MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

AIDE MEMOIRE

Social unemployment insurance- costings and communications advice

Date:	13 August 2021	**Priority:**	High
Security classification:	In Confidence	**Tracking number:**	2122-0542

Information for Minister	
	Deadline
Rt Hon Jacinda Ardern **Prime Minister**	16 August 2021
Hon Grant Robertson **Minister of Finance**	
Hon Chris Hipkins **Minister of Education**	
Hon Carmel Sepuloni **Minister for Social Development and Employment**	
Hon David Parker **Minister of Revenue**	
Hon Stuart Nash **Minister for Economic and Regional Development**	
Hon Michael Wood **Minister for Workplace Relations and Safety**	

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Jivan Grewal	Policy Director, Employment, Skills and Immigration Policy	Privacy of natural persons		✓
Lexi Yee	Graduate Policy Advisor, Skills and Employment Policy	-	-	

The following departments/agencies have been consulted
The Treasury, MSD, IRD, DPMC

Minister's office to complete:

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☐ Overtaken by Events ☐ See Minister's Notes ☐ Withdrawn

Comment

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Social unemployment insurance- costings and communications advice

Date:	13 August 2021	**Priority:**	High
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Purpose

The purpose of this note is to provide Ministers with updated advice on costings and to present the communications campaign plan that will be used to support public consultation. SUIGG Ministers are meeting on 16 August.

Privacy of natural persons

Jivan Grewal
Policy Director, Employment, Skills and Immigration Policy
Labour, Science and Enterprise, MBIE

13 / 08 / 2021

Background

1. The Social Unemployment Insurance Working Group provided the Minister of Finance and SUIGG with early evidence about the potential cost of SUI in May. This advice noted, however, that these figures understated the full cost of the scheme because they did not incorporate any behavioural responses to the scheme (2021-3686 refers).

2. Since then, the Working Group has worked to understand better patterns of

    - worker displacement
    - behavioural changes that could be generated by the Scheme
    - the applicability of international experiences and evidence impacts of the levy on workers and businesses.

3. Extensive modelling has been undertaken using Treasury's Tax and Welfare Analysis model (TAWA).

4. For the meeting on 16 August, the Working Group will provide preliminary advice on more refined estimated costs, the proposed approach to funding the scheme, and the impact of the levy for families, business, and the wider economy (annex one).

5. The note also discusses the communications campaign that outlines the approach to communications, marketing and engagement.

Next steps

6. Following the meeting of SUI Ministers on Monday 16 August, the project team intends to provide the SUIGG with updated information on the impacts of the proposed approach and the likely risks ahead of the SUIGG meeting.

7. Cabinet will be invited to consider the near-final discussion document on 13 or 20 September, and the Tripartite Forum is expected to endorse the discussion document for public release at its meeting on 23 September.

Annexes

Annex one: Briefing to the Social Unemployment Insurance Governance Group Ministers.

To: Social Unemployment Insurance Governance Group Ministers

CC: Richard Wagstaff, President, New Zealand Council of Trade Unions

Kirk Hope, Chief Executive, Business New Zealand

From: Social Unemployment Insurance Working Group

Date: 13 August 2021

Briefing: Costings and communications advice

Purpose

1. To provide you with preliminary advice on more refined estimated costs for the Social Unemployment Insurance scheme (SUI) scheme, the proposed approach to funding the scheme, and the impact of the levy for families, business, and the wider economy.

2. To present the communications campaign plan that will be used to support public consultation. SUIGG Ministers are meeting on 16 August.

Executive Summary

Costings

3. Estimating the cost of the scheme, and its financial impact on employers and workers, is important for public engagement. We expect public and business support for the scheme to be sensitive to its overall cost as well as its benefits. It will also be important to understand the impact that the levy will have in the wider economic and social contexts.

Costings and assumptions

4. More detailed costs have now been modelled based on assumptions from the Working Group and Treasury through the Treasury's Tax and Welfare Analysis Model (TAWA). Note that this is not the standard type of modelling that TAWA undertakes so the outputs are presented differently than would otherwise be the case. These are early figures and may be subject to revision. These early TAWA results are provided below in Table 1. Some distributive analysis will also be available in the coming week.

5. All options presented in this paper have calculated the potential levy rate on the following basis:

(Eligible population x take up) x income x replacement rate x duration of cover

6. There are three different methods presented, with corresponding levy rates for economic displacement and work loss due to a health condition or disability. The strengths and weaknesses of each method are set out below.

7. The use of three methods to determine costs was adopted because a number of assumptions need to be made to estimate the behavioural response to the introduction of SUI into the labour market. There are a number of different judgments that can be applied to costing the scheme.

8. The key judgments that are needed are:

   a. *What is the likely take up of the scheme?*

      The current level of redundancies in New Zealand is not known. In addition it is not clear how people would react to the availability of a SUI scheme should they lose their jobs. Different assumptions about the take up have been modelled based on assumptions about the base level of redundancies; differences in the expected behavioural response to the welfare system versus a SUI scheme; and comparing against the parameters of comparable schemes internationally.

   b. *What is the likely average income for SUI claimants?*

      It is also unclear which jobs are likely to be most affected by displacement in the future and as such, what the income distribution of claimants will be. Historical data about redundancies suggest that the average income for displaced workers are closer to minimum wage levels. However, behavioural changes (by firms and individuals) may see a distribution that has a higher average income. To account for this uncertainty, an alternative approach is to use an average income closer to the median wage.

   c. *How long is the average duration that people will likely spend on the scheme?*

      While we have good information about the duration people currently spend on the benefit (the observed group) and can apply some parameters about the expected behavioural response to a more generous scheme, we are less able to model the impact of a scheme on people who historically have not spent any time in unemployment (the unobserved group). Options here include creating a de minimus duration of cover or to apply the average from the observed group

9. The three approaches presented in this paper highlight the impact of the different assumptions in each of those areas on the costings.

10. The levy rate itself will be made up of:

    a. The cost of income replacement for redundancy and work loss due to HCD.[1]
    b. The administration costs for running the scheme.

11. The outcomes of the different methods are set out below (assuming there is a bridging payment but no extension):

[1] Note that the costs calculated for HCD cover self-employed as well. How that amount is split between contracting parties has not been accounted for in the presented employee/employer levies.

Method	7 month scheme	9 month scheme
1 (New Zealand data plus elasticities)	**Total – 1.21%** Total cost - $1.5b (Redundancy – 0.60%, HCD – 0.61%), (Employee/ employer levy = 0.61%)	**Total – 1.57%** Total cost - $1.96b (Redundancy – 0.80%, HCD – 0.77%), (Employee/employer levy = 0.79%)
2 (NZ data for redundancy and international data for HCD)	**Total – 1.56%** Total cost - $2.0b (Redundancy – 1.00%, HCD – 0.56%), (employee/ employer levy = 0.78%)	**Total – 2.05%** Total cost - $2.6b (Redundancy – 1.33% HCD – 0.73%), (employee/ employer levy = 1.03%)
3 (International benchmark applied to NZ data)	**Total – 2.90%** Total cost - $3.6b (Redundancy – 1.85%, HCD – 1.05%), (employee/ employer levy = 1.45%)	**Total – 3.90%** Total cost - $4.9b (Redundancy – 2.55%, HCD – 1.35%), (employee/ employer levy = 1.95%)

Table 1: summary of levy costs associated with different methods
N.B Levy figures shown here will be split equally between employers and employees. These are preliminary TAWA model results and may be subject to revision. None of these figures include GST (which will need to be added).

12. In the short-term, we have little information about the likely uptake of the scheme and therefore the real cost of the scheme. Over time we expect to be able to get better trend data on engagement with the scheme which will inform the setting of future levy rates. However, in the absence of good starting information, Ministers have choices about where to set the indicative levy rate.

13. The Working Group is still considering the implications of the results of the TAWA modelling and will provide further advice in advance of the SUIGG meeting on 27 August. While Method 1 estimates a lower cost impost on households and businesses, it risks underestimating the cost and requiring both additional Crown funding and significant levy increases. Method 3 reflects a more prudent approach, but could impose a significant impost on households and businesses. We also note that Method 3 uses international comparators, which may be different to the New Zealand experience given the different scheme design and contexts.

14. We also note that this document only presents the costs. It does not outline the broader benefits of the scheme. It also does not outline the fiscal offsets with each method. The project team is still working through these and will provide SUIGG with updated information. A decision will need to be made about how such fiscal offsets are used (including whether it should be used to reduce the costs of the levy).

Impact of policy design variations

15. Ministers have indicated that they wish to test public views on both the bridging payment and extendibility. Both dimensions will have an impact on costings. This paper sets out an outline of those policy design options on the levy rates. This has modelled on the

basis of the second method for simplicity, but can be updated following Ministerial feedback on their risk appetite on the assumptions. This suggests the following impacts if Method 3 is applied (using the international comparators):

	6 months	**8 months**
No bridging payment	3.04%	4.05%
Base + bridging payment	2.9% (7 months)	3.9% (9 months)

16. We have not been able to model the costs of extendibility. This is because of the limited information that is available about how such an extendibility measure affects take-up and duration. However, we have modelled the costs of a general 12 month scheme. Under method 3, this would amount to a levy of 6.04% without bridging and 5.36% with bridging. This is likely to reflect a significant over estimate of extendibility and introducing an extendibility mechanism will only see a small proportion of that amount realised. The number has been provided to give Ministers a sense of an absolute outside limit.

Levy impacts

17. The levy will have direct financial impacts on employers and workers which will vary for different income levels and employment relationships (which may result in different broad distributional impacts, such as by age and ethnicity).

General approach to presenting levy rates

18. The Working Group considers that there are advantages of using a single levy figure in the discussion document, so that workers and businesses can better weigh the cost and the benefit of the scheme. A single levy figure will need to be complemented with a clear articulation of the impact of the change of particular policy parameters on the levy rates (e.g. explaining the levy the impact of including extendibility to 12 months) so that submissions can weigh the relative benefits of scheme design choices.

19. A risk of providing a single cost estimate and levy rate is that it suggests a degree of certainty. In reality, these cost estimates have a significant degree of uncertainty and may significantly change when the scheme is introduced and over the economic cycles. If this approach is preferred, it will be important for the discussion document to highlight the uncertainties in the costings and note the risks that levy rates could rise if the actual costs of the scheme exceed those modelled.

20. An alternative option is to present a range of costs; this could better reflect this uncertainty and that the levy may change, but it would make it more difficult for workers and businesses to engage on the basis of a firm cost. It, however, would better enable Ministers to reserve decisions and better gauge the impact of the levy following consultation.

Next steps

21. While this paper intends to provide Ministers with a preliminary view of the levy and its impacts, the project team intends to provide the SUIGG with updated information on the impacts of the proposed approach and the likely risks ahead of the SUIGG meeting on 27 August.

Communications, marketing and engagement approach

22. SUI's public consultation requires a broad approach that reaches as many New Zealanders as possible. This will help ensure awareness of the proposals and the rationale for the scheme, give more people a chance to have their say, and test the social licence for a scheme.

23. There are plans to engage directly with Māori, given the Crown's Treaty obligations and the principle of partnership in consultation. Consultation will also cater to a wide audience by translating a summary of the discussion document into different languages and be available in audio and braille.

24. The working group recommends a different name for this piece of work to help drive interest and engagement, and to be clear the proposal is for a mandatory, government-run scheme.

25. The communications and engagement plan requires funding which will be considered by Cabinet in September. The working group believes communication and engagement activities should be undertaken soon, while stakeholders have greater ability to engage.

Recommendations

The Social Unemployment Insurance Working Group recommends that you:

Costings

1. **Note** the contents of this briefing.

Noted

2. **Discuss** the contents with officials at the SUI ministers meeting on 16 August.

Yes / No

Communications, marketing and engagement approach

3. **Note** the project team a broad approach that reaches many New Zealanders.

Noted

4. **Note** that due to the short turnaround between decisions being made and the intended launch in late September, not all accessible versions of the summary document may be ready in time for launch.

Noted

5. **Agree** that, for the purposes of the discussion document, to describe this work as 'A government employment insurance scheme for New Zealand workers', shortened to 'employment insurance' in repeat mentions.

Agree / Disagree / Discuss

6. **Note** that further work will be done on the final name for a scheme, and we will provide advice early in 2022.

Noted

Jivan Grewal

Lead, Social Unemployment Insurance Working Group

12 / 08 / 2021

Rt Hon Jacinda Ardern
Prime Minister

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Hon Grant Robertson
Minister of Finance

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Hon Chris Hipkins
Minister of Education

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Hon Carmel Sepuloni
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Hon Michael Wood
Minister for Workplace Relations and Safety

Richard Wagstaff

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President, New Zealand Council of Trade Unions

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Kirk Hope
Chief Executive, Business New Zealand

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Costings

Background

2. The Working Group provided the Minister of Finance and SUIGG with early evidence about the potential cost of SUI in May. This advice noted, however, that these figures understated the full cost of the scheme because they did not incorporate any behavioural responses to the scheme.

3. Since then, the Working Group has undertaken work to better understand patterns of worker displacement, behavioural changes that could be generated by the Scheme, the applicability of international experiences and evidence, and the impacts of the levy on workers and businesses. Extensive modelling has been undertaken using Treasury's Tax and Welfare Analysis model (TAWA).

4. The Working Group is now able to provide preliminary view on the outcomes of the TAW modelling.

5. Although the TAWA model is robust, the resulting cost still relies on a number of assumptions being made as inputs to the model, about historical data and behavioural changes. In addition, the costings have been developed at pace, and should be considered preliminary and may be subject to revision upon further quality assurance work.

6. One of the largest limitations the model faces is that we do not have an accurate estimate the number of redundancies or job losses (and reductions in hours) due to health conditions and disabilities, or the level of income these workers earn before being displaced form work. Using international benchmarks can overcome limitations or gaps in New Zealand data (in part because overseas labour markets already incorporate behavioural responses), but international data may not accurately reflect New Zealand's labour market or cultural characteristics. In addition, we note that there are scheme differences between what is proposed in New Zealand and the international comparators that could make such comparators less relevant. For example, we note that the Massachusetts scheme has a different scope of coverage for job loss than is proposed here.

7. There are also no clear predictions for how workers' behaviours will change as a result of introducing the scheme. The costing methodologies make assumptions about behavioural changes in three categories:

    a. The expected level of take-up for the scheme among workers as a result of economic displacement and work loss due to HCD.

    b. The duration people will spend on the scheme between jobs.

    c. Average pre-displacement earnings.

8. The judgments required mean there are multiple feasible methods of estimating the cost of the scheme, and in this advice the Working Group has set out three approaches which each take different underlying assumptions.

9. While the cost of the scheme (comprising the income replacement cost and administration cost) will make up most of the levy, Ministers have a choice in relation to an additional margin added to the levy to mitigate uncertainty in the cost predictions. The nature of the funding model is an important part of this decision and further advice is provided on this in this paper.

Costings and assumptions

10. To estimate the liabilities for claims, the working group have calculated the potential costs on the following basis:

    (Eligible population x take up) x average income x replacement rate x average duration of cover

11. The terms were defined in our assessment as follows:

    a. *Eligible population* – numbers of people who meet the requisite policy triggers (ie. those who are made redundant or those who are expected by a health professional to experience a health condition or disability that lasts for a minimum of four weeks and results in a reduction of work capacity of 50% or more)

    b. *Take up* – the proportion of the eligible population that are likely to claim SUI

    c. *Average income* – the average income of those who claim SUI

    d. *Replacement rate* – 80% of pre-displacement income

    e. *Average duration of cover* – the amount of time a person spends on the scheme following displacement.

Behavioural changes

12. Introducing a SUI scheme would be one of the largest changes to New Zealand's labour market in a generation. To achieve the scheme's purpose, a certain level of behavioural change is expected and desirable, for instance:

    a. More workers affected by health conditions or disabilities may decide to stop work or reduce hours, which could lead to better outcomes for health and wellbeing.

b. Some workers may decide not to take a new job immediately after becoming redundant when they otherwise would have, or choosing to take longer to search for a new role, which could lead to a better job match.

13. Some behavioural changes are less desirable and have the potential to increase the cost of the scheme, for instance:

    a. Employers may be more likely to 'use' redundancies to dismiss workers, knowing the employees would be able to access SUI.

    b. Workers and employers may 'negotiate' a redundancy when a worker departs a job, when that departure is for other reasons, such as performance.

    c. Some short-term roles that would have otherwise been fixed-term contracts may be offered as permanent roles, with the understanding that they will be followed by redundancy after a period of time.

14. Other behavioural impacts are harder to predict, including how medical practitioners will conduct medical assessments for access to the HCD scheme, for instance whether they can accurately identify an illness that is likely to reduce work capacity for 30 days or more.

15. While we know that introducing a scheme such as SUI will create certain incentives, we cannot be certain about the exact level of behavioural change for the purposes of modelling. In general, there is a correlation between the generosity of the scheme (both in terms of payment level and duration) on the scale of the behavioural change. In addition, given the limitations of New Zealand data, we have had to work out reasonable assumptions to include as proxies.

16. The key judgments needed are:

    a. What is the likely take up of the scheme?

    b. What is the likely average income for SUI claimants?

    c. How long is the average duration that people will likely spend on the scheme?

Take up

17. The project team has modelled three different set of assumptions that could be used to estimate likely take up of the scheme for each of economic displacement and work loss due to HCD.

18. For economic displacement we used data from the HLFS about the numbers of people reporting some gap in their employment as a result of redundancy. This indicates that there are approximately 52,500 redundancies that currently result in a spell of unemployment of a month or more (the observed group). However, this figure does not account for redundancies that currently do not result in unemployment (i.e. if the person finds alternative employment before the end of the employment) (the unobserved group). While some of this cohort will continue to find alternative employment quickly (people receiving welfare payments are incentivised to try to find a job quickly, although not all are able to) a proportion of this group is likely to change their behaviour and enter the

scheme. We expect the total number of redundancies to be approximately 115,000 per annum.

19. To estimate the numbers of people who fall into these categories the project team applied a range of assumptions drawing on the international estimates of how individual's behaviour adjusted to changes in generosity of schemes.

    a. Method 1 assumes a small proportion of the observed group will not apply for the scheme (for example, if a person with a primary job loses incidental work), while method 2 assumes this entire cohort takes up SUI entitlements.

    b. Method 1 also applies a smaller behavioural adjustment to the unobserved group in comparison to method 2.

    c. Method 3 uses international comparators and effectively applies take up rates in overseas jurisdictions to the NZ workforce.

20. For a 6 month scheme (not including a bridging payment) for economic displacement, the three methods produce the following take up rates[2]: The CTU consider that method 3 significantly overstates the number of claims, as the Massachusetts scheme has a wider eligibility in 'no fault' job loss (which includes resignations, reductions in hours and some other dismissals for performance).

Method 1	***Method 2***	***Method 3***
59,716 claims	87,696 claims	134,550 claims

21. For work loss due to HCD, we used a similar approach of starting with the HLFS data and extrapolating from there on the one hand and using international comparators on the other.

    a. Method 1 uses the HLFS data about the number of people receiving Jobseeker Support – Health Conditions and Disability as a starting point and uses an elasticity to estimate the likely take up.

    b. Method 2 uses a Danish comparator but limits it to people who are in the Danish system for more than 30 days (as a proxy for our proposed requirement that the requirement that illnesses be of a minimum duration of 4 weeks).

    c. Method 3 uses the same Danish comparator but only excludes those who are in the system for 1 week or under.

22. For a six month scheme for work loss due to HCD, the three methods produce the following take up rates, counting full (not partial) loss of work:

[2] These numbers estimate how many claims there would be with a 6 month scheme using the same methodology used to calculate claims for a 7 month scheme with a bridging payment. As a result, the actual number of claims is likely to be higher that what is presented here, because removing the bridging payment may result in more claims being made (see para 55).

Method 1	***Method 2***	***Method 3***
54, 200 claims	103, 000 claims	204,000 claims

Average income

23. The observed average incomes for workers who have historically been displaced is lower than average wages. The Household economic survey suggests that the average monthly income for those who are made redundant is approximately $4,200. For work loss due to HCD the average monthly salary is $2,680. This figure has been used for Methods 1 and 2. The New Zealand mean monthly wage (approximately $5,040) is used for method 3.

24. We have used two different assumptions because it is uncertain what the likely income distribution would be for future displacements.

Average duration

25. For those who already experience a gap in employment of one month or more (the observed group), the average duration unemployed is approximately 4.25 months. Given the scheme's generosity over the status quo of the welfare system, we have applied an elasticity within the TAWA model. However, as duration would be capped at 6 months (for a 6 month scheme), this serves as a natural limit to any behavioural response.[3]

26. Method 1 applies a lower elasticity than method 2. For the unobserved group, Method 1 applies a *de minimus* duration (1 month) and Method 2 applies a 50% of the average duration of the observed group.

27. Method 3 begins with a higher base duration (4.5 months) drawn from an employment insurance scheme in Massachusetts. Given the generosity of this scheme over the New Zealand welfare system, however, the elasticity applied is assumed to be higher than method 1 (approximately 61%). This applies equally for both the observed and unobserved groups).

28. This results in the following assumptions about the average duration for economic displacement for each method:

Method 1	***Method 2***	***Method 3***
2.9 months	3.8 months	4.9 months

29. For work loss due to HCD, we used a similar approach of starting with the HLFS data and extrapolating from there on the one hand and using international comparators on the other (in the same way as is done for the take up). For each method this results in the

[3] Note

following assumptions about the average duration for claimants for work loss due to HCD for each method:

Method 1	***Method 2***	***Method 3***
4 months	2.9 months	2.1 months

30. Note the average durations are generally shorter than the baselines because it accounts for the unobserved group who are likely to bring the average down (even where the observed cohort are experiencing longer time in unemployment).

31. Further detail is contained in Annex A, B and C.

The approaches anticipate different costs of the scheme and associated levies

32. The levy rate itself will be made up from:

    a. The cost of income replacement for redundancy and work loss due to HCD.

    b. The administration costs for running the scheme.

33. Administration costs are included as a 9.5% loading on the claims costs calculated for each of the estimates. The administration costs are mainly driven by ongoing staffing requirements, which will ultimately be determined according to claims numbers, case-mix and the intensity of the case-management approach adopted. The loading applied to the estimates is conservative, but variation in this component has little bearing on the overall costings.

34. The outcomes of the different methods are set out below (assuming that there is no provision either for a bridging payment or extension):[4]

Method	**7 month scheme**	**9 month scheme**
1 (New Zealand data plus elasticities)	**Total – 1.21%** Total cost - $1.5b (Redundancy – 0.60%, HCD – 0.61%), (Employee/ employer levy = 0.61%)	**Total – 1.57%** Total cost - $1.96b (Redundancy – 0.80%, HCD – 0.77%), (Employee/employer levy = 0.79%)
2 (NZ data for redundancy and international data for HCD)	**Total – 1.56%** Total cost - $2.0b (Redundancy – 1.00%, HCD – 0.56%), (employee/ employer levy = 0.78%)	**Total – 2.05%** Total cost - $2.6b (Redundancy – 1.33% HCD – 0.73%), (employee/ employer levy = 1.03%)
3 (International benchmark	**Total – 2.90%** Total cost - $3.6b	**Total – 3.90%** Total cost - $4.9b

[4] Costings including the bridging payment and/or extendibility are included in Annex X

applied to NZ data)	(Redundancy – 1.85%, HCD – 1.05%), (employee/ employer levy = 1.45%)	(Redundancy – 2.55%, HCD – 1.35%), (employee/ employer levy = 1.95%)

Table 2: summary of levy costs associated with different methods

N.B. Levy figures shown here will be split equally between employers and employees. These are preliminary TAWA model results and may be subject to revision. None of these figures include GST (which will need to be added).

35. In the short-term, we have little information about the likely uptake of the scheme and therefore the real cost of the scheme. Over time we expect to be able to get better trend data on engagement with the scheme which will inform the setting of future levy rates. However, in the absence of good starting information, Ministers have choices about where to set the indicative levy rate.

36. Overall, method 1 models a low level of behavioural change, with methods 2 and 3 modelling increasingly higher levels of behavioural change. Without trend behaviour, any method adopted will reflect a significant degree of uncertainty. Method 1 results in a lower cost impost on households and businesses. This approach would, however run some risks that of both additional Crown funding being required to support the scheme and significant levy increases in the future. Method 3 reflects a more prudent approach, but could impose a significant impost on households and businesses with a corresponding impact on consumption and employment. In the long-term it could also have a fiscal impact in the form of reduced revenue.

37. There is short-term uncertainty that can be managed with higher rate. Over time there will be greater certainty about costs

38. The Working Group is still considering the implications of the results of the TAWA modelling and will provide further advice in advance of the SUIGG meeting on 27 August.

39. While there are challenges with finding appropriate international benchmarks, the project team considers that there are significant risks of setting the levies too low. Specifically, we note that should all our estimates undercount the likely costs, the resulting levy adjustments would be smallest if the scheme began with a higher starting rate. We also note a 10 year average has been taken when calculating underlying numbers such as redundancy rates, which means it does account for some economic cycle variation. However, an unexpectedly large economic downswing could put greater strain on the scheme's fund. Adopting the higher starting rate under method 3 would mitigate some of this risk. The ideal levy rate will reflect risk tolerance around risks of underestimating the levy, and imposing costs on levy payers.

Introducing the scheme will produce fiscal offsets

40. We expect that the introduction of the scheme will produce fiscal offsets. These are reductions (or increases) in costs to the Crown caused by changes in behaviour which are in turn caused by the introduction of SUI. An example of this offset is the expected reduction in benefit payments to someone who is made redundant and would otherwise

receive Jobseeker benefit while looking for new work, but may be eligible to receive SUI payments instead. In this case, the SUI payments would reduce spending on welfare, and PAYE tax would be paid on the income replacement.

41. There are also cases where offsets may increase the cost of the scheme. For instance the scheme may alter someone's behaviours so that they defer taking a new job longer than they otherwise would without SUI payments. This would decrease tax revenue; without SUI, that person may have returned to work (at the same or similar income as their previous job) on which they would pay a higher amount of tax than they pay on their SUI income replacement.

42. There are also other tax implications from the imposition of the levy, for instance whether the employer levy is tax deductible for businesses, and the treatment of the levy for GST purposes.

43. The Working Group will provide Ministers with further advice on the total effect of the offset, and tax implications, based on your preferred levy approach.

These offsets could be used to reduce the impact of the levy on low-income households

44. The levy will create costs on workers and households, and the reduction in net income that it causes will particularly affect low income households. Because the levy is calculated on gross income, transfers and benefits will not replace the reduction of income from paying the SUI levy.

45. Within this context, the savings from the scheme could be used to minimise the impacts of the levy on low income households. The merits of, and the options for, achieving this can be provided in further advice next week.

Risks to the cost estimates and Crown liability

46. The costs and estimates in this advice are based on a 10 year average. This means the data already includes some volatility from upswings and downswings in the economic cycle from 2009-2019 and includes the impact of localised emergencies (such as the Canterbury earthquakes). In general, the SUI fund will grow to be able to manage ups and downs by building a surplus in some years, and drawing down on that surplus in other years.

47. Larger or more frequent fluctuations, or a significant downturn early in the scheme's life, could exhaust the scheme's fund. While the Government will be separate from the fund, it may act as a lender-of-last-resort in these types of situations. We would expect that funding would be lent in such a way that it would be paid back, to avoid the scheme posing a fiscal risk.

48. Once the scheme has commenced, it may become clear that the scheme is under-collecting. In this case, the Government would have three (not mutually-exclusive) options:

    a. Increase the levy to match the increased cost;

    b. Decrease entitlements to reduce costs inside the existing levy rate;

c. Inject Crown funding to close the shortfall.

49. The Crown could also choose to use the scheme as a further mechanism for providing economic stimulus during severe economic downturns, as is currently the case in Canada and Denmark. Use of the fund in this way would need to be funded accordingly.

Impact of policy design variations

50. Ministers have indicated that the discussion document should present the costs relating to options for bridging payments and extensions for training or rehabilitation. This includes the options relating to:

    a. Bridging payments: presenting options for managing integrity risks, including:

        i. Bridging payment requirements of 2 weeks and 4 weeks

        ii. Other integrity measures (such as mechanisms to prevent sham redundancies).

    b. Extensions for training or rehabilitation: presenting options for entitlements to be extended for approved training or rehabilitation, including for a total period of 12 months).

51. We have not been able to model the costs of extendibility. This is because of the limited information that is available about how such an extendibility measure affects take-up and duration. However, we have modelled the costs of a general 12 month scheme.

    a. Under method 1, this would amount to a levy of 2.34% without bridging and 2.05% with bridging.

    b. Under method 2, this would amount to a levy of 3.10% without bridging and 2.73% with bridging.

    c. Under method 3, this would amount to a levy of 6.04% without bridging and 5.36% with bridging.

52. These are likely to reflect a significant over estimates of extendibility and introducing an extendibility mechanism will only see a small proportion of that amount realised. The number has been provided to give Ministers a sense of an absolute outside limit.

53.

54. The table below sets out the likely impacts of these policy choices on the levy rate.[5]

[5] We note removing the bridging payment would result in a 6 month scheme rather than 7 and 8 months rather than 9 months. The overall impact of removing the bridging payment will be to increase the cost of the scheme because businesses would no longer pay for the first month, which is also the most expensive, meaning that cost falls to the scheme. This cost is partially offset by a reduction in the number of expected claims and the average duration spent on the scheme with the shift from 7 months to 6 months (and from 9 to 8 months) reducing the relative generosity of the scheme.

Method 1

	6 months	8 months
No bridging payment6	1.32%	1.70%
Base + bridging payment	1.21% (7 months)	1.57% (9 months)

Method 2

	6 months	8 months
No bridging payment	1.77%	2.11%
Base + bridging payment	1.56% (7 months)	2.05% (9 months)

Method 3

	6 months	8 months
No bridging payment	3.04%	4.05%
Base + bridging payment[7]	2.9% (7 months)	3.9% (9 months)

55. The presence of a bridging payment would deter businesses from colluding with workers to reclassify other types of dismissals as redundancies. Removing the bridging payment for redundancies, and therefore reducing the cost to employers from making a worker redundant, risks a higher level of 'gaming' by employers and employers that cannot be fully addressed by other integrity mechanisms. It also reduces the overall levy in favour of imposing a higher proportion of the costs on businesses that drive use of the scheme. The Working Group accordingly recommend that the bridging payment is maintained.

56. For HCD, the bridging payment has a different impact. Although it lowers the scheme, imposing a bridging payment in the same way as for redundancy (for instance employers bearing the cost of the first month of an employee's time off work) may be perceived as an extension of sick leave and act as a hiring disincentive, especially for those perceived as being a higher risk of developing an HCD. The project team have recommended in previous advice that the bridging payment not apply to HCD claims where the employer has not initiated a dismissal.

Impact of the levy on employees and employers

57. As proposed, the levy to fund social insurance will be split equally between employers and employees. This is likely to have different impacts on employees and employers depending on their circumstances.

Impact on workers

58. With the introduction of SUI, all employees and some self-employed will bear the cost of the levy. This will reduce a worker's net income. How this affects households depends on individual and family circumstances however, low-income families and the working

[6] Although the potential levy rate is presented for a scheme without a bridging payment, further modelling work may need to be done to accurately assess the different behavioural effects that may occur without a bridging payment.

[7] This figure matches the rate in paragraph 54.

poor are likely to feel the effects most materially. This is particularly important in the context that broadly half of children in poverty in New Zealand are in working households.

59. The actual levy, and therefore, reduction in net income individuals will face will depend on their gross income. To demonstrate,

    a. applying the levy from method 3 and a 7 month scheme:

        - A full time (40 hours per week) minimum wage earner paying a levy rate of 1.45% on their gross income, would see their net income reduced by approximately $11.60 per week.

        - A worker earning the median wage, approximately $1,060 per week (at June 2020) with a levy rate of 1.45% on their gross income, would see their net income reduced by approximately $15.40 per week.

    b. applying the levy from method 2 and a 7 month scheme:

        - A full time (40 hours per week) minimum wage earner paying a levy rate of 0.78% on their gross income, would see their net income reduced by approximately $6.20 per week.

        - A worker earning the median wage, approximately $1,060 per week (at June 2020) with a levy rate of 0.78% on their gross income, would see their net income reduced by approximately $8.30 per week.

    c. applying the levy from method 2 and a 9 month scheme:

        - A full time (40 hours per week) minimum wage earner paying a levy rate of 1.03% on their gross income, would see their net income reduced by approximately $8.20 per week.

        - A worker earning the median wage, approximately $1,060 per week (at June 2020) with a levy rate of 1.03% on their gross income, would see their net income reduced by approximately $10.90 per week.

60. We also note that the ultimate incidence of the levy may get passed to the worker over time, although for minimum wage workers there is a limit to the extent to which this could occur. An advantage of bridging payment is that it is more difficult for employers to pass that through to workers.

61. A reduction in net income such as that outlined above is likely to be material for families already struggling to meet their fixed outgoing costs. Given entitlement to the existing suite of support through the welfare system is based on gross income, rather than net income, entitlements to other support (such as the Accommodation Supplement and Working for Families tax credits) will not increase, even with a net decrease in income from the levy.

62. The working group has previously provided advice on options to reduce the impact of the levy on low-income earners, such as the use of a levy-free threshold. However, the

Working Group have advised against this, given the significant cost implications a levy-free threshold would have on other levy payers.

63. Further modelling will be provided next week, prior to the Governance Group meeting on 27 August to show the distributional impacts of the levy across income distribution and by ethnicity. Should Ministers wish to explore ways to mitigate the impact of the levy on low income households, such as a simultaneous increase of in-work financial support, officials can provide further advice on options.

64. It should be noted that while the material impact of the levy will be greater for those on lower incomes than those higher up the income distribution, evidence suggests that there is a greater incidence of economic displacement amongst those on lower incomes. Consequently, lower income workers use and therefore benefit from the scheme more frequently than those on higher incomes. Lower income workers are also more likely to exist work due to a health condition or a disability.

Impact on employers

65. Like employees, all employers will bear the cost of the levy. As a result, all costs for businesses will increase and small businesses may particularly feel the burden of increasing costs on earnings.

66. New Zealand has approx.. 135,000 businesses with 1-19 employees. The median annual earnings for businesses of this size are $51,561. If the levy were 1.45%, for a business with 10 employees at the median income, this would be an additional cost of $8,000 per year.

67. The cost of a 4 week bridging payment for a business making a median income earner redundant would be $3,392.

General approach to presenting levy rates

68. Estimating the cost of the scheme is important for public engagement. We expect different groups' overall support for the scheme will be sensitive to price. Given such sensitivity, a single cost estimate with some caveats about the finality of that figure will provide the public with a clearer sense of the value of the scheme. A single levy figure would also need to be complemented with a clear articulation of the impact of the change of particular policy parameters on the levy rates (e.g. explaining the levy the impact of including extendibility to 12 months) so that submissions can weigh the relative benefits of scheme design choices.

69. Doing so provides the clearest means by which workers and businesses can weigh the cost and the benefit of the proposed scheme. This will enable the discussion document to estimate the impact of the levy on a range of example families and businesses.

70. A risk of providing a single cost estimate and levy rate is that it suggests a degree of certainty. In reality, these cost estimates have a significant degree of uncertainty and may significantly change when the scheme is introduced and over the economic cycles.

71. An alternative is for the potential cost of the scheme to be presented in the form of a range with an upper and lower bound. This could better reflect that the levy may change

and that there are a range of assumptions built-in to the different cost methodologies. However, it would make it more difficult for workers and businesses to gauge the cost of the scheme (and measure its benefit). Given the nature of a range, workers and businesses would need to assume the levy will be at the top of the range in order to gauge the impact of the scheme, which may not be seen as the most likely outcome.

72. Regardless of the approach taken, the discussion document should note that there is inherent uncertainty with any levy proposed before the design of the scheme is final. The cost of the scheme will vary year-by-year depending on the economic and the business cycle, and while the levy represents an average over a 10 year period, it may need to change pre or post-introduction of the scheme. A number of factors could lead to changes in the levy:

    a. Changes to the proposed scheme design,

    b. New research or data that would improve the ability to estimate the costs of the scheme,

    c. Changes in New Zealand underlying economic scenario, including the stage of the economic cycle when the levy commences, and

    d. Variation between the underlying assumptions used to estimate behavioural responses and the actual behavioural response.

Communications, marketing and engagement approach

Background

14. MBIE is developing a communications, marketing and engagement plan to support the consultation and achieve wide awareness of the scheme to encourage submissions. However the plan is scalable, and it is possible to reduce activities, which will be lower in cost, but reach fewer people.

15. As noted in earlier advice to Ministers (2021-4366), this communications and engagement plan requires an estimated $200,000 in funding; covering translation, printing, marketing and travel costs for events.

16. Your office will also receive options for resourcing the next phase of the project.

We believe the wide-reaching nature of the proposals requires a broad approach that reaches many New Zealanders

16. This will help ensure awareness of the proposals and the rationale for the scheme, give more people a chance to have their say, and test the social licence for a scheme.

17. MBIE is developing a communications, marketing and engagement plan to achieve this wide awareness and to encourage submissions. However our plan is scalable, and it is possible to reduce our activities, which will be lower in cost, but reach fewer people.

We plan to engage directly with key representative bodies and Māori organisations.

18. The plan includes in-person engagements with peak representative bodies for health professionals, health and disabilities communities, the vocational education sector, finance industry, business and unions groups, and economists.

19. Given the scale of the proposal, it is important that there is meaningful engagement with Māori, given the Crown's Treaty obligations and particularly the principle of partnership in consultation. However, this is particularly challenging in the expedited timeframe. As such, we propose to:

    a. Leverage existing relationships with iwi and Te Ao Māori more generally to discuss the proposals. This includes using the Regional Skills Leadership Groups (which includes iwi representation), ACC's Māori Customer Advisory Panel and MSD's Maori Reference Group.

    b. Take part in a series of regional hui, run as MBIE-wide initiative, if timing aligns. These hui are in the early stages of development and expected to occur later this year.

    c. Engage directly with national Māori bodies, including the New Zealand Māori Council and the Māori Women's Welfare League.

20. We also note that the NZCTU and BusinessNZ will engage with their Te Ao Maori arms in additional to the more general engagement needed. It may be useful to discuss this approach with the Minister of Maori Affairs in particular to identify other potential opportunities for engagement with Maori.

We aim to reach a much wider segment of the public through communications and marketing.

21. A much wider set of national and regional bodies and organisations have been identified and will be proactively contacted and invited to make a submission. This includes entities within the above groups, along with those representing the wider education sector, Pasifika and ethnic communities, women, older people, local government and economic development agencies, and welfare advocates.

22. As well as seeking feedback on design choices, we aim to explore the social licence for the scheme. Our recommended approach will seek wide awareness of the proposals, supported by:

    a. Distribution of around 50,000 flyers or booklets to community centres, including libraries, local government, health providers (including Māori health providers), iwi, MSD Service Centres, and through BusinessNZ and the NZCTU.

    b. Promotion of the consultation through a wide range of government, union and business channels. We have identified around 75 different newsletters or magazines, with a potential reach of around 1 million people.

    c. A media pack for national and regional bodies and organisations to use to promote the consultation within their networks.

d. A marketing campaign, largely digitally focussed through online national and industry news sources, social media, search advertising, along with some iwi and ethnic radio and regional print advertising.

23. The Project Team will support your Office and Social Partners with a communications pack including a suggested press release, key messages, Q&A and talking points for events. We will also help identify events and forums where it may worthwhile to attend and discuss the proposals.

Our plan is designed to ensure the consultation is accessible.

24. To help our diverse audiences understand and receive the information, we are taking steps to ensure it is accessible. We are developing or investigating:

a. A shorter summary document outlining key design choices and rationale.

b. Translation of the summary document into Te Reo Māori, Samoan, Chinese Simplified, Hindi, Tagalog, Tongan. The latter five are commonly spoken languages by people who cannot speak English.

c. Accessible versions of the summary document, including audio, Easy Read, sign language video, Braille and large print.

d. Translation of parts of the discussion document, including foreword, executive summary and section on Te Tiriti o Waitangi into Te Reo Māori. We had investigated a full Te Reo translation, however this would likely take three months.

e. Making the entire discussion document available in HTML (instead of only PDF), which is compatible with computer accessibility tools.

25. Due to the short turnaround between decisions being made and the intended launch in late September, not all versions may be ready in time. If so, we will inform relevant stakeholder that they are being developed and when we expect to have them.

26. To help everyone have their say, we will provide options to complete a short survey or make a detailed submission.

This communications campaign will require funding.

27. As noted in earlier advice to Ministers (2021-4366), this communications and engagement plan requires an estimated $200,000 in funding; covering translation, printing, marketing and travel costs for events.

28. While the funding will be considered by Cabinet in September, it is important we begin work on this now. This will ensure we can begin our activities alongside the launch by the Government and social partners. We believe our communications and engagement activities should not begin too late in the consultation period, given the consultation ends in late December, when stakeholders will have less ability to engage.

29. It is possible to scale this funding. A lower-cost option, of around $30,000, would cover some translated and accessible versions, a limited print run of collateral, and travel costs

for events. It would not include any digital or print advertising, and would rely heavily on stakeholder channels.

We recommend a different name for this piece of work.

30. Consideration has been given to whether '*social unemployment insurance'* is the right or most effective way to describe these proposals.

31. Some feedback has indicated that the term social may not be a widely used or understood term in this context, and the term unemployment focusses on the loss of a job, rather than the intent of the scheme to help people find good, new jobs.

32. For the purposes of the communications for the discussion document, we recommend describing this work as *'A government employment insurance scheme for New Zealand workers'*, shortened to *'employment insurance'* in repeat mentions. We believe this term may be more relatable, and will help drive interest and engagement, by being clearer the proposal is for a mandatory, government-run scheme. It remains similar to the social unemployment insurance terminology, so builds on the public discussions initiated after the Budget Day announcement.

33. This would be the name for the purposes of the discussion document only. Like similar schemes, including ACC and KiwiSaver, a strong brand is critical to ensuring public understanding of the scheme and the benefits they may be eligible for.

34. Further work will be done on the name for a scheme, and we will provide advice early in 2022.

Next steps

50. While this paper provides Ministers with a preliminary view of the likely levy and its impacts, the project team intends to provide the SUIGG with updated information with the impacts of the proposed approach and the likely risks ahead of the SUIGG meeting on 27 August. The near final discussion document will also be included.

51. This final SUIGG meeting on 27 August will also resolve the outstanding issues of the bridging payment, extensions, duration and agree the discussion document plan for Cabinet in preparation for the forum.

52. Cabinet will be invited to consider the near-final discussion document on 13 or 20 September, and the Tripartite Forum is expected to endorse the discussion document for public release at its meeting on 23 September.

Annex A: Estimating the cost of the economic displacement scheme

	Method 1 – low behavioural change (Jobseeker benchmark)	Method 2 – medium behavioural change (Jobseeker benchmark)	Method 3 – behavioural change based on international experience
Claims	There are approx. 873,000 job ends per year, of which approx. 13% are redundancies (approx. 116,000). Of these 52,500 experience a job loss of one month or more. Assuming 80% of them take-up SUI,[8] this provides approx. 42,000 claims for SUI from those who we know currently have a gap of more than one month between jobs. To this group we add a portion of those who previously had a short or no gap between jobs after being made redundant.[9] This results in a total number of claims for the scheme of approx.: - 59, 700 (6 months) - 61,400 claims (7 months) - 64,500 (9 months) - 69,100 (12 months)	There are approx. 873,000 job ends per year, of which approx. 13% are redundancies (approx. 116,000). Of these 52,500 experience a job loss of one month or more. This method assumes 100% of this group will take-up SUI. To this group we add a portion of those who previously had a short or no gap between jobs after being made redundant.[10] This results in a total number of claims for the scheme of approx.: - 87, 700 (6 months) - 90,400 claims (7 months) - 95,000 (9 months) - 101,700 (12 months)	This method implies a claims rate using the Massachusetts unemployment insurance scheme. In Massachusetts they experience a claims rate of approx. 6.3% of employees per year. Applied to New Zealand with adjustments for generosity, this results in a total number of claims for the scheme of approx.: - 134,550 (6 months) - 138,000 (7 months) - 144,900 (9 months) - 155,250 (12 months)
Duration	Two durations are used to reflect the two different groups entering the scheme; those who already experience a gap (greater than one month) after redundancy, and those with a gap of less than one month. For those who already experience gaps of greater than one month, a behavioural response is applied to produce average durations of:[11] - 4.25 months, increased by 51% (7 months) - 4.98 months, increased by 73% (9 months) - 5.92 months, increased by 105% (12 months) For those who currently have a small/no gap between employment, a shorter duration of 1 month is applied.	Two durations are used to reflect the two different groups entering the scheme; those who already experience a gap (greater than one month) after redundancy, and those with a gap of less than one month. For those who already experience gaps of greater than one month, a behavioural response is applied to produce average durations of:[12] - 4.25 months, increased by 80% (7 months) - 4.98 months, increased by 106% (9 months) - 5.92 months, increased by 144% (12 months) For those who currently have a small/no gap between employment, a shorter duration is applied, at 50% the rate of the above group.	The average duration of workers on the Massachusetts scheme is 4.5 months, and this is adjusted to account for New Zealand's proposed SUI scheme being more generous. This results in durations of approx.: - 4.5 months increased by 61% (7 months) - 4.5 months increased by 84% (9 months) - 4.5 months increased by 118% (12 months)
Income	Apply average income of $ 4210 per month	Apply average income of $ 4210 per month	Apply average income of $5040 per month

[8] Some may choose not to take it up because they are moving abroad or they are unwilling to accept job search obligations (for instance because they are retiring).

[9] These workers are responding to the behavioural effect of the relative generosity of SUI compared to the existing Jobseeker rate. The comparison rate used is $360 per week, which is the average level of Jobseeker (plus other benefits) received.

[10] These workers are responding to the behavioural effect of the relative generosity of SUI compared to the existing Jobseeker rate. The comparison rate used is $280 per week (different to Method 1). $280 is the base Jobseeker rate without additional benefits, and is used to reflect the fact that many people who are made redundant are not eligible for any Jobseeker support.

[11] The base rate for duration is taken from the historical average unemployment spell (absent SUI). A behavioural response is then added to this duration to reflect the relative generosity of the SUI scheme compared to existing Jobseeker support (using the $360 per week rate).

[12] A behavioural response is then added to this duration to reflect the relative generosity of the SUI scheme compared to existing Jobseeker support (using the $280 per week rate).

Annex B: Estimating the cost of the scheme covering work loss due to HCD

	Method 1 – Jobseeker HCD	Method 2 – International A (low behavioural change)	Method 3 – International B (high behavioural change)
Claims	Based on current data, there are approx. 36,700 job ends due to health conditions or disabilities every year, who experience a gap in employment. Taking this as the base figure, we apply a behavioural adjustment to this to account for a difference in generosity (payment level) between the Jobseeker-Health Conditions and Disability payment ($375) and the proposed SUI scheme. This provides an estimate of the number of claims, of approx.: - 54,200 claims who experience a gap in employment. This is constant across all three potential durations (7, 9, 12 months).	This approach uses an international benchmark (Denmark) to estimate an annual take-up rate of HCD, as a proportion of the total number of New Zealand employees. This method calculates the take-up rate by only looking at the number of claims in the Danish system that are 30 days or more (to match the proposed design of the New Zealand scheme). This provides an estimate of approx.: - 103,000 claims This is constant across all three potential durations (7, 9, 12 months).	This approach uses an international benchmark (Denmark) to estimate an annual take-up rate of HCD, as a proportion of the total number of New Zealand employees. This method calculates the take-up rate by including some claims which are between 8 – 30 days, as well as all claims which are 30+ days. This provides an estimate of approx.: - 204,000 claims This is constant across all three potential durations (7, 9, 12 months).
Duration	Based on current data we can calculate the average gap between jobs for those with HCD. A behavioural adjustment is then applied to this to account for a difference in generosity (payment level) between the Jobseeker-Health Conditions and Disability payment ($375) and the proposed SUI scheme. - 4.6 months increased by 28% (7 months) - 5.52 months increased by 28% months (9 months) - 6.75 months increased by 28% (12 months) For the group without existing gaps in employment (i.e. the additional people who decide to take a gap as a result of the scheme) we apply a rate of 50% of the above group group	Based on the Danish benchmark, we can estimate the average duration spent on the Danish scheme, and adjust it to account for the generosity (payment level, and duration) of the proposed New Zealand scheme. The Danish average duration is approx. 10.5 weeks (for those with HCD over 30 days). This is then increased by 10% to give an average duration of 12 weeks.	Based on the Danish benchmark, we can estimate the average duration spent on the Danish scheme, and adjust it to account for the generosity (payment level, and duration) of the proposed New Zealand scheme. The Danish average duration is approx. 7.5 weeks (for those with HCD 8 days and over). This is then increased by 10% to give an average duration of 8.3 weeks.
Income	Scale all claimants to the Household Economic Survey (HES) earnings distribution observed for HCD (mean = $2680)	Scale all claimants to the HES earnings distribution observed for HCD (mean = $2680)	Scale all claims to all-jobs distribution (mean = $5040)

Annex C: Key judgments behind the methodologies

This section summarises the key steps taken to reach each methodology.

Applying elasticities to estimate behavioural change

In all methods, a certain amount of behavioural change is estimated by applying an elasticity figure. This elasticity figure provides a link between increasing generosity (for instance the amount being paid) and resulting behaviour (for instance, how many people will choose to claim SUI, or how long they will spend between jobs, receiving SUI payments). The elasticities applied in all the below methods have been calculated on behalf of the Working Group by an economic consultancy, by examining the international literature about the impacts of changes in scheme design on claimant behaviours. An example of how these elasticities are applied is that when the generosity of the scheme is doubled (both in terms of how much is paid) then we would expect to see an increase in the number of claims of approximately 50% in response to that greater generosity.

The implication of this approach is that estimating what the take-up and duration of SUI will be requires that we compare the proposed scheme against another scheme. These comparisons are outlined below.

Redundancy Method 1: Jobseeker (low behavioural change)

1. This Method compares the proposed SUI scheme against a stylised 'Jobseeker' scheme that currently exists for workers who are made redundant. This Jobseeker scheme assumes that a worker, when made redundant, can access approximately $360 per week, after tax. This figure is the average amount of received by Jobseeker recipients and includes some other benefits such as accommodation supplements.

2. Starting with a total number of annual job-ends of 873,000, HLFS data suggests that approximately 116,000 of these are due to redundancy.

3. Of this group, approximately 52,500 have a gap between jobs of more than one month. The remainder have either no gap, or the gap is less than one month.

4. This Method assumes that 80% of this group with a gap takes up SUI (approx. 42,000 claims). The remaining 20% may decline to take up SUI because they are unwilling to accept job-search obligations, for instance if they are moving overseas or retiring.

5. Using these figures, we calculate an overall take-up rate of 42,000 out of 116,000 (approx. 36%).

6. This overall take-up rate is then adjusted by the elasticities to reflect the relative generosity of the SUI scheme compared to the stylised 'Jobseeker scheme'. As the potential duration of the scheme increases (e.g. from 6 months to 7 months, 9 months and 12 months) this will increase the take-up rate (as a proportion of those made redundant claiming SUI). For instance, a take-up rate of 53% of 116,000 redundancies is estimated for a 7 month scheme. The number of claims for the scheme increases in line with the increased generosity, which results in the following estimate of claims:

    a. 59,700 (6 months)

    b. 61,400 claims (7 months)

c. 64,500 (9 months)

d. 69,100 (12 months)

7. To estimate the time that claimants spend on the scheme, a different approach is applied to each of the two groups identified above:

    a. For those with gap of more than one month between jobs after being made redundant:

        i. the observed gap is, on average, 4.25 months for a 7 month scheme with no behavioural changes. An elasticity is applied to increase the gap between jobs to account for the relative generosity of the SUI scheme compared to the stylised 'Jobseeker scheme' to produce a longer average duration. The average gap between jobs increases as the maximum duration of the scheme increases.

    b. For those experiencing a very small, or no gap, between jobs:

        i. we assume an average gap of around one month, reflecting the relative generosity of the SUI scheme compared to the stylised 'Jobseeker scheme'.

8. The distribution of incomes observed in the data for those receiving SUI is used, with an average income of approximately $4,210 per month.

Redundancy Method 2: Jobseeker (medium behavioural change)

9. This Method compares the proposed SUI scheme against a stylised 'Jobseeker' scheme that currently exists for workers who are made redundant. This Jobseeker scheme assumes that a worker, when made redundant, can access approximately $280 per week of Jobseeker payments. This figure is the Jobseeker allowance for those 25 years and older. It is lower than $360 used in method 1 because it recognises that not every worker made redundant can access Jobseeker (i.e. they receive $0 of Jobseeker), potentially because of partner earnings.

10. This method takes a very similar approach to Method 1. Key differences include:

    a. Instead of assuming 80% take-up by those who currently experience a gap of a month or more between jobs, this method assumes 100% take-up.

    b. This produces a higher overall base take-up rate, which is then adjusted in the same way as Method 1, so that there are more claims for SUI the longer the maximum duration of the scheme. This produces claims numbers of approx.:

        i. 87,700 (6 months)

        ii. 90,400 claims (7 months)

        iii. 95,000 (9 months)

        iv. 101,700 (12 months)

11. The same approach as Method 1 is taken to adjust durations of those with a gap between jobs. The average duration is higher with this Method because a less generous ‘Jobseeker scheme’ is used as the base to compare against SUI. This makes SUI relatively more generous and therefore results in a greater behavioural change.

12. For those with a very small, or no gap, between jobs, we assume an average gap of around two months for a 7 month scheme.

13. The distribution of income is as in Method 1.

Redundancy Method 3: Behavioural change based on international experience

14. This Method takes a different starting point from Method 1 and Method 2. Instead of using existing New Zealand data on the number of redundancies, it estimates a claims rate for SUI as a proportion of employees. This is calculated by looking at the average number of individuals who received SUI benefits in Massachusetts over a 10-year window and dividing this by the total number of employees in the corresponding years. This produces an overall claims rate estimate of 6.3% of all employees per year or about 138,000.

15. This estimate did not use elasticities to adjust take up based on scheme generosity because differences in the New Zealand’s scheme design are expected to mitigate increases in claim rates. For example, Massachusetts does not have a bridging payment and allows workers to access benefits if they experience a “no fault” job loss, which is broader than redundancy. However, since benefits in New Zealand would be twice as generous as in Massachusetts, it is possible that not applying elasticities will result in an undercount of both claims and costs in New Zealand. If a bridging payment is not implemented in New Zealand, then claim rates could be higher. Had this elasticity been accounted for, claims for a 7 month scheme in New Zealand would be an estimated 60% higher.

16. This number of claims is then adjusted to account for differences in scheme duration, to estimate the following number of claims:

    a. 134,550 (6 months)

    b. 138,600 (7 months)

    c. 145,500 (9 months)

    d. 156,000 (12 months)

17. To calculate the duration that claimants could spend on the scheme, a base rate is taken from the Massachusetts scheme (4.5 months) and then adjusted for the relative generosity of the proposed New Zealand SUI scheme. The Massachusetts scheme has a maximum duration of 7 months, and an average income replacement rate of 36% whereas the proposed NZ scheme offers an 80% replacement rate.

18. A distribution of income is applied to claimants with an average of $5,040. This is the average income across all jobs.

HCD Method 1: Jobseeker Support – Health Conditions and Disabilities

19. Similar to Method 1 and 2 for redundancy, this method creates a stylised 'Jobseeker Support – Health Conditions and Disability (JSS-HCD)' scheme, against which we can compare behavioural changes if the proposed SUI scheme were implemented. The weekly payment of JSS-HCD client for the purposes of comparison is $375, after tax, and includes payments such as accommodation supplements.

20. HLFS data suggest that there are approximately 36,800 job-ends per year caused by health conditions and disabilities, which are then followed by a gap in employment.

21. Adjusted to account for the relative generosity of the proposed SUI scheme compared to the stylised 'JSS-HCD scheme', this number increases to 54,200 claims, who experience a gap between employment.

22. We estimate that a further 29,200 workers lose their jobs due to HCDs, but experience a short or no gap between employment. This is an estimate because this group is not observed in the data.

23. These claims numbers are constant across all potential durations (i.e. the duration of the scheme does not affect the number of claims).

24. To estimate the average duration of these two groups:

    a. For those experiencing a gap between employment after a health condition or disability:

        i. A base rate is taken from what was already observed in the TAWA model, which is based on existing data, for instance an average of 4.6 months for a 7 month scheme.

        ii. An elasticity is applied to this rate to increase it to account for the relative generosity of the SUI scheme compared to the stylised 'JSS-HCD scheme' to produce a longer set of average durations. The average duration increases as the maximum duration of the scheme is increased.

    b. For those which the data shows experienced a gap of one month or less between jobs after a HCD:

        i. An average duration of half of the above group is applied, to show that if SUI is introduced, some of these workers would now take a longer gap between jobs.

25. A distribution of incomes is applied to those receiving SUI, with an average income of approximately $2,600 per month. This is the rate indicated by the Household Economic Survey.

HCD Method 2: International benchmark A (low)

26. This method takes a different starting point to Method 1. This approach uses the Danish sickness scheme as a benchmark, to estimate an annual take-up rate as a proportion of employees and the self-employed.

27. Denmark has a sickness benefit available for both employees and self-employed for up to 6.5 months. The first 30 days of the employees' sickness benefits are typically paid by the employer. We find an average replacement rate of 59% compared with New Zealand's of near 80%.

28. The Danish scheme allows workers with shorter durations of sicknesses than what is proposed in the New Zealand SUI scheme. To calculate an applicable rate for New Zealand, only claims which are 30 days or longer in the Danish scheme are counted.

29. This produces an annual claims rate of approximately 4.7% of workers per year, providing an estimate of approx. 103,000 claims.

30. For the average duration we start from the average duration of the Danish scheme for claims lasting more than 30 days. This starting duration is approximately 10.5 weeks. This is then adjusted to account for the relative generosity of the New Zealand scheme, to provide an average duration of almost 12 weeks.

31. A distribution is applied to incomes of those receiving SUI, with an average income of approximately $2,600 per month. This is the rate indicated by the Household Economic Survey.

HCD Method 2: International benchmark B (mid)

32. This method is identical to Method 2, except that it starts froma higher rate of HCD among employees by assuming that half of the claims from the Danish scheme between 8-30 days (not counted by Method 1) result in claims for SUI. This produces an estimate of approximately 204,000 claims per year.

33. Given the inclusion of workers with shorter durations, the average duration of claims also decreases to 7.5 weeks which is then adjusted upwards to 8.3 weeks to account for scheme generosity.

34. A distribution is applied to incomes of those receiving SUI, with an average income that matches all jobs (approximately $5,040).