

WHAT IS THE PROPOSED NEW ZEALAND INCOME INSURANCE SCHEME?

May 2022

Introduction

Every year some tens of thousands of New Zealanders are made redundant or have to stop working long-term or permanently for health reasons.

Some employees will receive redundancy payments, and some may get ACC and/or welfare support, but not all.

Unless these employees have their own insurance or qualify for some sort of financial assistance, there are few protections available for them.

The Government, Business New Zealand and the New Zealand Council of Trade Unions are proposing a New Zealand Income Insurance Scheme to support workers who are made redundant (described in the documentation as being displaced) or have to stop working permanently or long-term due to a health condition or disability.

What is the current state of the proposal?

On 2 February 2022 a discussion document was released, setting out the details of the proposed scheme.

Submissions on the discussion document closed on 26 April 2022.

A multi-agency team is now analysing the submissions and it will in due course produce a report for the Steering Group.

The Steering Group will then consider the report and make a recommendation to Cabinet on whether or not to go ahead with the scheme.

It is expected that a decision will be made around June or July 2022 on whether or not to go ahead with the scheme.

If the decision is to go ahead, legislation will be drafted and will go through the usual process. The public would then have an opportunity for engagement through the Select Committee examination of the draft Bill.

What has been proposed?

What types of job loss would be covered?

The proposal is that the income insurance scheme would cover two types of job loss:

- loss of the worker's entire job due to redundancy (displacement); and
- loss due to a health condition or disability.

What does "job loss" due to a health condition/disability mean and how would it be measured?

The worker would need to suffer from a health condition or disability that has caused complete loss of capacity to work or a reduction in capacity to work of at least 50%, and that is expected to persist for at least four working weeks.

Incapacity would be assessed/certified by health professionals and employers.

Workers experiencing loss of work capacity below the 50% threshold would be expected to use sick leave.

Who would be covered?

The scheme would apply to employees. Some parts of it might apply to other workers.

What is not clear is:

- if all types of employees would be covered - eg. just permanent employees, or casuals and fixed term employees?

We note that these are important issues that would need to be resolved. Generally the concept of fixed term employment does not fit with the concept of redundancy.

- Will the scheme apply to the self-employed?

The proposal says the displacement insurance may not cover these people, unless they are akin to employees (eg. have several clients only), but the health condition/disability insurance may cover them.

Would there be any other eligibility terms?

Yes – these would include having belonged to the scheme for a qualifying period – claimants would need to have made six months' levy contributions to the scheme in the previous 18 months.

What would the cover be?

Displaced workers would:

- have to be given, by their employers, at least four weeks' notice of the displacement;
- be paid by their employers for the first four weeks of unemployment (called a bridging payment);

The bridging payment would be refunded by the insurer to the employer if the employer helped the worker into a new job during that four-week period.

- receive 80% of their prior income (capped at \$130,911, adjusted annually) for a maximum of six months.

Workers with contractual entitlements to redundancy pay would still receive their redundancy pay; this would not reduce or alter the above entitlements.

Workers who lose their jobs due to a health condition or disability would (it is said) have the same entitlements as displaced workers, however we note that this is not 100% clear in the detail of the proposal document. The proposal states that for health condition and disability claims, in general there would be no bridging payment required, but employers would be required to pay a bridging payment if they dismissed an employee on medical grounds. Apparently this is to discourage employers from too readily dismissing employees with health conditions, where there was a chance they could return to work. In a situation of agreed medical retirement, the bridging payment would not apply.

Also, for these workers, employers would be required to take reasonable steps to support them to continue working (prior to them stopping work) and employers would need to make reasonable efforts to keep their jobs open where there was a reasonable prognosis of the employee returning to work within six months. However, that expectation would not be obligatory, because requiring employers to keep jobs open could deter hiring.

What would claimants' obligations be?

They would be expected to be based in New Zealand.

Displaced workers would be required to look for or prepare for work.

Health condition and disability claimants would be obliged to participate in work capacity assessments, and return to work services, where appropriate.

How would the scheme be delivered?

It would be administered by ACC.

Case management services might be outsourced to insurance companies.

How would the scheme be funded?

The proposal is for a compulsory levy, to be shared equally by employers and workers.

The indicative initial levy is 2.77% of salary and wages, with employers and workers each paying 1.39%.

Here are some examples of how this would apply for employees who usually work 40 hours a week and lose all their work:

- A person earning \$880 before tax (\$45,760 per annum) would pay \$12.23 a week and receive \$704 before tax in insurance payments.
- A person earning \$1160 before tax (\$60,320 per annum) would pay \$16.12 a week and receive \$928 before tax in insurance payments.

- A person earning \$2000 before tax (\$104,000 per annum) would pay \$27.80 a week and receive \$1600 before tax in insurance payments.

These levies would be matched by employer contributions.

What are some of the issues that were identified during the consultation process?

It might be difficult to define which types of employees and other workers are covered by the scheme. The Government has indicated it should cover as many people as possible, but the practical realities may be different.

Concerns have been raised about what employers would do where they already provide redundancy pay. Would the scheme encourage them to do away with it? Or should there be an opt out system for these employers?

There is a concern about “gaming” – that employers and employees would agree on termination of employment due to displacement rather than, for example, performance, as a displacement termination would qualify the employee for the income insurance.

It isn't clear how the displacement insurance scheme would apply to the self-employed.

The scheme might not work for job loss due to health conditions and disabilities; employees who are displaced are fit to return to work whereas those who lose their jobs for health reasons are not, and the scheme contemplates the employees returning to work.

The proposal comes at significant cost to employers and employees; it has been suggested that the scheme should be as fiscally neutral as possible, for example, with tax relief.

The National Party has said that any insurance scheme needs to be cost neutral, and should be limited to covering redundancy situations only.