4 Will the proposed NZII improve equity?

Current income protection arrangements have a number of equity implications for employees:

- across the economy – the costs of displacement fall on a relatively small group of people who lose their jobs, a proportion of whom experience long-term income losses
- vertical equity – particular groups of people are most acutely affected by displacement and HCD, for the most part population groups already disadvantaged (Māori, Pacific peoples, youth, people with disabilities, and older people)
- horizontal equity – people in different but comparable situations experience starkly differing levels of support, most prominently employees affected by non-accident related HCD not covered by ACC.

Overall, the Scheme is expected to improve vertical equity through the following channels.

1. Supporting people to weather job reallocation and structural shifts in the economy towards higher wage/higher skilled jobs

NZII is designed to compensate employees for income losses arising from redundancy and HCD and enable those employees to adopt a job better suited to their skills and experience,

[24] Dahl and Knepper (2022); 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.

rather than the first available job. Employees who lose their jobs due to economic displacement or HCD face acute costs, both financially in respect of foregone wages as they search for work, and for wellbeing.

NZII in ameliorating the costs of job loss, will help to improve acceptance of reallocation and risk (e.g. accepting jobs in emerging industries), and improve job-skill matching. Both of these channels in turn support the reallocation of employees from low value roles, declining firms and industries to higher value activities. This process is likely to lift productivity, financial returns, wages and create better job opportunities over time across the economy. The extent to which this channel distributes benefits across employees over time will be influenced by the wider institutional environment (e.g. education, employment, and immigration policies).

2. Shifting financial resources from firms to employees

The levy cost of Scheme pay-outs to employees will be shared 50/50 between firms and employees – which implies a degree of income redistribution that will benefit employees (who get subsidised insurance), especially those getting pay-outs. The degree of redistribution will depend on how the cost of NZII levies is reflected in future wage bargaining – which is likely to vary across the economy. In some cases employers may pass on the cost of levies to employees through reduced wage increases overtime. In other cases employees with higher bargaining power may obtain recompense for worker levies through wage negotiations. Overall, the proposed Scheme is expected to provide net benefits to employees (and their families/whānau) across the income distribution.

3. Shifting resources from higher paid to lower paid employees (and households)

The proposed Scheme is likely to disproportionately benefit employees on lower wages - who are more likely to face the greatest prevalence and impacts of economic displacement and illnesses and disabilities that affect their ability to work. This means that NZII would generate higher net benefits to disadvantaged population groups (Māori, Pacific peoples, youth, people with disabilities etc), who are more likely to be on lower wage jobs and more exposed to the risk of job loss, and older employees who tend to experience the most acute wage and income scarring effects of job loss.

This is true at a family and whānau level as well. Taking account of both scheme payments and levies payable, the scheme is likely to redistribute income from higher- to lower-income individuals and families. The key reason is that data indicates that people with below-average earnings are more likely to experience involuntary job loss, so are more likely to receive replacement income from the scheme.[25] Low income individuals and families are also more likely to pay levies on a smaller proportion of their overall income. This is because they are more likely to receive a portion of income from sources that are not subject to levy, such as accommodation supplements or working for families.

[25] HLFS data for 2016-2018 indicates that median income is ~$40,400pa for ED at job loss, and $27,200 for HCD at job loss whereas median income overall for 2016-2018 is ~$51,800.

The following charts use Treasury modelling to broadly illustrate the direction of distributional effects of the scheme, taking account of levies paid and the likelihood of receiving entitlements from the scheme at the family level.[26]

Note that this modelling was based on demand and cost assumptions which underpinned an employee levy of 1.39 percent levy on wages and salaries, which have since been revised downwards overall to 1.00 percent on wages and salaries. We consider that the modelling remains relevant in terms of the overall direction of distributional impact across family deciles, but the magnitude of the re-distributional impact across deciles will be substantially reduced due to costs reducing by 37% and benefits reducing by 35%. This will be most pronounced for the HCD distribution due to a change in the assumed level of income replacement (adopted to better reconcile with observed income levels of people with HCD at the point of job loss). This analysis will be updated for the revised indicative levy rate, however the analysis remains appropriate for illustrating the overall direction of redistribution expected to be generated by the scheme.

Figures 4 and **6** show the average amount families could receive and pay across income deciles (decile 1 being the lowest earning families and decile 10 the highest) for cover respectively for economic displacement and HCD. **Figures 5** and **7** show the overall amounts paid and received by families across the deciles to illustrate the overall split between levy payable and income replacement received at the family level. In **Figure 4** families in income deciles 1-5 would receive the highest overall net benefits and families in deciles 9 and 10 would receive negative or negligible net benefits. The general pattern is similar for HCD (figure 6) insurance, implying a shift of resources from higher to lower income families. Overall, employees are expected to receive a materially positive net benefit, as over half of replacement income is funded by employer levies and bridging payments, representing a transfer from employers to workers.

[26] 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. Figures 4 - 7 show a baseline scenario modelled for economic displacement (R) and HCD respectively, which assumes no behavioural change in terms of increased job search, and equal sharing of levy requirements. This scenario illustrates net gains in income across the population as a whole, with most benefit accruing to families in lower income deciles. This is because nearly twice as much NZII is paid out than is collected in levies from workers (the employee part of the levy). This baseline run of the model assumed none of the employer part of the levy would be passed through to workers. More generally it should be noted that 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 is unlikely to be regressive.

Figure 4 Average change in family income by decile accounting for levies paid and replacement income received by employees made redundant

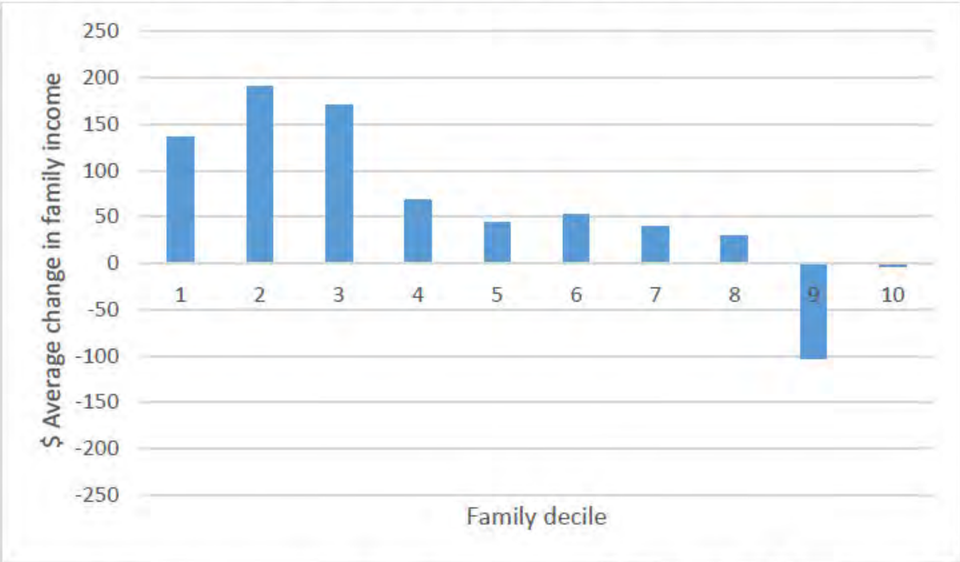

Figure 5: Total levies paid and replacement income received by net payers and net income replacement recipients made redundant across family income decile

Figure 6 Average change in family income by decile accounting for levies paid and replacement income received by employees with an HCD

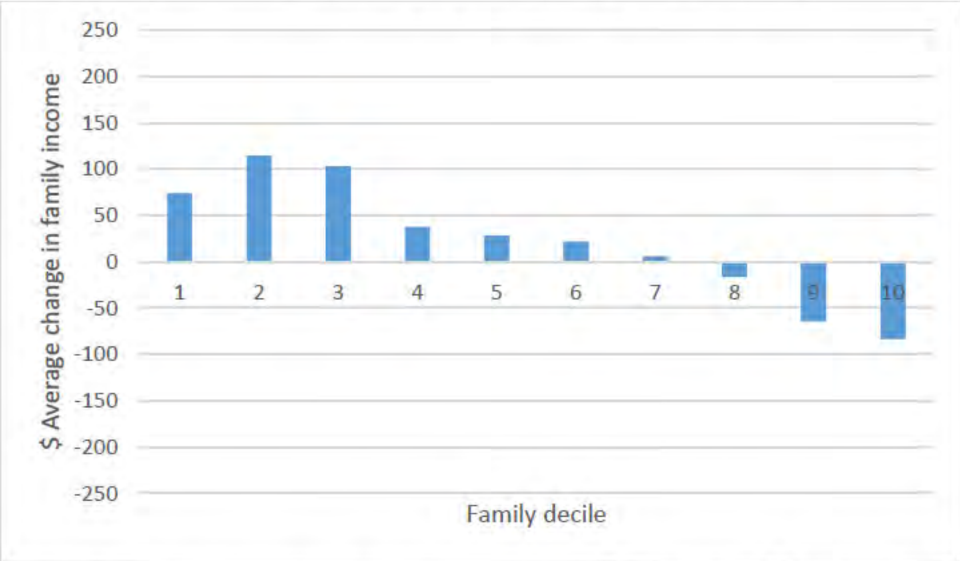

Figure 7: Total levies paid and replacement income received by net payers and net income replacement recipients with an HCD by family income decile

The Treasury also modelled a more conservative economic displacement scenario which assumed the employer would pass on all levy payable to employees and a behavioural assumption that some people would delay finding and starting a new job and hence they would receive less income than they would have in the absence of NZII, resulting in a net loss of income across families. Nonetheless families in the bottom income deciles in that scenario still collectively benefited in terms of the amount paid in levies compared to the amount received in replacement income on average. It remains that families in the bottom income deciles benefit overall relative to 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.

We would expect that reality would fall somewhere in between these modelled scenarios; there is good evidence for instance that some employer levy will be passed onto workers, but this will be limited by factors such as the statutory minimum wages and bargaining power held by unionised workers and those with skills that command bargaining power (some of whom will bargain employers to provide recompense for worker levies payable). There is also evidence that behavioural responses are not necessarily uniform across the earnings distribution, with a moral hazard effect being more likely to be seen within higher earnings cohorts, than in more credit-constrained lower earning cohorts.

The most important point is that both the more and less conservative modelling indicate income will be redistributed to lower decile families.

These are aggregate effects – not all employees will be better off in net financial terms

NZII is primarily a social insurance product, rather than a tool for income redistribution. Many employees will not experience job loss through redundancy or ill health – so will pay levies without receiving Scheme pay-outs. This would include those in disadvantaged groups.

But employees would still get the non-financial wellbeing/assurance benefits of NZII

Employees would get the assurance that their incomes would be protected if they experienced any of the adverse events covered by the Scheme.

Most employees in New Zealand are exposed to this risk in that very few are able to negotiate or afford income protection for the impacts of job loss, many have little savings to fall back on, many face high fixed housing costs, and few qualify for, or take up, welfare support until their resources are exhausted. Some employees, predominantly those already disadvantaged, are particularly exposed, and are generally the least able to afford or negotiate income protection arrangements. This is particularly the case for Māori and Pacific peoples who are overrepresented in redundancy and HCD statistics, and highly represented in industries prone to job losses in a downturn, and older employees who have higher prevalence of HCD and suffer amongst the most acute wage and income effects of job loss.

A unique feature of social insurance is that risks are socialised, rather than priced according to risks associated with characteristics of different populations. In this regard NZII would be more affordable for people who face the greatest risks of adverse events covered by the scheme, whereas they would normally be priced out of the market. There is also a broad insurance benefit in that it is also inherently uncertain at the individual level how employment and earnings prospects will change over time. Moreover, similar to paying for fire insurance and never having your house burn down: the insurance provides peace of mind.

Amongst lower income families, the scheme would be relatively more beneficial in financial terms for households without children

MSD modelling of the effects on various lower income family scenarios indicates that NZII would provide more generous income replacement to welfare-eligible individuals and their families than they would receive from the welfare scheme across all income and family composition scenarios. The modelling compares total family income pre- and post-displacement, for both the status quo, and with the NZII scheme in place. **Table 5** indicates that under the welfare system, replacement rates range from ~50-75 percent, compared to ~90-92 percent through NZII.

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

Family circumstance	Net income continuity on welfare	Net replacement rate on NZII	Percentage point change
1 - Single person, wage rate of $22 per hour, 40 hours per week, living in Auckland paying rent of $380 a week. Loses employment.	65%	91%	26pp
1a - Example 1, but working 10 hours per week	90%	100%	10pp
2 – Dual income couple with two children, both earning $22 per hour, the principal earner works full-time (40 hours) and the other part-time (20 hours), living in Auckland and paying rent of $550. The principal earner loses employment.	83%	94%	11pp
3 - Sole parent with two children, earning $22 per hour, 20 hours per week. Living in Auckland paying $498 per week in rent. Loses employment.	81%	99%	18pp
3a - example 3, but working 10 hours per week	85%	99%	14pp

Source: MBIE calculations

Note: that income figures are after tax. Total family income pre- and post-displacement, for both the status quo and with the NZII scheme in place includes partner income, and all support under the Social Security Act and tax credits, including the Winter Energy Payment. A caveat is that many families under both the status quo and NZII comparison will not be eligible for some cash-asset tested forms of income support (e.g. Accommodation Supplement and Temporary Additional Support).

This is because the current tax and transfer provides a lot of support for children in low income families that would continue in the event of job loss or reduced hours of work. So total income losses for employees with dependent children in the case of redundancy and like tend to be less acute than for employees on the same wage who do not have children. In that sense, the net financial benefit from NZII may be less for employees with dependent children.

This does however highlight that the current system does not cater well for people without children, some of whom have amongst the highest levels of poverty after housing costs. The prevalence of poverty for single people is second only to sole parents (refer Perry, 2019). The scheme will particularly help to alleviate financial pressure for these groups.

But the degree of income smoothing would be broadly similar with NZII playing a relatively larger role for families without children.

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).

NZII would improve equity for people who lose work due to non-accident related health conditions (horizontal equity)

The proposed scheme will improve 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 and receive income replacement from ACC.

The proposed scheme will make payments equivalent to ACC weekly compensation, for up to six months to people with an HCD who currently either would:

- not have access to benefits because of eligibility criteria (estimated at 25-30% of claimants drawing on existing data); or
- have access to benefits, but receive considerably less income replacement under the welfare system compared to NZII.

The scheme would improve equity insofar as it narrowed the current difference in income replacement that is accessible to people with an illness related HCD not covered by ACC and people who have an accident related HCD who receive earnings related income replacement from ACC.

However, the scheme would only narrow the difference for people according to the scheme's maximum duration (i.e. within the six month claim duration). For people with serious HCDs who need support over a longer period or who will not be able to work at all the scheme would effectively only defer their moving to reliance on a benefit (if eligible) and the long-term income consequences.

A small number of people will see little benefit in that many will be unlikely to meet eligibility requirements

The proposed scheme would expand income replacement to a wider group of people, but some people who pay for the scheme would be unlikely to access the scheme. The main group would be temporary migrants who, along with their employers, would be required to pay levy with limited prospect of claiming. Only a small proportion would be likely to meet the scheme's two year residency requirement.

Taking all these effects into account, MBIE would expect NZII to improve equity across the economy over time

The net financial effect of NZII on individual employees will depend on their particular circumstances.

Furthermore, there are lifelong wellbeing benefits from having a low cost insurance product, particularly in that it is currently harder for low income families to obtain income protection or save.

Population impacts

With entitlements based on an individualised assessment, eligibility for the scheme is wider than provided by the welfare system, so more whānau will be supported following loss of work.

Based on what we know about the displacement and HCD incidence and impacts of different populations within the labour force (refer *Section 1: Diagnosing the policy problem*), 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 have:

- a greater risk of job loss due to displacement or an HCD. Māori make up 13 percent of employed people but are 23 percent of displaced people and 22 percent of HCD related job loss. Pacific peoples make up 5 percent of employed people but are 7 percent of displaced people and 8 percent of HCD related job loss[27]
- lower average incomes and lower rates of insurance. Māori also tend to have lower rates of savings, potentially offset to some degree by stronger financial planning
- higher incidence of HCDs among Māori and Pacific peoples, which is expected to increase as the populations get older.

Some Māori and Pacific peoples will not benefit as much from the scheme as they are over-represented among working-age people in receipt of main benefits, so are unlikely to be able to build up contributions from employment as quickly as other populations, but at the same time they will not be required to contribute levies to fund the scheme.

The scheme's eligibility framework has been intentionally designed to be inclusive, with more generous settings than most international schemes. For instance part-time and non-standard forms of work such as temporary employment will be eligible for support under the scheme, and included as part of the contributions history assessment; forms of work in which Māori in particular are highly represented. This is expected to assist in ensuring Māori are included in the scheme.

Sex and family status

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.

From the available data, there are no obvious differences in overall prevalence of HCDs nor income loss between women and men, so no indication as to relative benefits. However, evidence from Australian workers compensation schemes indicates that women disproportionately claim from those schemes for gradual onset work-related illness and disabilities, such as mental illness (not covered by ACC), and therefore could stand to benefit in this regard from the scheme.

Additionally, 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, including Pacific peoples households.

[27] HLFS data for 2007-2020 regarding people unemployed or not in the labour force who left their last job due to economic displacement or sickness, illness or injury.

People in couple households, both with and without dependent children experience most displacement (28 percent and 33 percent respectively of all household compositions) and most job loss associated with HCD (22 percent and 36 percent respectively of all household compositions). These groups often face the largest income impacts associated with job loss, given these people are less likely to be able to access welfare benefits if their partner is earning.

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 peoples), six months replacement income could provide a pathway to gain additional skills and qualifications, with benefits to them and potential employers.

Older workers who are displaced or experience HCDs are expected to see some of the most marked benefits from the scheme. 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 (e.g. musculoskeletal degeneration), or diseases where onset is more prevalent at older ages (e.g. 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).

Health and disability

Income insurance will allow disabled people and people with health conditions to focus on their treatment and health.

As mentioned above, older workers are expected to benefit most markedly from the HCD cover provided by the scheme, including those who suffer gradual onset of work related illness and disability not covered by ACC.

It will also help some people to avoid needing to leave their job altogether, by supporting those people to reduce hours or take time off, and return to their employment as they are able to. In this respect the scheme will also support employers to retain skilled people.

An important contribution of the scheme will be to improve equity for people with non-accident related health conditions and disabilities who need to reduce hours or take time out of work, by providing those people with similar financial support to people who have accidents (albeit for a maximum of six months as opposed to up to retirement age for people supported by ACC).

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:

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

Scheme costs, including administration 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 $3.396 billion in total levies (GST inclusive) from its first year of operation in the 2025/26 fiscal year excluding employer bridging payments. This annual amount would cover:

- Claims costs of $2.66 billion
- ACC's administration and claims management cost of $293 million (~11% of claims costs)
- GST of $443 million, noting that the employer portion of this would be deductible.

The cost would be funded by compulsory levies of ~2.00 percent (incl. GST) paid in equal share by employers and employees of ~1.00 percent (incl. GST) on wages and salaries up to the wage/salary cap[28].

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)

	Claims cost	ACC Admin (% of claim $)	ACC Admin	Funding required	GST	Bridging payments	Total
Displaced	1,556 }	11%	171	1,727	259	486	2,472
HCDs	1,104 }		121	1,225	184		1,409

[28] This is an initial indicative estimate of the cost and levy for the scheme, which will be updated for a levy public consultation prior to the scheme going live in 2025.

Total	**2,660**	**293**	**2,953**	**443**	**486**	**3,881**

Scheme entitlement costs represent ~89 percent of the scheme cost. ACC's costs included in the analysis have been calculated as ~11 percent of total claims values. 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 percent per annum over the next fifty years). One of the largest components in 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, i.e., 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.

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.

Financial and compliance costs to workers

The direct costs to workers for 2025/26 are levies estimated as $1,698 million (including GST)[29], to meet a 50 percent 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 (e.g. earnings history would be provided by Inland Revenue based on taxable income). Compliance costs for economic displacement claimants are likely to be minima-l. However, HCD claimants will face costs of medical certification, which may for some people present an access barrier to the scheme as it can for the Accident Compensation scheme, particularly affecting low income earners, including Māori and Pacific peoples.

Financial and compliance costs to businesses

[29] 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 unable to offset GST against any other revenues; therefore, the impact on their incomes is the post-GST amounts.

The direct costs to businesses for 2025/26 are estimated to total $1,948 million, broken down as follows:

- levies estimated as $1,698 million (including GST)
- $486 million for bridging payments
- less tax deductions of $236 million (outlined below in *Costs and benefits to Government*).

Crown agencies and funded services will pick up a large proportion of the above costs given the Crown's direct and indirect responsibility for a large proportion of New Zealand payroll.

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

It is possible employers will offset costs over time. On net we expect employers to pass on some small proportion of levy costs onto employees by way of wage bargaining (noting that this will differ across the workforce; some employees may successfully bargain away their levy costs onto employers). It is also possible that employers may provision less funding to account for risks of redundancy and sickness for their workforces (Devos and Rahman, 2018; Dou, et al., 2016).

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). However, virtually all businesses employing staff and subject to the NZII levy will already collect and forward accident compensation levies on payrolls. The levy payment associated compliance costs will therefore be incremental 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 obligations to take reasonable steps to hold jobs open and accommodate 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).

Costs and benefits (to government)

Confidential advice to Government

[redacted]

There are also some positive fiscal impacts from reductions in benefits as a result of people not needing MSD support because of replacement income under a NZII, or deferring benefit receipt until their NZII eligibility has expired), and income tax receipts from 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. The scheme is estimated to generate ~$169 million in savings for the Crown per year (~7 percent of 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 $324 million per year from 2025/26 (which will increase over time with payroll increases). Including these costs, it is likely that introducing the scheme will be a net cost for the Crown, estimated at $155 million per year from 2025/26.

A breakdown of estimated fiscal costs and benefits 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)	-260
	Employer net GST (Inland Revenue)	24
	Employee net GST (Inland Revenue)	105
Scheme pay-outs	Employee PAYE (Inland Revenue)	199
	Welfare offsets (MSD)	101
Fiscal offset/reduction		**169**
Crown costs as an employer		
Levy/Bridging payments (Crown)	Crown employer levy payable	-260
	Crown employer bridging payments	-64
Total fiscal impact including crown costs		**-155**

The establishment of NZII would introduce additional complexity and fiscal cost pressures for other regulatory systems, as follows, but these are unable to be estimated at this point:

- 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, e.g., 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).

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 $6,447 million (a ratio of 1:1.13).[30]

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)

[30] 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).

- impacts on affected groups, distinguishing between displaced workers and those with HCDs

All values are Present Values (PVs) 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.

Table 8: Impact of NZII on affected groups

Affected groups	Description, assumptions & comments	Impact $m	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*	$25,300	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*	$22,000	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
[redacted]	[redacted]	Confidentiality	[redacted]
	Additional demands on regulatory systems: • *Health - extra demand on health practitioners to undertake work capacity assessments for access to scheme, and extra demand on treatment services to address latent unmet health needs, resulting in some degree of cost pressure for Vote Health and/or longer waiting times for non-urgent services* • *Employment, education and training – extra demand for return to work interventions provided by e.g. MSD and TEC (considered further as part of the review of ALMPs)* • *Employment relations –statutory notice periods and bridging payments enforced by the labour inspectorate, Employment Relations Authority and Employment Court*	Medium	Low

	• *Courts – extra demand, capacity associated with resolution of disputes appealed to the District Court and High Court*		
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
	Confidentiality		**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*	$25,000	Low
	Reduced short-term financial stress and hardship • *receipt of replacement income for six months will relieve financial stress for 60% of claimants*	$2,200	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*	$3,600	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*	$13,600	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*	$1,700	Low
	Better long-term 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*	$3,700	Low

	• *for many people, better outcomes may be dependent on access to ALMPs and treatment – availability 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 HCD cohort have better mental health outcomes and 30% have better physical health outcomes (5% change)*		
	Reduced long-term wage scarring • *existing evidence of wage scarring and possibility of better employment/health outcomes implies some likelihood of this occurring*	$1,900	Low
Other government agencies	Fiscal offset • *changes to welfare payments and tax as a result of NZII levies and payments*	$2,700	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* • *impacts likely to be significant but not feasible to estimate in advance*	High	Medium
	Total monetised benefits	Confidential	**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.

Assumptions for monetised benefits and costs

The start date for the analysis is assumed to be 1 April 2025, and the timeframe is fifty years, to 2072. The vast majority of costs are generated when the scheme becomes operative in 2025.

There are 3,021,000 people projected to be in the labour force in 2025/26 (employed and unemployed people). This will increase by 1.0-0.8 percent per annum over the next eight years, then at much lower rates (0.6-0.1 percent) until 2073 (SNZ 2021a).

The number of people claiming from NZII in an 'average year' across the economic cycle is estimated at 244,000, of whom:

- 114,000 will be claiming due to economic displacement
- 130,000 will be claiming due to HCDs.

Estimates of the average duration of claims are:

- economic displacement - 4.2 months
- HCDs - 2.8 months.

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

Based on HLFS data, mean average annual wages of claimants, inflated to 2025/26 based on 2022 Budget Economic and Fiscal wage inflation assumptions are assumed to be:

- economic displacement - $63,997 – average annualised income of all employees economically displaced (made redundant / laid off / business closed) based on data from 2016 to 2018, projected to 2025.
- HCDs - $45,481 – average annualised income of all employees who left their job due to HCD during 2016-2018, projected to 2025.

These figures are assumed to increase by 1.0 percent per annum, based on the Treasury's 2021 Long-Term Fiscal Model[31].

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 cost-benefit analysis framework set out in The Treasury (2015). Monetary benefits and costs have been estimated using the Treasury's CBAx tool.

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

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

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31 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)

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 percent of annualised displaced claimants (23,900 people) and 60 percent of HCD claimants (18,200 people) are credit constrained (refer Chetty, 2008) and will experience a 1 point reduction in financial stress;
- 30 percent of the HCD cohort (9,100 people) experience a 5 percent improvement in mental health
- 30 percent of the HCD cohort (9,100 people) experience a 5 percent improvement in physical health.

In addition, we assume that 60 percent of displaced workers achieve a modest reduction in wage scarring equivalent to 20 percent of their prior earnings, at the average for the cohort of $63,997. 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 percent of workers with HCDs achieving a reduction in wage scarring equivalent to 20 percent of their prior earnings, at the average for the cohort of $45,481. 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 reduce their hours (part of the reason for the low average assumed income), retaining their employment, and 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. This factor is sensitive to claims rate, duration and average replacement payable assumptions. However, these are basically the same drivers of the main benefit of the scheme, income replacement, and any deviation will be addressed over time by adjustments to levy rates and revenue, which should balance out the NPV.

However, changes in the ongoing administration cost as a proportion of overall costs, could materially affect the overall cost-benefit analysis. For example, a 50% increase / decrease in ongoing administration cost would change the net benefit to 1:1.07 / 1.19.

Changes at the margins in establishment costs do not have material effect on the overall costs or net benefit, as they are a small proportion of claims costs over the NPV reference period of 50 years.

The largest driver of benefits is the provision of income replacement for consumption smoothing (~71 percent of PV benefits). The scheme is also expected to provide significant financial wellbeing (~7 percent of PV benefits) and health benefits (~7 percent of PV benefits), a benefit of improved longer term income from enabling people to obtain better jobs than they would otherwise under the status quo (~10 percent of PV benefits), and a fiscal offset for welfare and tax systems (~5 percent of PV benefits).

The main benefit which is assumption-sensitive and could materially affect the overall cost-benefit analysis is the assumed reduction in post-displacement wage scarring benefit. However, reduced short-term financial stress & hardship, and better long-term employment & health outcomes could also have material effects. A 50% change in the following benefits would affect the overall value proposition as follows:

- long-term wage scarring benefit would change the net benefit to 1:1.07 / 1.19
- short-term financial stress & hardship would change the net benefit to 1:1.09 / 1.17
- long-term health outcomes would change the net benefit to 1:1.09 to 1.17.

The assumed benefit of enabling people to obtain better jobs was subject to conservative assumptions based on the international literature, however, this impact could be considerably more favourable in the context of a new scheme.

It should also be noted that the different cost (including the administration loading) and benefit elements of the CBA model are affected by different cost of claims assumptions (ie. claims numbers, average duration and average income-related payment). Levy and bridging payment costs, income replacement and reduced wage scarring benefits broadly move in line with the overall cost of claims assumptions. However, a number of costs and benefits are only driven by claims volumes, and therefore change to differing degrees in relation to overall costs and benefits and therefore affect the overall NPV of the CBA.

The Government's revised levy rate, and change in underlying claims cost assumptions (refer page 35) impact the cost and benefit PVs in differing proportions. The overall demand and cost per claim assumptions have been revised downwards which has the effect of reducing costs by ~37% and reducing benefits by ~35%.

This has the effect of raising the NPV slightly from 1.09 to 1.13 relative to the initial levy rate and assumptions adopted for public consultation. This is driven by a combination of effects:

- The administration loading (a combination of fixed and variable costs in relation to claims numbers) is inversely related to claims numbers. While the overall administration cost is assumed to decrease with the reduced assumed claims numbers, the component increases as a proportion of overall costs, from 9.5% to 11% reducing the NPV by ~2 points

- The better long term physical and mental health benefits and improved financial wellbeing benefits are only influenced by claims numbers, and the PVs each only decrease slightly due to the decrease in overall claims numbers (-~8%) being much lower than the decrease in overall cost of claims (-~37%). Each of these effects increase the NPV by ~3 points, a total of 6 points, more than offsetting the administration cost effect.

Consultation feedback

Business New Zealand and the NZCTU and the Government worked together to develop a public discussion document on the proposal, "An income insurance scheme for New Zealand workers", which was released for public consultation between 2 February and 26 April 2022.

The discussion document outlined each design feature of the scheme and asked open ended questions on the options and proposals.

Feedback was sought via public submissions, an online survey and targeted engagement with Māori/iwi and key stakeholders.

MBIE received 255 submissions and 1,819 survey responses on the proposed scheme. Submissions were received from 51 businesses, 70 interest groups, 110 individuals, 11 experts, 10 unions and 3 others. 94 percent of survey respondents were from individuals.

Officials held over 50 engagement meetings face to face (or virtually) with key stakeholders to gather feedback on the NZIIS proposal, including:

- Māori/iwi
- Employers
- Financial sector/ economists
- Health and disability sector
- Vocational education
- Community organisations.

MBIE also continues to engage regularly with Business New Zealand, the NZCTU and the Pou Tangata Skills and Employment Iwi Leaders Group on the proposed scheme.

Submission and survey feedback

Most of the submissions disagreed with the proposal (76 percent), either fundamentally, or in respect of the specific design proposed.

As did most of those who opted to take the survey:

- 53 percent of individuals disagreed with the proposed redundancy cover and 44 percent disagreed with the proposed HCD cover
- 81 percent of employers disagreed with the redundancy part of the scheme and 69 percent disagreed with the HCD part of the scheme
- Most self employed/contractors disagreed with the proposed scheme.

Submitters who agreed with the proposal considered that it would fill a significant gap in income replacement for people who lose their jobs, common reasons given in support by submitters and respondent include:

- the lack of statutory redundancy in New Zealand
- relatively low and closely targeted welfare support
- the current disparity between support for those unable to work due to an accident and those who fall ill.

Support was particularly strong from those who had experienced redundancy or job loss due to health conditions or disabilities.

Another group supported the intent of the proposal but saw insurance as inequitable and favour alternative solutions, such as improving existing systems (welfare, KiwiSaver, redundancy payments).

Many submitters opposed to the scheme expressed uncertainty about the case for the scheme. Submitters who disagreed with the proposal considered that the scheme would:

- the levy will have a material impact for low-income workers
- the levy and bridging payments are unaffordable for small business
- impose a cost on businesses with little perceived benefit, particularly the inclusion of health conditions and disabilities
- impose an unaffordable levy impact on low-income workers, and that the scheme would help mid- and high-wage earners at the expense of more vulnerable workers.

Common across the engagement, irrespective of level of support, was concern about the timeframe for implementing the proposal.

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.

Free and frank opinions [redacted] 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, concerns were raised:

- about the impact of the levy on low-income earners
- that a too stringent contribution history requirement for eligibility would disproportionately impact Māori in terms of being able to access the scheme
- that iwi organisations that self-insure and use redundancy as a last resort would not stand to benefit
- about ACC's track record for delivering for Māori.

Assessment

MBIE 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. 45 percent of survey respondents felt it was important to help businesses find workers with the skills they need, and 43 percent of respondents felt achieving the scheme's objectives would improve their confidence to join businesses in new sectors and industries. One submitter noted that "I fully agree that the financial and social impact on job loss for whatever reason has a knock-on effect on the local and national economy. A proactive and meaningful approach by government should prove to be positive."
- bring benefits to both individuals and businesses by providing greater opportunities for people with 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.

Based on submission feedback, we have given careful consideration to the timing, affordability and design features of the scheme. Key changes since consultation include:

- the proposed go live date for the scheme has changed from December 2023 to 1 April 2025 to enable more time for proper implementation
- officials have continued to advance the costing and implications of different levy options for the scheme, and propose to continue this work towards undertaking a levy consultation prior to the scheme going live
- the inclusion of a Treaty provision and requirement in legislation requiring the Minister to seek nominations for the ACC board from groups representing Māori (along with groups representing unions and businesses), and including recognition of Te Ao Māori in the board's skills matrix.

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 from 1 April 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 for ensuring 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: Detailed scheme design settings

Introduction

The focus of Annex 1 is the detailed design settings of an income insurance scheme, should Cabinet decide that a scheme is to be introduced. It provides an assessment of design choices by comparing a range of alternatives against consistent criteria.

The main design choices for the scheme relate to:

1. **Coverage** - 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). 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.
2. **Entitlements** - 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.
3. **Claimant obligations** – obligations on claimants seek to underpin the operation of the scheme and support the scheme's intended outcome to support people into work, where appropriate.
4. **Employer obligations -** obligations on employers aim to support the scheme's objectives and minimise scheme risks, while minimising compliance costs for employers and employees. Recommendations include notice obligations and a requirement to pay 80% of wages for four weeks post-displacement.
5. **Funding & delivery** - delivery arrangements seek to leverage the strengths of existing entities – ACC to deliver income insurance and collect employer levies, Inland Revenue to collect employee levies as part of PAYE, and MSD to deliver employment services (where available).
6. **Governance -** 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.

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.

Criteria used for assessing options

Criteria, derived from the scheme's objectives (refer section What criteria will be used to compare options to the status quo? on page 29 of the RIS), have been used to assess the options for each scheme design choice.

1. Coverage

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.

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.

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.

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

New Zealand Income Insurance could cover:

- permanent employees only
- extend coverage to non-standard employees (casual, fixed term and seasonal)
- extend coverage further to self-employed workers.

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.

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.

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.

However, it is difficult to exclude the truly self-employed without also excluding misclassified employees (so-called dependent contractors).

Consultation findings

There were mixed views on what events the scheme should 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 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 peoples 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.

Conclusions and impacts

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).

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.

The key impacts of these policy choices in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Supports** workers back to suitable employment and other sustainable outcomes
- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns
- **Improves** equity
- **Increases** regulatory costs.

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 / whānau immediately after job loss, supporting workers back to suitable employment.

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 peoples, 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.

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.

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 – Economic Displacement

Options

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.

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 peoples and women working part time.

Consultation findings

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).[32]

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: Economic Displacement

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.

The key impacts of this choices in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Supports** workers back to suitable employment 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.

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

[32] 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.

families / whānau , and supporting workers back to suitable employment, and with positive equity impacts since Māori, Pacific peoples and women are more likely than others to work in part time jobs.

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).

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).

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.

Job losses covered – health and disability

Options

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

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.

Conclusions and impacts: Health conditions and disability

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.

The key impacts of this choice in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss (full or partial loss)
- **Supports** workers back to suitable employment and other sustainable outcomes
- **Improves** equity overall, however there are some negative equity impacts
- **Increases** regulatory costs.

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 suitable employment (or potentially supporting them to remain in their current job). It has positive equity impacts since Māori, Pacific peoples and women are more likely to be in the group covered than others.

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.

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.

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

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

There were views from interest groups, individuals and unions that contribution requirements would disadvantage particular groups or more vulnerable workers, e.g. Māori, Pacific peoples 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:

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 suitable employment post job loss and maintaining their living standards).

The key impacts of this choice in terms of the assessment criteria are:

- **Improves** equity overall but with some negative equity impacts, particularly for youth
- **Supports** regulatory costs that are proportionate to intended outcomes.

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 peoples 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 / whānau 's) living standards, with associated equity impacts (non-standard workers would be those most likely to be ineligible, and they are disproportionately Māori, Pacific peoples and women).

Not imposing any contribution history requirement would have positive equity impacts because young people, followed by Māori, Pacific peoples 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

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 a closed work visa holder 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 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

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.[33]

Conclusions and impacts

The recommended approach is that citizens, residents and temporary visa holders will be subject to the levy from day one. Citizens and residents will be fully covered, and temporary visa holders must reside in New Zealand continuously for two years before becoming eligible.

The key impacts of this choice in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Supports** workers back to suitable employment and other sustainable outcomes
- **Supports** the economy to adjust more rapidly to structural change, shocks or downturns

[33] 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.

- **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 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.

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.

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 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 suitable employment after an ED or HCD related loss of work.

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

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

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

Officials recommend limiting the duration of insurance payments to a total of six months within an 18-month period.

The key impacts of this choice in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Supports** workers back to suitable employment and other sustainable outcomes
- **Supports** regulatory costs that are proportionate to intended outcomes.

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.

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.

Options

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.

These settings can be made more or less generous, depending on policy objectives.

Consultation findings

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.

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.[34]

Conclusions and impacts

[34] 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.

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 scheme), with a relatively short entitlement duration of six months.

The key impacts of these policy choices in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Supports** workers back to suitable employment 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.

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 suitable employment and other sustainable outcomes by reducing the financial pressure to accept poorly matching jobs.

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.

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, 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 peoples).

These effects would outweigh the positive equity impacts from a lower levy rate for low-income households.

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.

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 whānau 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 whānau 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).

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 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.

3. Claimant obligations

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.

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.

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

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

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.[35] 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. [36]

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

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.

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[35] 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.

[36] 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.

- financial sanctions would be used as a last resort in cases of serious, intentional non-compliance with obligations.

The key impacts of these policy choices in terms of the assessment criteria are:

- **Supports** workers back to suitable employment and other sustainable outcomes
- **Some risk** of reduced equity (from discretionary decision-making)
- **Supports** 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, and in terms of HCD to return to their current work or other good work.

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.

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 whānau immediately after job loss). This supports the scheme's regulatory costs being proportionate to intended outcomes by providing a disincentive to abuse the scheme.

4. Employer obligations

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

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

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.[37]

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.

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.

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

Officials recommend the following employer obligations:

- Require employers to give four weeks' notice to employees before ED takes effect
- 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.

The key impacts of these policy choices in terms of the assessment criteria are:

- **Supports** the maintenance of living standards for workers and their families and whānau immediately after job loss
- **Improves** equity
- **Supports** regulatory costs that are proportionate to intended outcomes.

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.

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

[37] 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.

providing sufficient time for the scheme administrator to robustly assess upcoming claims, without imposing significant costs on the scheme.

Bridging payments would help to deter employers from unnecessary redundancies, reducing financial risk for the scheme. This is 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.

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).

There is an option of allowing employers to satisfy the bridging payment requirement by paying contracted redundancy compensation that meets or exceeds the bridging requirement. Where the contracted redundancy provision is less than four-weeks, the employer would need to pay the difference to the employee.

This approach would still achieve the policy intent for NZII of discouraging unwarranted redundancies and would reduce costs for employers who have agreed to contractual redundancy.

Although some employees who have traded-off wages or other benefits for redundancy provisions may feel that they do not gain anything additional in the event of a redundancy, some will receive redundancy entitlements above the bridging payment as well as their income insurance entitlement. Ultimately, collective agreements will be renegotiated, with the bridging payment serving as a new minimum floor and parties free to negotiate around this.

This will however create some challenges for how bridging payments and redundancy payments are treated in the welfare system, as bespoke rules apply to redundancy payments compared to other forms of income.

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 peoples and women) will benefit disproportionately.

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.

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.

5. Funding and delivery

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).

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.

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.

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).

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

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

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.

Conclusions and impacts

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.

The key impacts of these policy choices in terms of the assessment criteria 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.

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.

A levy-based system is most consistent with the objectives of ensuring support is available to individuals, family and whānau 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).

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.

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.

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

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

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 peoples and women.

Conclusions and impacts

Officials recommend the scheme is delivered by the ACC. This:

- **Supports** workers back to suitable employment and other sustainable outcomes
- **Supports** regulatory costs that are proportionate to intended outcomes.

ACC is recommended as the delivery agency because it has existing expertise and infrastructure for levy administration, fund management, claims administration, and case management.

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.

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).

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.

6. Governance

Governance is the system by which an organisation is directed and controlled. 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. For the NZII scheme, key choices about how the Governance system should:

- the roles and expectations of ministers,
- the board collectively, and
- monitoring arrangements.

Assuming the ACC delivers the scheme, any governance model must be consistent with the framework set by the Crown Entities Act 2004.

Options

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

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.

The disability community emphasised that disability representation in governance is essential and current processes impacting disabled people should not be replicated.

Conclusions and impacts

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.

The key impacts of this choice in terms of the assessment criteria are:

- **Improves** equity
- **Supports** regulatory costs that are proportionate to intended outcomes.

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.

Annex 2: Origins of the proposed NZII

Examining options to support displaced (redundant) workers was one of the key recommendations in the Future of Work Tripartite 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 suitable employment, 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[38].

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.

38 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 suitable employment	**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 suitable employment	**0** Debt obligation could incentivise job search, but not necessarily focussed on suitable employment	**+** 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

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Annex 4 – Privacy Impact Assessment

Privacy Impact Assessment

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

IN CONFIDENCE

New Zealand Income Insurance Bill

DRAFT - Privacy Impact Assessment Report

13 Dec 2022

New Zealand Government

Version control

Version	Description of change	Date
1.0	Draft version for review by ACC	19 Oct 2022
1.2	Draft version for consultation with OPC	02 Nov 2022
1.3	Draft version for agency consultation	25 Nov 2022
1.4	Draft version reflecting agency feedback	12 Dec 2022
1.5	Draft version reflecting internal feedback (minor changes)	13 Dec 2022

Review and sign-off

Name	Role	Date	Signature
Libby Gerard	Manager Income Insurance Policy		

Contents

Key messages

1.	Including legislative provisions for information sharing in the New Zealand Income Insurance Bill best meets the purposes of the New Zealand Income Insurance (NZII) scheme.

2.	Without information sharing between agencies, NZII would be completely reliant on individuals providing information for levy administration, NZII notification, claims eligibility, and any other NZII purposes. Relying solely on individuals to provide information would: • not support a good customer experience, e.g. place unnecessary and a time consuming burden on people; • Risk the exclusion of groups of people disadvantaged in the labour market, including Māori, Pacific people and people with disabilities; • Increase compliance costs for businesses; and • Increase the risk of fraud for NZII, resulting in increased costs for NZII and the levy payer.

3.	As basing the information sharing fully on authorization from individuals is not reasonably practicable, a hybrid model of legislative provisions and individual authorisation has been developed.

4.	The New Zealand Income Insurance Bill will enable information sharing across agencies to: • Maintain accurate levying, including levy assessment, administration and compliance management, to ensure equitable sharing of scheme costs • Ensure accessibility by minimising the information provision requirements on business and claimants. • Verify customer eligibility for the scheme and manage scheme integrity by accurately paying claim entitlements. • Support correct and full tax collection and entitlement to government benefits to avoid customer government debt accumulation. • Ensure case management and return to work planning and assistance is effective. • Support scheme performance monitoring, labour market statistics and scheme policy development.

5.	Legislative provisions for information sharing will: • Be necessary for, and limited to, arrangements required to achieve the legislation's defined purpose and express objectives. • Be transparent and easily understood by individuals and provide for individual agency where appropriate. • Be efficient for ACC and partner agencies to implement – unless there is a compelling reason, the provisions should be consistent for both the accident compensation scheme and the income insurance scheme. • Minimise compliance costs for businesses and workers.

	• Minimise the privacy impact and provide for appropriate safeguards and oversight. • Be feasibly implemented within the timeframe. • Be flexible to support continuous improvement of services

6.	Only personal information that is required to meet the purposes of the NZII scheme will be collected and shared.

7.	Appropriate mechanisms will be implemented to ensure that the privacy practices and controls of the involved agencies are adequate to be able to reasonably protect individual privacy.

8.	Making this PIA available, engaging with the Privacy Commissioner and the Iwi Leaders group, the Select Committee process, being transparent on the NZII website about the information sharing, requiring employers to present the employee with a privacy statement before notifying NZII and taking any other steps to engage with any concerns will effectively ensure that we are as open and transparent as possible about the information sharing for NZII.

9.	On balance, we are satisfied that the hybrid model of information sharing provisions in the New Zealand Income Insurance Bill combined with authorisation from individuals provides the best overall outcome, delivering to all the needs of NZII while reasonably protecting individual privacy.

Introduction

The Government has decided to establish a New Zealand Income Insurance (NZII) scheme for people who lose work due to displacement or a health condition or disability, delivered by ACC alongside the Accident Compensation (AC) Scheme.

Collection, use and disclosure of personal information will be necessary for the operation of NZII once it commences to:

- Maintain accurate levying to ensure equitable sharing of scheme costs
- Ensure accessibility by minimising the information provision requirements on businesses and claimants
- Verify customer eligibility for the scheme and manage scheme integrity by accurately paying claim entitlements
- Support correct and full tax collection and entitlement to government benefits to avoid customer government debt accumulation
- Case management and return to work planning and assistance
- Scheme performance monitoring, labour market statistics and scheme policy development.

This privacy impact assessment (PIA) explains the process followed, the factors considered, and the steps being taken to ensure this information sharing does not adversely affect the privacy of New Zealanders. In making this PIA publicly available, we are seeking to ensure that individuals can have comfort that the privacy implications of the information share for NZII have been carefully considered. This PIA is a 'living' document and will be reviewed and updated as the project progresses.

The Privacy Act 2020 is an enabling act and provides a framework for protecting an individual's right to privacy of personal information while recognizing that other rights and interests may at times also need to be taken into account. The development of NZII must not be delivered at the expense of individual privacy, but at the same time, privacy should not be a barrier to the development of the scheme either.

The information sharing activities for NZII provide significant benefits for individuals in efficiency gains and financial compensation. The various controls that will be put in place will mitigate the privacy risks as far as is reasonably practicable.

Scope of the PIA

Scope

This PIA covers the collection, sharing, use and disclosure of personal information for the purpose of NZII.

The process

This PIA was prepared by the Ministry of Business, Innovation and Employment and ACC. The Office of the Privacy Commissioner, the Ministry of Social Development, the Treasury, the Ministry for Primary Industries, Inland Revenue, Te Puni Kokiri, the Ministry for Education, Te Arawhiti, the Ministry for Pacific Peoples, the Ministry for Ethnic Communities, the Ministry for Women, the Ministry of Health, Health New Zealand, Te Aka Whai Ora, the Ministry of Justice, the Ministry of Foreign Affairs and Trade, the Public Service Commission and Crown Law were consulted.

Feedback on NZII was sought via public submissions, an online survey and targeted engagement with Māori/iwi and key stakeholders via ~50 targeted engagements. MBIE engages regularly with Business New Zealand, the NZCTU and the Pou Tangata Skills and Employment Iwi Leaders Group on the proposed scheme. Regular Engagement with the Office of the Privacy Commissioner and the Legislation Design and Advisory Committee (LDAC) has also taken place.

New Zealand Income Insurance scheme

NZII will provide a replacement income when people lose work as a result of a health condition, disability or economic displacement. Introducing income insurance will minimise the immediate financial impact of losing income and work, support people to return to suitable employment, and support the wider economy to adjust more rapidly to economic shocks and downturns. With income insurance, working New Zealanders and their families will be better prepared for unpredictable economic and health shocks that may reduce their ability to earn through no fault of their own. Māori and Pasifika people's whanau, low-income families, and people with disabilities are expected to disproportionately utilise and benefit from the scheme.

The replacement income available via NZII will be set at approximately 80 percent of an individual's prior earnings for up to six months, up to a maximum income cap. NZII will abate welfare entitlements, but welfare entitlements will not abate NZII. The scheme will be funded through a levy shared by employers and workers as a proportion of wages and salaries.

Personal information

Personal information is any information about an identifiable individual – it is anything which tells us something about a specific individual. The information does not need to name the individual, as long as they are identifiable in other ways, like through their home address. Information can be personal information if it can be linked to an individual when combined with other available information. Generally speaking, an individual is identified when, within a group of persons, he or she is 'distinguished' from all other members of a group. Some examples of personal information are name, address, IRD number, NHI number, financial or medical records, criminal record and ethnicity.

Health information is a subset of personal information and means any information about the health of, or health/disability services provided to, an identifiable individual as well as any information collected before, or in the course of, and incidental to the provision of a health or disability service provided to that individual. Health information is held by health agencies such as ACC and is regulated by the Health Information Privacy Code 2020[1], a code of practice issued by the Privacy Commissioner.

The collection and sharing of personal information will be of central importance to the operation of NZII, to:

- Maintain accurate levying to ensure equitable sharing of scheme costs
- Verify customer eligibility for the scheme and manage scheme integrity by accurately paying claim entitlements
- Support correct and full tax collection and entitlement to government benefits to avoid customer government debt accumulation
- Case management and return to work planning and assistance

[1] The Health Information Privacy Code will need to be updated to include NZII.

- Scheme performance monitoring, labour market statistics and scheme policy development.

Personal information collected by ACC as part of administering the scheme will also be important for supporting New Zealand's labour market data infrastructure (as is currently the case for ACC data collected as part of administering the AC scheme). This will be de-identified personal information.

ACC will be able to seek personal information directly from claimants. However, in some cases this will not be possible (for levy setting) and in other cases, information required for the administration of NZII is already collected from businesses and citizens by agencies for other purposes. A number of information sharing arrangements, which will be discussed in this PIA, are proposed to ensure that individuals are not burdened with supplying the same information to different agencies, and that the scheme is efficient, effective in its purpose and accessible.

The sharing of personal and sensitive information processes required for administering the scheme will need to have legal provisioning, as the Privacy Act 2020 holds that information should only generally be used for the purpose for which it is collected.

For the most part, ACC already has authorisation to receive and use much of the information in question for administering the AC scheme. However, legal provisioning is required as the information sharing arrangements are being proposed for a new purpose, administering the NZII. The privacy implications of the information sharing provisions are considered proportionate given the need for the scheme to correctly determine and obligate the payment of levy and provide correct entitlements.

Information sharing mechanisms

There are several different mechanisms to ensure that there is a legal authority for information sharing.

IPP2 – source of personal information

The information share could be purely based on IPP2 of the Privacy Act 2020 which notes that *if an agency collects personal information, the information must be collected from the individual concerned.* There are exceptions to this, for example if the individual concerned authorises collection of the information from someone else or if compliance is not reasonably practicable in the circumstances of the particular case.

Obtaining authorisation for all of the information share would be impracticable for operational purposes - the scheme will apply to a high volume of individuals, there is a high volume of information needed, it would take a long time to require authorisation, and there would be the risk that individuals would provide incorrect information.

Instead, personal information will be obtained directly from individuals and/or with their authorisation from agencies when it is reasonable to do so. The information sharing model will be a hybrid of legislative provisions and authorisation of individuals.

Approved Information Sharing Agreement (AISA)

An AISA is a formal agreement created under the Privacy Act 2020 that allows personal information to be shared between (or within) agencies within New Zealand for the purpose of delivering public services. An AISA authorises agreed departures from the IPPs of the Privacy Act 2020 (except IPP6 (access) and IPP7 (correction)) if there is a clear public policy justification and the privacy risks of doing so are managed appropriately.

Legislative provisions

Legislative provisions can authorise the collection, use or disclosure of personal information by agencies.

There are several reasons why it has been decided to authorise the information sharing for NZII in legislative provisions over other information sharing instruments, such as an AISA. For example:

- Legislation is the strongest enabler for critical scheme infrastructure
  If a specific legislative vehicle is developed, then it is likely to be implemented faster than an AISA. Timeliness is a key requirement for any enabling tool for NZII given the public and political scrutiny the scheme will be subject to. The scheme is unworkable without information sharing provisions and we need to guarantee that these will be in place before NZII goes live.

- Legislation is more transparent
  The Scheme needs legislative provisions to allow for information sharing between government agencies, but also between employers and government agencies. It is more transparent for individuals to have one Act to go to for all information sharing provisions related to NZII instead of the NZII Act, an AISA and the Privacy Act 2020. Legislation is more easily searchable/accessible by individuals than an AISA via the government legislation website.

- Legislation is efficient
  Using an omnibus bill to introduce the scheme has the effect of simultaneously making amendments to other relevant Acts necessary to enable the scheme. This will include the Accident Compensation Act and the Tax Administration Act.

Although an AISA is not the preferred sharing instrument for the NZII, many of the privacy safeguards that an AISA provides will be built into the information sharing provisions within the legislation. These protections will be discussed in this PIA.

The Legislation Design and Advisory Committee (LDAC) has indicated they are supportive of legislative provisions for information sharing purposes for NZII.

Memoranda of Understanding (MoUs) will be developed between ACC and the agencies involved that set out the parties involved, the information that will be shared, the legal basis for sharing, the purposes for which the information can be used, the retention period for the information and any other privacy safeguards for sharing information between agencies.

Information sharing is essential for NZII

Without information sharing between agencies, NZII would not be able to operate efficiently or effectively. The Scheme would be completely reliant on individuals providing information for levy administration, NZII notification, claims eligibility, and any other NZII purposes.

To fully rely on direct collection of information from individuals would shift the burden to individuals to critically analyse and decide whether they should disclose their correct personal information in return for the benefits of NZII. This would be inefficient and unrealistic, risks the exclusion of groups of people disadvantaged in the labour market, including Māori, Pacific people and people with disabilities, opens up opportunities for fraud, and would go against the policy intent of the NZII.

One of the key benefits of publicly provided income insurance schemes is that it creates a pool of funding, spreading the risk of income loss across the working population. This allows people to protect themselves at a lower cost. This is a key advantage over private provision of insurance. Voluntary insurance schemes are 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. Not having legislatively mandated information sharing for the collection of levies would make the scheme essentially voluntary, leading to higher levies and lower coverage, undermining the rationale for the scheme.

Furthermore, it would also go against the aims of the government to ensure the public sector undertakes a more collaborative, cross agency approach to supporting individuals and gaining efficiencies.

Māori Data Sovereignty

As Māori face a greater risk of job loss due to displacement or a health condition or disability, it is expected that NZII will especially benefit Māori workers.

It is crucial that the way the scheme is governed, delivered and evaluated, tangibly applies kāwanatanga (governance). It is recognised that a partnership approach with Māori is necessary to ensure Māori have real authority to develop and implement policies that address their needs in ways that respect te ao Māori. This means the scheme will need to be inclusive and represent the voice of Māori at all levels.

The NZII information share acknowledges the risk that Māori aspirations for Māori data sovereignty may not be met as a result of the way in which data is created, collected, stored, accessed, analysed, interpreted, managed, secured, disseminated, used, re-used and governed. Collaboration with the Iwi Leaders Group will be crucial for finding mechanisms to eliminate or minimise this risk where reasonably practicable.

Māori Data Sovereignty principles

The following six principles of Māori Data Sovereignty will be assessed during the development of the NZII policies.

- Rangatiratanga / authority - The extent to which the principles of Māori Data Sovereignty over Māori data have been allowed for.
- Whakapapa / relationships – The extent to which Māori are to be involved in the governance of Māori data.
- Whanaungatanga / obligations – The extent to which Māori are to be involved in the data use / sharing approval process.
- Kotahitanga / collective benefit – The extent to which Māori are to be involved in decision-making for issues that have been escalated.
- Manaakitanga / reciprocity – The extent to which data is to be used with a development focus rather than a deprivation/ harm focus.
- Kaitiakitanga / guardianship - The extent to which Māori can exercise guardianship over Māori data.

The privacy impacts on Māori and the principles of Māori data sovereignty in interaction with NZII will be worked through with the Iwi Leaders Group.

Ngā Tikanga Paihere

While using the data, the principles of Ngā Tikanga Paihere[2] will be adhered to. These principles will:

- help guide the safe, responsible, and culturally appropriate use of data,
- ensure data is carefully considered,
- ensure data practices occur in good faith.

Ngā Tikanga Paihere supports ethical data practice and research by ensuring that practitioners meaningfully involve the community of focus, are transparent about how data is being used, think about the positive and negative consequences on communities, and meet the data-related obligations of Te Tiriti o Waitangi and human rights considerations.

Our preferred solution and information flows

Personal information involved

Personal information will be of central importance to the operation of the NZII once it commences. The information sharing model will be a hybrid of legislative provisions and authorisation. Some information will be shared based on legislative provisions; some information will be sourced directly from individuals on the basis of informed consent (authorisation).

Personal information needs to be collected and shared to:

- Maintain accurate levying, including levy assessment, administration and compliance management, to ensure equitable sharing of scheme costs
- Verify customer eligibility for the scheme and manage scheme integrity by accurately paying claim entitlements.
- Support correct and full tax collection and entitlement to government benefits to avoid customer government debt accumulation.
- Ensure case management and return to work planning and assistance is effective.
- Support scheme performance monitoring, labour market statistics and scheme policy development.

ACC will be able to collect some of information, but some of the required information would not be feasibly collected by ACC (e.g. taxable earnings information) or would be inefficient and/or inaccurate for ACC to collect and is already collected by other agencies.

As noted, one of the aims of the Government's Better Public Services reforms is to ensure the public sector undertakes a more collaborative, cross agency approach to supporting individuals and gaining efficiencies. Making better use of information and information sharing between government agencies and community providers is one method of gaining greater efficiency and improving outcomes for the public. For the individual this would mean only providing their details to government once.

Information sharing will confer benefits for scheme administration and it will be less cumbersome for individuals to lodge a claim. Much of the information required is identical to

[2] Stats NZ, *Ngā Tikanga Paihere*, https://www.data.govt.nz/toolkit/data-ethics/nga-tikanga-paihere/

information that ACC currently has lawful access to via information sharing arrangements for the AC scheme.

There is some uncertainty about the precise information sharing requirements, mechanisms and information management policy and operationalisation that will be developed, as the systems are to be designed before going live in 2025.

Regular engagement with the Office of the Privacy Commissioner will take place during this development phase to ensure privacy impacts are assessed and mitigations will be put in place. This PIA is a 'living document' and will be updated to address these impacts and mitigations.

The processes described below are illustrative but may change to some degree as detailed operational and technical work develops. Appendix 1 describes the agencies that will be involved sharing information to ACC and for what purposes the information sharing is needed.

Information sharing arrangements per business process

The following section will discuss the information sharing arrangements per business process.

Levy administration

The employee levy for NZII will be collected by Inland Revenue, on behalf of ACC, whereas ACC will collect the employer levy. This is similar to how the employee and employer levies for the current AC scheme are being collected. Sharing information between IR and ACC will improve the accuracy and timeliness of the calculation and administration of levies. The information share for levy administration will be legislatively mandated sharing and will authorise the sharing for AC scheme purposes too.

The personal information that needs to be shared for this is also similar to the current AC scheme and includes information such as contact details, date of birth, IRD number and employer assessment details.

It is intended that a new information sharing agreement will be entered into between ACC and Inland Revenue which provides for the collection and sharing of personal information for the purposes of both the AC and NZII schemes.

NZII notification

If an employee is economically displaced or unable to work for health conditions or disability reasons, the employer must notify NZII about this and will need to share information about the employee and its circumstances with NZII. Employers are expected to inform the employee of this sharing of personal information unless this is not reasonably practicable in the circumstances of the particular case. This information sharing for NZII notification purposes will be mandated by NZII legislation. The employer will be responsible to ensure that the employee has received a privacy notice and understands what is being collected and for what purpose.

The personal information that must be shared at this notification stage is for administrative purposes and research & statistical purposes. The minimum information that will need to be shared for administrative purposes includes personal information such as name, contact details, date of birth, IRD number and date on which employee's employment will cease. Any personal information that will be shared for research & statistical purposes (to report on displacements in New Zealand) will be de-identified. Some of the information in the notification will be compulsory to provide and some information that employers may provide will be with consent of the employee.

Once ACC receives the displacement notification from the employer, ACC will validate the data, use the information to contact the employee if further information is required in order to proceed with the claim process, and use de-identified displacement data to report on displacements in New Zealand.

The notification information will be 'ring-fenced' – the information will be used to contact the employee and if the employee does not wish to proceed with a claim, the information will be deleted[3].

Additional information may be provided at the authorisation of the individual if they wish to proceed with a NZII claim.

Claim lodgement

After the scheme receives notification that an employee is being economically displaced or unable to work for health conditions and disability reasons, the scheme will contact the employee to receive confirmation that the employee wants to lodge a claim. Information needed for the scheme, such as employment history, employment qualifications and medical certificate, will be requested directly from the employee or with their authorisation (informed consent) from other agencies in order to determine the eligibility and entitlement.

Eligibility

Personal information is also needed to determine the individual's eligibility to NZII. Information that will be needed to determine eligibility to the scheme includes information about people's travel movements[4], visa status, imprisonment status and NZII contribution history (based on PAYE earning history). To receive this personal information, ACC will set up information sharing arrangements with the agencies that hold this information, such as New Zealand Customs Service, Immigration NZ, Department of Corrections and Inland Revenue. This will be legislatively mandated sharing.

Entitlement

For NZII to determine entitlement to the scheme, personal information will be needed. Some of this information will be collected through information sharing authorised by legislation and some of this information will be requested directly from the employee or with their consent from other agencies.

Information that will be needed to determine entitlement includes personal information such as earnings details, employment type and work details. Part of this information is collected through legislatively mandated information sharing (e.g. information collected in previous stages such as PAYE and information from the NZII notification by the employer) and part of this information will be collected when the Scheme contacts the employee.

Return to work activities

The Scheme may require claimants to undertake return to work activities. To help people prepare for, find, and retain suitable employment, employment services may be provided. These services could be offered by the Ministry for Social Development (for those at risk of

[3] De-identified information will still be used to report on labour market statistics, regardless whether the employee wished to proceed with a claim.

[4] The default rule is that if a person leaves the country, their NZII payment stops – but there will be narrow and specified exemptions which allow people to be out of the country for up to 28 days, with discretion to extend this timeframe.

poor labour market outcomes), by Kaupapa Māori employment service providers or by other third-party providers. Other types of services, e.g. health services, could also be provided to support people with health conditions or disabilities to prepare or return to work.

For these services to be performing adequately, sharing of personal information from NZII to the providers will be needed. The collection of this personal information will be provided or obtained via authorisation (informed consent) from the individual concerned. Information will also be shared by the providers with NZII to meet the purposes of the scheme. This will be authorised by the legislation.

Termination of claim

Once a claimant gets a new job, it will be the responsibility of the claimant to inform the scheme of this change in circumstances. However, if the claimant fails to do so, the legislatively mandated information share between Inland Revenue and NZII of PAYE and levies paid will also allow for the scheme to become aware of changes in circumstances. In that case, the claimant will be contacted to verify the change in circumstance. One of the advantages of the information share will be that it would benefit claimants by helping them to avoid the risk of accumulating debt and/or potentially criminal liability.

Reporting purposes

There could be information sharing for scheme performance purposes, labour market statistics and policy purposes. This would be de-identified information.

Currently, only limited survey data on the number of employees losing their job due to economic displacement or health conditions or disabilities is available within New Zealand and as such, we acknowledge that the information share as discussed in this PIA leads to the collection of personal information not previously collected. Any information sharing of this information for reporting purposes would be de-identified information.

As noted before, de-identifiable information could also be shared with Māori for Kaitiakitanga / guardianship purposes (the extent to which Māori can exercise guardianship over Māori data). Although Māori could potentially re-identify this data due to the nature of this data and the set-up of iwi/ hapū, there are obligations under Te Tiriti o Waitangi and principles of Māori data sovereignty that require for this sharing of information.

Disputes and/or breach of responsibilities

As the bridging payment[5] and notice period[6] obligations will be established as new statutory employment provisions within the jurisdiction of the Employment Relations Employment Standards (ERES), disputes will be channelled into MBIE's dispute resolution services (early resolution and mediation services) in the first instance for resolution, before progression to the Employment Relations Authority (ERA) if required. This also means that an employee will have recourse to make a complaint to the Labour Inspectorate that their employer has breached an employment obligation.

Information sharing of personal information with ERES institutions such as MBIE's dispute and resolution services services, Labour Inspectorate and/or the ERA might be needed. They key piece of information that would need to be shared would be the employer's

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[5] Employers are required to make a four week 'bridging payment' to employees who are economically displaced.

[6] Employers are required to give four weeks' notice to employees before economic displacement takes effect.

confirmation to the scheme that an employee is economically displaced, as this would be the trigger for the bridging and notice obligations.

Correct entitlements to government benefits

In order to support correct entitlement to government benefits, personal information such as employee contact details and entitlement assessment might need to be shared with agencies such as MSD and Veterans' Affairs New Zealand.

ACC will be able to share information between the Accident Compensation scheme and NZII. NZII will be able to receive information regarding entitlement amounts and duration and whether a claimant is currently under one of the schemes, but specific information about a claim (such as medical details under an AC scheme claim) will not be accessible. There will be separate data stores capturing the information for each scheme, with an API running between them for data flows such as contact details, and entitlement amounts (where applicable). Health information captured by the AC scheme will be in an entirely different data store, which NZII will not have direct access to.

The information sharing to support correct entitlements to government benefits will be legislatively mandated sharing. The legislation prohibits adverse action by a specified agency against an individual on the basis of discrepancy as a result of information sharing unless that individual is given written notice and 5 working days to respond.

Information sharing for administrative purposes

Some information sharing for administrative purposes is needed. For example, if an individual becomes deceased, the scheme needs to receive information on the individual's date of death. Another example is when personal information needs to be shared between the Department for Corrections and NZII if a claimant is incarcerated. This will be legislatively mandated sharing.

Information sharing for identity verification

Information sharing for identity verification is also needed. It is proposed that RealMe[7] will be used - similar to how ACC currently verifies identities for Accident Compensation - involving information sharing with the Department of Internal Affairs. At this stage, there is no intention to use the Identity Check online system currently being piloted by the Department of Internal Affairs. This will be legislatively mandated information sharing.

Changes to information sharing

The scope of agencies and information categories could be altered over time as operational requirements change over time. Safeguards have been put in place for this:

- ACC must have a reasonable belief that the information to be shared under an agreement is necessary to carry out an NZII purpose and that the authorised purpose could not be met by using non-personal information (necessity test); and
- Consultation with the OPC would be needed; and
- It will be subject to a Cabinet agreed Order in Council

[7] For more information, please see https://www.realme.govt.nz/.

Key privacy risks

Relevant privacy principles

The information share for NZII impacts several privacy principles, the main ones being IPP 2 (source of information), IPP 10 (limits on use of information) and IPP11 (limits on disclosure of information).

The Income Insurance Bill states that ACC must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information under those provisions and compliance with the requirements of those provisions.

The table below outlines what we consider to be the key privacy principles the information share for NZII impacts upon. The full Privacy Risk and Mitigation Table is attached as Appendix 2 below.

Privacy Principle	Brief summary	Relevance
IPP 1	Only collect personal information if it is for a lawful purpose and the information is necessary for that purpose.	Agencies should not require identifying information if it is not necessary for their purpose. Having a clearly defined purpose makes it easier to respond to obligations under the other principles of the Privacy Act. Only information that is required for the purposes of NZII will be collected and shared. This will be done under the legal authority of the New Zealand Income Insurance Bill, in combination with individual authorization (informed consent). Any information sharing needed for NZII will be done on the basis of the principle of data minimalisation - the collection of personal information will be limited to what is directly relevant and necessary to accomplish NZII's purpose and policy intent. If any over-collection is unavoidable, the data that is not needed would be deleted.
IPP2	You should generally collect personal information directly from the person it is about.	As it is not always reasonably possible to collect personal information directly from the person it is about, agencies are allowed to collect this information from other people in certain situations. For example, if the person concerned gives permission; if collecting it in another way would not prejudice the person's interests; or if collecting information from the person directly would undermine the purpose of collection. The information sharing model will be a hybrid of legislative provisions and authorisation. Some information will be shared based on legislative provisions; some information will be sourced directly from individuals on the basis of informed consent (authorisation).
IPP3	When you collect personal information, you must take reasonable steps to	If an employee is economically displaced or unable to work for health conditions and disability reasons, the employer must notify NZII about this and will need to share information about the employee and its

Privacy Principle	Brief summary	Relevance
	make sure that the person know why it is being collected, who will receive it, whether giving it is compulsory or voluntary, what will happen if they don't give you the information.	circumstances with NZII. Employers are expected to inform the employee of this sharing of personal information unless this is not reasonably practicable in the circumstances of the particular case. Before an employer notifies NZII of the displacement, they will be responsible to ensure that the employee has received a privacy notice and understands what is being collected and for what purpose. The scheme will contact the employee to receive confirmation that the employee wants to lodge a claim. Employees will be explained what information is being collected, who will receive it, and what will happen if they don't give the information. Furthermore, the NZII website will have privacy content explaining in plain English what information will be collected, who will use it and for what purpose.
IPP8	Before using or disclosing personal information, you must take reasonable steps to check it is accurate, complete, relevant, up-to-date and not misleading.	Individuals will be contacted during the NZII claims process and will have the opportunity to validate their personal information.
IPP10	You can generally only use personal information for the purpose you collected it.	Personal information may be used in ways that are directly related to the original purpose or may be used in another way if the person gives permission. All agencies involved will be aware that the information can only be used to carry out a function of the NZII. It is proposed to have independent reviews and audits to ensure systems and processes for dealing with unauthorised and inappropriate use are adequate and operating satisfactorily.
IPP11	You may only disclose personal information in limited circumstances.	There are limited circumstances in which personal information may be disclosed, such as when disclosure is one of the purposes for which the information was collected; the person concerned authorised the disclosure; or the information will be used in an anonymous way. Personal information that is essential to administer NZII will be disclosed, based on legislative provisions in combination with individual authorisation. Any personal information sharing for the purpose of scheme performance monitoring, labour market statistics and scheme policy development will be de-identified and not published in a form that could

Privacy Principle	Brief summary	Relevance
		reasonably be expected to identify the individual concerned. It is proposed to have independent reviews and audits to ensure that systems and processes for protecting personal information from unauthorised and inappropriate disclosure are adequate and operating satisfactorily.

Openness and transparency

Transparency means ensuring agencies take reasonable steps to ensure individuals are made aware of how, and why, their information is being used and disclosed.

Under Information Privacy Principle 3 agencies are required to be open about the way they manage personal information collection. Being open and transparent about the information share and use of personal information for the NZII will assist anyone with sensitivities about this to feel confident that the information sharing for NZII will not put them at undue risk of harm.

To meet openness and transparency obligations:

- This Privacy Impact Assessment will be made public.
- Ministerial briefings, cabinet papers and submissions will be made public.
- The NZII website will have privacy content explaining in plain English what personal information will be collected, for what purposes and how personal information is being managed.
- The Memoranda of Understanding (MOUs) for information sharing between ACC and the other agencies will be made public.
- Employers will have the obligation to present the employee with a privacy statement before sending the employer notification, as will ACC when they contact the employee for additional information.
- There will be independent reviews and audits to ensure privacy systems and processes are operating satisfactorily.
- All agencies involved are signatories of the Algorithm Charter Aotearoa[8]. The Algorithm Charter is a commitment by government agencies to demonstrate transparency and accountability in the use of data.
- NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information under those provisions and compliance with the requirements of those provisions.

Open Data

Open data is data anyone can use and share. It has an open licence, is openly accessible, and is both human-readable and machine-readable. Open data[9]:

[8] Government Chief Data Steward, *Algorithm Charter of Aotearoa New Zealand*, https://data.govt.nz/toolkit/data-ethics/government-algorithm-transparency-and-accountability/algorithm-charter/
[9] New Zealand Government, *Open Data*, https://www.data.govt.nz/toolkit/open-data/

- Does not include private information about individuals (it is non-personal, unclassified and non-confidential).
- Is of high value, and contributes to economic, social, cultural or environmental growth.
- Provides transparency and illustrates the government's performance.
- Contributes to greater government efficiency through improved information sharing.
- Is collected, commissioned or created by a government agency in carrying out its everyday responsibilities.
- Is publicly funded.
- Can be freely used, re-used and redistributed by other agencies, and the public.
- Has an open licence for re-use (Creative Commons using NZGOAL).

New Zealand government agencies, by having approved the Declaration on Open and Transparent Government[10], are committed to actively releasing high value public data. This means that non-personal, unclassified and non-confidential information about NZII will be released.

Privacy Act requests

Under the Privacy Act 2020, individuals have the right to ask government agencies for personal information about them. Generally, a government agency must provide access to the personal information it holds about someone if the person in question asks to see it. People can only ask for information about themselves. The Privacy Act does not allow to request information about another person unless someone is acting on that person's behalf and have written permission.

The public sector agencies involved with NZII will follow current policies for individuals requesting access to their personal information.

Official Information Act requests

The Official Information Act (OIA) requires public sector agencies to provide official information, on request, except where a ground exists for refusal and that ground outweighs the public benefit to disclosure.

The public sector agencies involved with NZII will follow current policies for OIA requests.

Conclusion

We have taken a risk-based approach to information sharing for NZII.

To base the information sharing fully on authorisation is not reasonably practicable so a hybrid model of legislative provisions and authorisation has been developed. Only information for the purpose of NZII will be collected, shared and used and the Scheme will be open and transparent about this. For example, the proposed NZII website will have privacy content explaining in plain English what information will be collected, who will use it and for what purpose, and employers will have the obligation to present the employee with a privacy statement before sending the NZII notification.

Independent reviews and audits will ensure that systems and processes for protecting personal information are adequate and operating satisfactorily.

[10] New Zealand Government, *Declaration on Open and Transparent Government*, https://www.data.govt.nz/toolkit/policies/declaration-on-open-and-transparent-government/

NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information under those provisions and compliance with the requirements of those provisions.

Any information sharing needed for NZII will be done on the basis of the principle of data minimalisation - the collection of personal information will be limited to what is directly relevant and necessary to accomplish NZII's purpose. If any over-collection is unavoidable, the data that is not needed will be deleted.

The information share is *necessary* and *proportional* for NZII, and personal information will be used in a way that is *fair*. Without information sharing NZII would not be able to operate, only the personal data which is relevant for the purpose of processing is collected and processed and the data will not be processed in an unduly detrimental, unexpected or misleading way.

Appropriate mechanisms will be implemented to ensure that the privacy practices and controls of the involved agencies are adequate to be able to reasonably protect individual privacy.

With the safeguards outlined in this PIA and described in the Risk & Mitigation table (Appendix 2), we are of the opinion that personal information will be properly protected. We are comfortable that the information share for NZII will deliver benefits to individuals and are satisfied that those benefits outweigh any risks to individuals.

Appendix 1: Information sharing for NZII (draft)

Agency/ organisation/ individual	Purpose for sharing
Employer	Determine eligibility
Employee	Determine eligibility
ACC	Determine eligibility
IRD	• Information matching for calculation of levies • Information matching to confirm eligibility and calculation of compensation • Tax Administration
DIA	Information matching for identity validation
The Registrar-General, Births, Deaths and Marriages	Determine eligibility
MSD	• Support correct entitlement to government benefits • Case Management/Return to work planning
MBIE	• Confirm eligibility • Scheme performance monitoring
Ministry for Corrections	Confirm eligibility
Customs NZ	Confirm eligibility
Health NZ	Confirm eligibility
Veterans' Affairs, New Zealand Defence Force	Support correct entitlement to government benefits
Stats NZ	Scheme performance monitoring and labour market statistics
The Treasury	Scheme performance monitoring and labour market statistics
Community providers/ partners	Case Management/Return to work planning
Employment Relations Authority	Operation of NZIIS - manage scheme integrity
Labour Inspectorate	Operation of NZIIS - manage scheme integrity
MBIE employment services	Operation of NZIIS - manage scheme integrity

Purpose Description
Maintain accurate levying to ensure equitable sharing of scheme costs and avoid customer government debt accumulation
Ensure accessibility by minimising the information provision requirements on businesses and customers
Ensure customer eligibility for the scheme and manage scheme integrity by accurately paying claim entitlements
Support correct and full tax collection and entitlement to government benefits
Case management and return to work planning/assistance
Scheme performance monitoring and labour market statistics

DRAFT

Appendix 2: Privacy Risk and Mitigation table

Assessment of potential risks and possible mitigations to reduce or manage adverse effects

Principle 1: Purpose of collection of personal information

Ref. no.	Purpose of collecting the information	Description of the risk	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual current risk	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-1.1	The personal information collected will be necessary for the purpose of fulfilling its lawful purpose, as will be set out in legislation.	Collecting personal information without lawful authority and/or lawful purpose would be in breach of the Privacy Act 2020 and could result in privacy related harms for individuals.	N/A	Only personal information that is required for the purposes of the scheme will be collected and shared. As the information share will be under the legal authority of the New Zealand Income Insurance Bill, the information share will not impact compliance with IPP1.	N/A	N/A	N/A

Principle 2: Source of personal information

Ref. no.	Source of personal information	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual current risk	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-2.1	IPP2 notes that personal information must be collected from the individual concerned, unless certain subclauses apply.	Individuals may not be aware that personal information has been collected, who will use it or what it will be used for.	To base the information share only on authorisation is not practicable to execute the scheme and for this reason, the information share will be based on legal provisions combined with authorisation.	IPP 2, subclause (2)(f) is one of the exemption clauses to IPP2 and notes that it is not necessary for an agency to comply with IPP2 if that compliance is not reasonably practicable in the circumstances of the particular case.	medium	The proposed NZII website will have privacy content explaining in plain English what information will be collected, who will use it and for what purpose.	low

				The information sharing model is a hybrid of legislative provisions and authorisation. Some information will be shared based on legislative provisions; some information will be sourced directly from individuals on the basis of informed consent (authorisation). To base the information share fully on authorisation is not reasonably practicable. There will be a necessity test within legislated information sharing provisions that requires both ACC and agencies receiving information sharing requests to have a reasonable belief that the information is covered by a category outlined in a legislative schedule is necessary for ACC to carry out the purpose conferred to ACC by the Act, and that the authorised purpose could not be met by using non-personal information.			
R-2.2	IPP2 notes that personal information must be collected from the individual concerned, unless certain subclauses apply.	Potential risks associated with data entry issues at all stages of the NZII process.	Client details not captured accurately, which may result in incorrect individual being contacted, mistakes in entitlement and eligibility, other	Individuals will be contacted during the process and can validate their personal information.	low	n/a	low

			mistakes in NZII process.				
R-2.3	IPP2 notes that personal information must be collected from the individual concerned, unless certain subclauses apply.	Individuals may not be aware that personal information has been collected, who will use it or what it will be used for. Indirect collection of personal information may perpetuate and compound any errors that are already in the data.	Any personal information sharing for the purpose of scheme performance monitoring, labour market statistics and scheme policy development will be de-identified and not published in a form that could reasonably be expected to identify the individual concerned.	IPP2(g)(i) and (ii) allows for the sharing of de-identifiable information for statistical or research purposes, as do other clauses in the Privacy Act 2020 such as IPP11(2)(h)(i) and (ii).	low	n/a	low

Principle 3: Collection of personal information from the subject

Ref. no.	Telling the individual what you're doing	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual current risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-3.1	Organisations must be open about why they are collecting personal information and what they will do with it.	Employers fail to provide the individual with notice about the personal information it collects for the purpose of NZII notification.	A failure to provide the individual with notice reflecting negatively on the trust individuals will have in employers and in the administration of the NZII.	If an employee is economically displaced or unable to work for Health Conditions and Disability reasons, the employer must notify NZII about this and will need to share information about the employee and its circumstances with NZII. The employer will be responsible to ensure that the employee has received a privacy notice and understands what is being collected and for what purpose.	low	The proposed NZII website will have privacy content explaining in plain English what information will be collected, who will use it and for what purpose. Employers will have the obligation to present the employee with a privacy statement before sending the employer notification, as will ACC when they contact the employee for additional information.	low
R-3.2	Agencies must provide notice to the individuals concerned	ACC fails to provide the individual with notice about the	A failure to provide the individual with notice would reflect	Once the Scheme gets in touch with the individual, any	low	Ministerial briefings, cabinet paper and	low

	about the personal information it collects.	personal information it collects.	negatively on the trust individuals will have in the administration of the scheme by ACC.	additional information needed will be sourced directly from the individual or from agencies on the basis of individual authorisation. The Scheme will be transparent about the information that will need to be collected, for what purpose, under what legal authorisation, the consequences if the individual fails to provide the requested information and the rights of access to, and correction of, information provided.		submissions will be publicly available. This PIA will be made publicly available. The proposed NZII website will have privacy content explaining in plain English what information will be collected, who will use it and for what purpose. Employers will have the obligation to present the employee with a privacy statement before sending the employer notification, as will ACC when they contact the employee for additional information. There will be independent reviews and audits to ensure privacy systems and processes are operating satisfactorily. All agencies involved are signatories of the Algorithm Charter Aotearoa, committing to demonstrate transparency and accountability in the use of data. NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of	

						information, including on the treatment of personal information under those provisions and compliance with the requirements of those provisions.	

Principle 4: Manner of collection of personal information

Ref. no.	How you are collecting personal information	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-4.1	Agencies must not collect personal information in ways that are unlawful or, in the circumstances, unfair or unreasonably intrusive.	Legislative provisions are needed to ensure the information collection is lawful.	Unlawful, unfair or unreasonably intrusive information collection could reflect negatively on the trust individuals will have in the administration of NZII.	The information sharing model will be a hybrid model of legislative provisions and authorisation. The Office of the Privacy Commissioner is being consulted on the proposed information share as is the Iwi Leaders Group. Individuals will have the opportunity to provide feedback on the proposed information share during the Select Committee process. There will be a necessity test within legislated information sharing provisions that requires both ACC and agencies receiving information sharing requests to have a reasonable belief that the information is covered by a category outlined in a legislative schedule	low	n/a	low

				is necessary for ACC to carry out the purpose conferred to ACC by the Act, and that the authorised purpose could not be met by using non-personal information.			

Principle 5: Storage and Security of personal information

Ref. no.	How you are storing and securing personal information	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-5.1	Personal information must be adequately stored and secured to protect agencies, and the individuals whose information they're holding, from harm.	Personal information may be inappropriately accessed, and unauthorised or inappropriate access may not be identified, reported and acted upon in a timely manner. Personal information may be inappropriately accessed as a result of inadequate system security measures for data collection, storage or disposal.	Unauthorised access to personal information may lead to unauthorised use or disclosure or to misuse.	Appropriate mechanisms will be implemented to ensure that the agencies involved all have adequate security processes in place.	low	After the Independent review into access and use of client information at ACC (June 2022), ACC is taken comprehensive action to ensure that it is taking good care of the personal information it holds and collects.	low

Principles 6 and 7: Access to and correction of information

Ref. no.	Responding to people's requests for information about themselves, or requests to correct information about themselves	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-6.1	Agencies must respond to access and correction requests in compliance with IPP6 and IPP7 and within	The information sharing for NZII does not impact on compliance with IPP6 and IPP7.	n/a	All agencies involved with NZII will follow current policies for individuals requesting access to or	n/a	n/a	n/a

	Privacy Act 2020 timeframes.			correction of their personal information.			

Principle 8: Accuracy etc. of personal information to be checked before use

Ref. no.	What steps do you take to check the accuracy, relevance etc of personal information before you use it?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-8.1	Agencies must take reasonable steps to ensure that personal information is accurate etc before using or disclosing it.	Agencies use inaccurate, out of date, incomplete, irrelevant or misleading personal information to determine individual's eligibility and entitlements.	Using incorrect information could lead to adverse actions for the individual concerned.	Only personal information necessary to fulfil the lawful authority and lawful purpose is collected. Individuals will be contacted during the process and can validate their personal information. Individuals will also have the opportunity to contact the Scheme themselves instead of having to wait for the Scheme to contact them. All agencies involved with the information share are signatories of the Algorithm Charter Aotearoa.	low	Exceptions (when compared to the validation source) will be investigated and resolved. An independent review and audit to ensure adequate and satisfying processes for the collection and maintenance of personal information is accurate, current, complete and relevant. An independent review and audit to ensure that models, algorithms & rules used in automated decisions making and other data driven methods are adequate and operating satisfactorily. NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information	

						under those provisions and compliance with the requirements of those provisions.	

Principle 9: Agency not to keep personal information for longer than necessary

Ref. no.	How long do you keep personal information and why?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-9.1	Agencies must retain personal information only as long as necessary, in accordance with Public Records Act and Official Information Act.	The information sharing for the NZII does not impact on compliance with IPP9.	n/a	ACC has retention and disposal schedules authorised by the Chief Archivist in accordance with the Public Records Act.	n/a	n/a	**n/a**

Principle 10: Use of information

Ref. no.	What are you going to use the personal information for?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-10.1	Agencies must ensure that the personal information it holds is used only for the purposes for which it was collected. In this case, the information is being collected for NZII.	Agencies could use personal information about individuals for other purposes not related to the purposes for which the information is being collected (the NZII). Individuals may be surprised or distressed by any unanticipated secondary use and any implied 'consent' to a secondary use may not be valid.	Unauthorised use of personal information could put agencies in breach of IPP10. This could cause harm to individuals and to the agency's reputation.	All agencies involved will be aware that the information can only be used to carry out a function of the NZII. ACC will have separate systems capturing the information for the AC scheme and the NZII scheme, with an API running between them for data flows such as contact details, and entitlement amounts (where applicable). Specific information about a claim (such as medical details under an AC scheme	medium	An independent review and audit to ensure systems and processes for dealing with unauthorised and inappropriate use are adequate and operating satisfactorily. NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information under those	low

				claim) will not be accessible.		provisions and compliance with the requirements of those provisions.	

Principle 11: Disclosure of information

Ref. no.	Who are you going to disclose the personal information to (if anyone) and why?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-11.1	Under IPP11, agencies may disclose information if it is one of the purposes in connection with which the information was obtained or is directly related to the purposes in connection with which the information was obtained.	Information that was collected for the purpose of NZII is being disclosed to other agencies for another purpose than NZII.	Individuals will be unaware that their personal information was disclosed to an agency unrelated to NZII. This could undermine the public trust in the agencies involved.	The information shared can only be used to carry out a function of the NZII.	medium	An independent review and audit ensures that systems and processes for protecting personal information from unauthorised and inappropriate disclosure are adequate and operating satisfactorily. NZII must report to the Office of the Privacy Commissioner on the operation of the provisions of the Act concerning the collection, use, and disclosure of information, including on the treatment of personal information under those provisions and compliance with the requirements of those provisions	low
R-11.2	IPP11 notes that personal information must not be disclosed to any other agency or to any person unless certain subclauses apply.	Information that was collected for the purpose of NZII is being disclosed to other agencies for another purpose than NZII.	Any personal information sharing for the purpose of scheme performance monitoring, labour market statistics and scheme policy development will be de-identified and not	IPP11(h)(i) and (ii) allows for the disclosure of de-identifiable information for statistical or research purposes, as do other clauses in the Privacy Act 2020	low	An independent review and audit to ensure that systems and processes for de-identifying personal information are adequate and	Low

			published in a form that could reasonably be expected to identify the individual concerned.	such as IPP2(g)(i) and (ii).		operating satisfactorily.	
Principle 12: Disclosure of personal information outside New Zealand							
Ref. no.	Why are you going to disclose personal information outside New Zealand?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-12.1	No personal information will be disclosed outside New Zealand.	The information sharing for NZII does not impact on compliance with IPP12.	n/a	n/a	n/a	n/a	**n/a**
Principle 13: Use of Unique Identifiers							
Ref. no.	Why do you need a unique identifier, and are you allowed to use this one?	Description of the risk identified	Rationale and consequences for the agency or individual	Existing controls that contribute to manage risks identified	Assessment of residual (current) risk recognising current measures	Recommended additional actions to reduce or mitigate risk	Residual risk remaining despite new safeguards
R-13.1	No unique identifiers created by other agencies will be assigned.	The information sharing for NZII does not impact on compliance with IPP13.	n/a	n/a	n/a	n/a	**n/a**

Annex 5 – Disclosure Statement

Disclosure Statement

Legal professional privilege

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