

Submission by



GROWING PROSPERITY AND POTENTIAL

to the

**Ministry of Business Innovation and Employment**

on the

**NZ Income Insurance Scheme Discussion Document**

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# **BUSINESSNZ SUBMISSION ON THE INCOME NZ INSURANCE SCHEME DISCUSSION DOCUMENT<sup>1</sup>**

## **1.0 INTRODUCTION**

1.0 BusinessNZ welcomes the opportunity to make a submission on the NZ Income Insurance Scheme Discussion Document. Because BusinessNZ was involved closely in its development it will not comment on the detail of the discussion document. Rather it will focus on those aspects that either need further development or with which BusinessNZ harbours concerns.

1.1 The views expressed in this regard are informed by discussions with BusinessNZ members following the release of the discussion documents.

## **2.0 BUSINESSNZ'S BASIC POSITION**

2.0 BusinessNZ calls for a national debate on proposals for a national income insurance scheme focussed on supporting workers made redundant from their jobs<sup>2</sup>.

2.1 BusinessNZ will not support a scheme that:

2.1.1 Includes cover sickness and disability in any income insurance scheme that may eventuate.

2.1.2 Does not offset the costs of the scheme to employers and workers via tax relief or similar rather than being yet another impost on business and workers.

2.1.3 Does not ensure that contributions to the scheme cannot be used for purposes other than for the scheme itself

In addition, BusinessNZ;

2.2 Recommends that businesses that already provide redundancy compensation should be able to opt out of the NZIIS, albeit that some additional commitment would need to be made regarding getting redundant employees back to suitable work<sup>3</sup>.

2.3 Recommends that the scheme not operate until such time as education and training products are available to ensure the scheme can deliver on its objective of returning displaced workers to work commensurate with their skills and knowledge.

2.4 Recommends that case management of scheme participants should be able to be contracted out in similar fashion to the way ACC manages injury cases now. Recognition of "accredited" employers or providers may be a suitable vehicle for this.

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<sup>1</sup> Background information on BusinessNZ is attached as Appendix One.

<sup>2</sup> "Redundant" or "displaced" in this context mean the involuntary loss of work due to the disestablishment of the workers' job. The terms do not and should not cover dismissal for cause or voluntary resignations

<sup>3</sup> This will require a reassessment of the costs of the scheme to determine the effect of "opt outs"

### **3.0 COMMENT**

- 3.0 New Zealand is facing multiple large challenges. These lie in long term trends such as climate change and technology evolution which are projected to render whole skill sets permanently redundant. These will affect the number and kind of jobs available in the future and create the need for skill sets to adapt and evolve to meet a changing labour market.
- 3.1 Right now, Covid-19 is constraining movement of people and goods, thus choking the economy across the board. Businesses in tourism, agriculture and hospitality face particular challenges. News reports suggest many are closing, making potentially thousands redundant.
- 3.2 However, Covid is obscuring the real problem. Eventually the pandemic will wane and the skills let go now will be required again, whereas those affected by long term existential trends will not. A case in point is the petrochemical industry where the Government's decision to cease oil and gas exploitation has effectively deleted investment and therefore jobs in that sector from the economy.
- 3.3 When large scale disruption in jobs occurs, particularly in smaller communities, it is common for people to take the first job on offer, usually at a lower wage or salary, and often not in a field in which their current skills are best utilised. Displaced workers also often have, or would need, to move to take such work.
- 3.4 Currently, New Zealand has no system for managing large scale displacement and what systems there are do not focus on enabling displaced workers to regain employment commensurate with their knowledge and skills. This is one factor in NZ's productivity being less than it could be compared to our trading partners.
- 3.5 The focus of the NZIIS proposal therefore is on returning displaced workers quickly to meaningful work, thereby reducing the negative impacts of displacement on workers and the economy in general.

#### **Options for dealing with these issues**

- 3.6 There are essentially three options available to government, employers and workers in this regard;

#### ***Status quo***

- 3.7 Currently, workers who become unable to work are entitled after a standdown period to access unemployment or sickness benefits from the social welfare system. Many cannot however, as these benefits are means tested. Some employees are entitled to redundancy compensation, but the majority are not. Currently, neither redundancy compensation nor the existing benefit system is attached to processes for assisting displaced workers in regaining work commensurate with their skills.

### ***Compulsory minimum entitlement to redundancy***

3.8 The NZ Labour Party has a long-standing manifesto commitment to introducing a statutory minimum entitlement to redundancy compensation. Following a review in 2008, the then Labour Government announced an intention to adopt a universal formula of 4 weeks compensation for the first year of service and two weeks for each subsequent year of service up to a maximum of 20 years. This would mean a redundant worker with 20 years' service would receive 42 weeks redundancy compensation. Labour's commitment was renewed in its 2017 election manifesto, following which Labour was elected to power in coalition with the Green and NZ First Parties. If implemented this scheme would create significant contingent liabilities on the balance sheet of every New Zealand business. And, while such a scheme would put money in displaced workers pockets, it would do even less than the status quo to assist displaced workers in gaining new work suited to their abilities.

### ***Insurance scheme***

3.9 All OECD countries except Australia and NZ have unemployment insurance in one form or another and most of them have higher productivity and incomes than NZ. Based on concerns that future large-scale redundancies will make the mismatch of workers and skills worse, and concerns about the impact of huge liabilities on balance sheets, the CTU and BusinessNZ suggested to the government that some form of insurance scheme such as those operating overseas was worth investigating. This suggestion was made in respect of redundant workers only.

### **BusinessNZ supports an insurance option based on redundancy only**

3.10 The NZIIS is aimed at getting displaced workers back into employment with the minimum possible loss to income or future opportunity unlike existing unemployment and sickness benefits or compulsory entitlements to redundancy compensation. Via the 6 months of financial support (which translates to a longer job search period) this will enable better matches between displaced workers and subsequent employers, improving the skills available to employers and contributing more to national productivity.

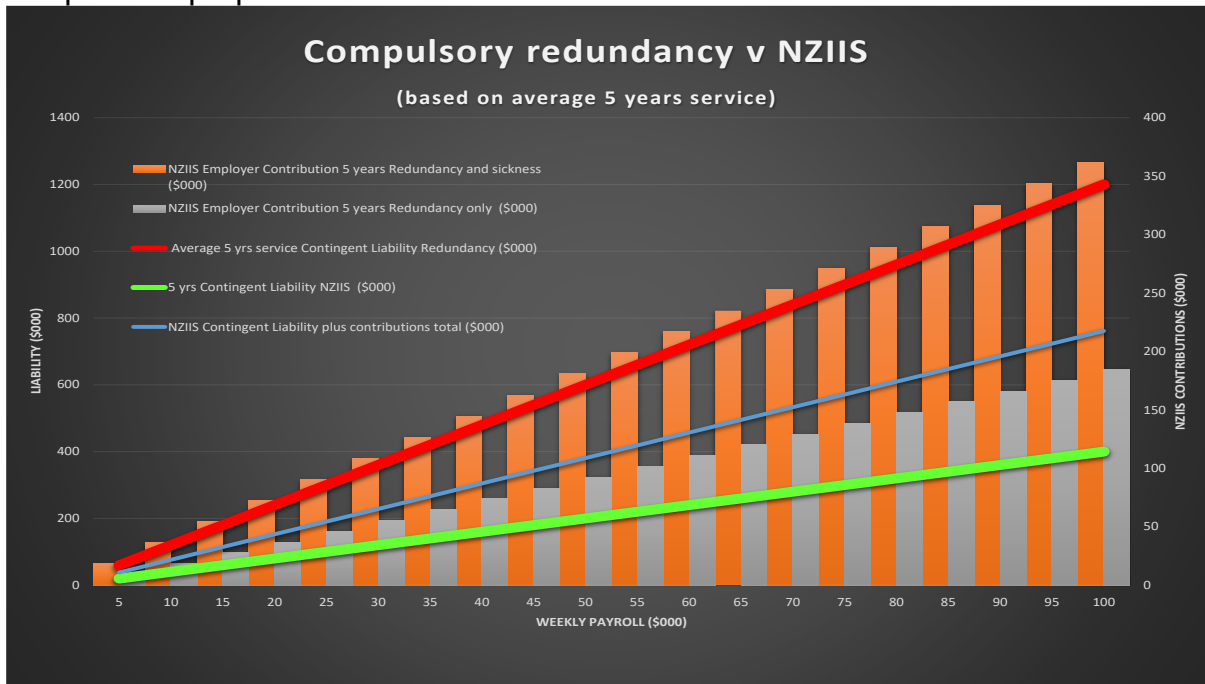
3.11 An income insurance scheme provides more certainty over the costs of restructuring which will assist businesses' planning and execution of change. Unlike general taxes, such a scheme must spend scheme funds only on the objectives of the scheme (returning displaced workers to productive work). An insurance scheme can also assist in easing worker resistance to change (through the confidence of an effective social protection system), leading to more support for business restructuring, thus enabling businesses to become more agile.

3.12 BusinessNZ's support for a redundancy based scheme is also conditional on there being cost offsets to minimise the financial impact on workers and employers.

## 4.0 COSTS

### *Comparison of redundancy vs insurance*

4.0 The graph below depicts indicative costs and liabilities for both compulsory redundancy compensation and the proposed income insurance scheme. The insurance scheme is also broken into redundancy only and redundancy and sickness cover together for comparative purposes.



4.1 The costs of a compulsory minimum entitlement to redundancy are only realised when a worker is made redundant. However, at that time the costs could be so significant as to be unaffordable, making insolvency a real possibility. This is the experience in Europe where laws requiring compensation for “collective redundancies” have fuelled insolvency rates.

4.2 On the other hand, the proposed insurance scheme has a much smaller (4 week) contingent liability that would be paid out at the point of termination. Unlike compulsory redundancy compensation, the insurance scheme has ongoing costs in the form of a payroll levy on both employers and workers. This will enable the creation of a fully funded scheme in the future.

4.3 The cost of this level is projected to be 1.39% each for workers (roughly \$12 per week for a worker on the minimum wage) and employers. This would drop to about 0.8% if redundancy only was covered by the scheme (around \$7 per week). While low, any levy is nonetheless a cost at a time when personal incomes and company revenue are constrained. It needs to be recognised that what appears to be a relatively insignificant sum may for many represent a considerable imposition, the more so at a time of record inflation and with the likelihood of further increases to ensure the scheme’s liability.

4.4 As mentioned above BusinessNZ’s support is also conditional on making the scheme more cost neutral through adjustment of tax band or other means of reducing government imposed costs on employers and workers.

- 4.5 Safeguards also need to be put in place to prevent “gaming”, i.e., incentives to “take the money and run” (workers) or “dump” poor performers (employers) must also be countered. Conversely, protections against vexatious challenges to the authorities on the status of workers who seek to access the scheme, or the decision of employers who seek to place them there also need to be considered.
- 4.6 A particular issue of concern to employers is a need to accommodate those businesses that already have redundancy compensation schemes, some of which provide more generous terms than those proposed. An issue to be resolved here is how to deal with the fact that redundancy compensation alone does not achieve the objective of returning redundant workers to the workforce. Exempting businesses with existing redundancy compensation schemes may therefore disenfranchise workers in those schemes from access to the retraining/education opportunities offered by the NZIIS proposal.

## **5.0 COVERAGE**

- 5.0 As a matter of principle, BusinessNZ supports a scheme that is aimed at returning those capable of working back to work commensurate with their skills and knowledge, as quickly as possible. This approach reduces the risks of wage scarring and dampens the negative effects of large scale retrenchments on the economy.

### *Redundant Workers*

- 5.1 The genesis of the current proposal for an NZIIS is the expectation that large scale change wrought by climate change and evolving technology will displace significant numbers of otherwise capable workers. The removal of a worker’s job is the classic definition of redundancy, making the proposed scheme appropriate for this cohort. Coverage for redundant workers should be for complete job loss, not simply a change in a portion of a job.

### *Sick or disabled workers*

- 5.2 While predictions of large scale change are a key driver for offering redundant workers access to the NZIIS, this is not the case for workers who cannot work because they become sick or disabled. This is not new.
- 5.3 Put simply, most redundant employees are capable of taking on new work immediately while this is an uncertain proposition for most sick and disabled people. Including the sick and disabled basically transfers the costs of the public health system to employees and employers (i.e. private insurance).
- 5.4 Workers who are unable to work because of sickness or disability are in a different category to workers simply made redundant because there is no work for them. While the latter are normally technically and physically capable of resuming paid employment immediately, those who are sick or disabled are not. The bases for their being unable to work are fundamentally different (the removal of the job in the case of those made redundant versus the loss of ability to work in the case of those who are sick or

disabled). This creates very significant differences in the approach to be taken to costing the provision of support for these groups.

- 5.5 The uncertainties inherent in the length of time a sick or disabled person may be unfit for any work, let alone some work, as well as the complexities of treatment and rehabilitation, make the accurate assessment of the true costs of an insurance scheme less certain. This runs the risk that the costs of managing cases of sick and/or disabled workers will end up being subsidised by those (employers and employees) simply made redundant. Ultimately it also may lead to cost blowouts, with negative consequences for all.
- 5.6 BusinessNZ does not support the inclusion of sick and disabled workers in the coverage of the scheme.

#### *Contractors and self employed*

- 5.7 The terms "contracting" and "self-employment" cover a wide variety of working arrangements. Both generally cover the provision of services that a client does not have internal access or expertise in or need for on an intermittent basis. Self-employment generally covers work undertaken by an individual acting alone, albeit that they may have a range of clients or use one or more means of accessing customers. Contracting may also involve individuals acting alone, but not always.
- 5.8 If the NZIIS is to cover the self-employed and contractors, there must be a clear definition of the triggers for accessing the scheme. The Discussion Document states that coverage for self-employment would be for those who most resemble employees. This implies coverage is not available for those who don't resemble employees.
- 5.9 Paradoxically, defining a trigger event for the self-employed is easier with respect to illness and disability than it is with respect to redundancy. Medical and visual evidence will suffice with respect to illness and disability, but determining whether a self-employed person has suffered redundancy through no fault of their own is much more problematic.
- 5.10 Ultimately, BusinessNZ favours an approach where coverage is provided only to those self-employed for whom the loss of a given client would represent a significant and difficult to replace source of income. In assessing this, regard should be had to what income could reasonably have been expected, in turn based on an assessment of established patterns of work.

#### *Fixed term and seasonal work.*

- 5.11 Fixed term and seasonal workers are another category of work requiring careful consideration. Both typically have a known start and finish date to their term of engagement. Outside those dates, they have no expectation of employment and therefore should have no expectation of compensation for that period. However, BusinessNZ believes it is appropriate to offer access to the scheme if the worker's employment is terminated by reason of redundancy before they would otherwise have

finished. The criteria in this regard should be as for the self-employed, a reasonable expectation of ongoing employment and an established pattern of work.

### *Casual work*

5.12 It is difficult to define eligibility for true casual work, as there generally is little evidence of either an established pattern of work or an expectation of ongoing employment. However, as many casual workers are in fact in a “grey” zone between formal employment with fixed hours and income and true casual work (only when required) there is arguably a case for those casual workers for whom a pattern of work can be established (and therefore an expectation of future income) to be included in the coverage of the scheme.

## **6.0 FINANCIAL AND OTHER SUPPORT**

### *Contribution period*

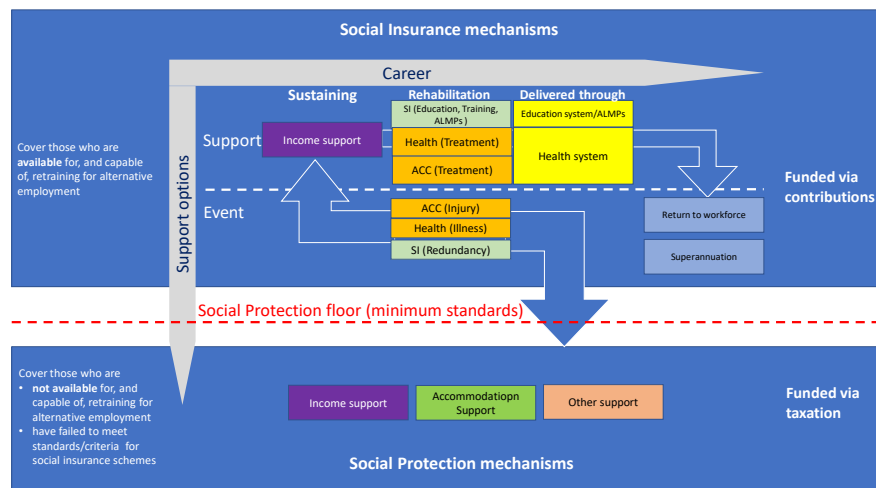
6.0 The scheme is designed to be eventually self-funding. However, it needs start up capital, a significant proportion of which is expected to be provided by the Government. Obtaining the balance required needs to come from contributions to the scheme. It makes sense for there to be a period of initial contribution during which the scheme cannot be accessed, thus building the scheme’s reserves and accelerating the date by which the scheme can be fully funded and sustained. To this end it is appropriate that an initial contribution period be established. BusinessNZ believes that six months is adequate for this purpose.

### *Notice and “bridging payment”*

6.1 Workers who cannot work because of redundancy or illness will be entitled to income support of 80% of pre replacement income, capped at \$130,000 (the same as current ACC entitlements). Employers would be required to give 4 weeks’ notice and additionally pay 4 weeks’ wages at 80% prior to the worker entering the scheme. The 4 weeks at 80% payment is refundable if the employer takes active steps to find the displaced worker new employment. The scheme would be jointly funded by employers and workers via payroll levies (1.39% each). This is all appropriate in BusinessNZ’s view

6.2 The diagram below provides a schematic view of the proposed scheme and its relationship with the existing social welfare system.





## 7.0 JUST TRANSITIONS AND ACTIVE LABOUR MARKET POLICIES

- 7.0 Access to the scheme requires a commitment on the part of a displaced workers to enter retraining or rehabilitation programmes. Access can be denied or cancelled if this requirement not met.
- 7.1 However, the scheme will need much more responsiveness from the skill system to provide recognition of the skills people already have and identify the 'top up' needed for redeployment. This is made more problematic by the fact that the education products needed for a system like this just don't exist at present – there is limited access to, and expertise within the tertiary education sector to undertake rapid assessment of Recognition of Current Competency and Recognition of Prior Learning to inform skill gaps, and a lack of responsiveness in the system to deliver training where and when needed, particularly in terms of regional provision.
- 7.2 Given the high risks particularly to lower skilled occupations from automation developments, the skills system needs to undertake more rapid development now to address existing challenges of low levels of literacy and numeracy and digital skills in the workforce to build a solid foundation for any retraining or reskilling programmes, reducing the vulnerability of low skilled workers. The lifelong learning approach to training needs to be embedded within the New Zealand workforce to soften potential shocks.
- 7.3 Cost projections for the NZIIS are based on assumptions that 6 months is the maximum period most workers will require to achieve job readiness for work that is available at their level of skills and knowledge. If skills and training products are not immediately available, and are worked out as demand grows, there is a real risk of redundant workers being paid for longer than projected, with no ultimate benefit to either them or the economy. This will also put the financial viability of the scheme under stress.
- 7.4 History suggests that even in large scale redundancy situations, most people move around the labour market without needing any form of intervention. However, the type of changes envisaged in future may involve whole industries or sectors, rather than

just a large company within an industry or sector, making historical assumptions less valid.

- 7.5 The compulsion to have access to training may risk proliferating low value rapid training programmes leading to low successful rates of placement into jobs commensurate with existing skills and knowledge, as is the case currently with many active labour market programmes that train exclusively for low-skilled occupations. For higher skilled workers that have already undertaken degree level study, vocational level focussed retraining may not fit with the aspiration of the individual or avoid the wage scarring that the scheme is intended to avoid.
- 7.6 Furthermore, while comparable jobs may be available, they are just as likely to be in a different location. In relation to higher skill levels the risk is real that overseas options may come more attractive than domestic options. A current example is the Taranaki issue – petrochemical workers with highly transferable skills are moving offshore rather than staying in New Zealand.
- 7.7 On the other hand, if in a large-scale displacement situation, insufficient workers are willing to leave the region, the level of replacement jobs with comparable skills is unlikely to be enough to fulfil the needs of workers or the aims of the scheme. This points to the need to have a multi-faceted approach to redevelopment rather than just focusing on skills. Programmes aimed at assisting workers and their families to migrate towards job opportunities are an example of the sorts of programmes that may be required.
- 7.8 Interaction with other existing initiatives also needs to be factored in, ensuring continued engagement in training as part of the Reform of Vocational Education changes.

## **8.0 SCHEME MANAGEMENT**

- 8.0 In management terms, the proposed NZIIS is essentially an expansion of the ACC scheme.
- 8.0.1 The displacement event that prevents workers from continuing in their current role will trigger access to the scheme, in the same way an accident triggers access to the current ACC scheme. And, as with the ACC scheme, there is always the likelihood of levies increasing in future to meet increases in the costs to the scheme.
- 8.0.2 NZIIS levies will be collected by ACC from employers and workers, via business payroll services, i.e., the same way ACC levies are collected now.
- 8.0.3 ACC will provide case management services to ensure displaced workers access the training and rehabilitation products and services that will address their needs and the aims of the scheme.

- 8.1 However, while registration into the scheme and collection of levies are more in the nature of volume-based expansions of ACC's current work, the same cannot be said of case management.
- 8.2 There are several issues that need to be managed here and it is not clear from the NZIIS Discussion Document whether these have been considered.
- 8.3 ACC's present internal case management expertise is focused on the rehabilitation of injured people (not just workers) in respect of which the case management environment is almost exclusively in the health sector.
- 8.4 The introduction of the NZIIS will expand case management requirements significantly. Beyond treatment and rehabilitation of injured persons back to full fitness, case management scenarios will also include
- Training of redundant workers in skills they do not currently possess, to give them access to different work of comparable value and challenge
  - Medical services to assess and manage illness
  - Treatment and rehabilitation of workers who have been displaced due to disability (which may in fact be caused by injury)
  - Assessment, diagnosis and treatment of workers who become unable to work because of illness.
- 8.5 The source and nature of the case management expertise will vary between these scenarios. It is highly unlikely they will be able to be sourced and deployed by ACC alone. This suggests strongly that options for the outsourcing of case management need to be included in the scheme.
- 8.6 In considering feedback on the Discussion document, it is recommended that an assessment be undertaken of the scope and availability of case management expertise in New Zealand, in order to form a view on whether or not ACC will be able to deliver on the operational elements of the proposed scheme.

**ENDS**