

# A New Zealand Income Insurance Scheme: Our proposals

Have your say by 26 April 2022



Every year, more than 100,000 New Zealanders are made redundant and laid off, or have to stop working because of a health condition or disability.

We're proposing a new way of better protecting workers and the economy: **a New Zealand Income Insurance Scheme.**



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As New Zealand looks to move beyond the economic and social impacts of COVID-19, there are important lessons to be learned from the way in which we were able to support one another through an unprecedented series of challenges.

Government programmes such as the Wage Subsidy Scheme and Resurgence Support Payment aimed to protect New Zealanders' livelihoods and economic wellbeing. This was primarily done through keeping people in their existing jobs and supporting businesses most directly affected by the pandemic.

As we look toward a future where economic activity might be moving toward new sectors and industries, it is appropriate that we consider how we continue to ensure New Zealanders' economic security. Future shocks may occur at an international, national or regional level. Equally, individual businesses or workers may find themselves subject to economic displacement for a range of reasons.

Rather than supporting workers to remain attached to their current jobs, as the Government did throughout COVID-19, we need policies that provide economic security to the individual directly and support them to transition into new work, regardless of the source of their displacement.

Few protections are available for people who lose their job. Some receive redundancy payments, but this depends on employment agreements, and is rarely paid if a business fails. Others are supported by welfare, but the drop in income can be large, and many aren't eligible.

This often results in a significant income shock that can affect wellbeing and earnings, even when a person finds new work.

That's because finding a good job takes time. Many people accept lower-paid jobs that don't match their skillset because of the financial pressure to get back to work quickly. Others might not find work, because their skills are no longer needed, as old industries close down or new technologies replace work previously done by people. These wage losses run into the billions of dollars every year.

People dealing with a health condition might try to keep working to maintain an income, often making their health worse or delaying their recovery. An existing or new disability might mean they need to reduce their work hours or can't keep doing the same job, and they struggle to retrain for a new career.

These outcomes don't just harm individuals and their families, they affect businesses, communities and the economy. In short, everyone.

Businesses lose out on important productivity gains: the current system doesn't give people time to find work that matches the skills they have. Sectors facing critical skill shortages may miss out on key workers, simply because a vacancy wasn't available in the few weeks a worker was desperately looking for work. As New Zealand faces a tight labour market and demand for skilled workers, it is in the best interests of workers and businesses that people are employed in areas that make the greatest use of their skills.

People who keep working while unwell are much less productive, and when it takes longer to recover, important skills can be lost.

Loss of work can affect communities and whānau, especially communities reliant on a major employer. When these businesses shut down, workers have little money to spend, which means other businesses suffer and the community can go into a long-term economic decline lasting for generations. An income insurance scheme could cushion workers and communities from such abrupt income losses, allowing more time to adapt.

**We've seen this frequently over the past 40 years, as New Zealand has been struck by economic shocks that have seen even seemingly secure careers affected significantly.**

Around 200,000 people lost their jobs and spent time out of work, some for several years, during the late 2000s Global Financial Crisis. The Canterbury earthquakes saw successful businesses close down almost overnight after their facilities were damaged. The COVID-19 pandemic brought our then-largest export earner, tourism, to an abrupt halt. At local levels, many examples can be found, such as the closure of Kawerau's timber mill or Hawkes Bay's Whakatū and Tomoana freezing works.

These economic challenges are likely to become more frequent. Technology could replace more jobs currently done by people, or replace the products and goods we produce. The move to a low-emissions economy will see significant changes in how we do things, and some industries, like oil and gas, will be replaced by others over time. Changing consumer demands, an ageing population and increasing globalisation will all contribute to big shifts in what work we do, what things we produce and what skills we need.

These are confronting challenges, but they also provide exciting possibilities. Since 2006, the value of start-up investment in New Zealand has grown sevenfold. Brand new industries – like our space sector – have emerged and others – like video game development – are growing fast. An income insurance scheme isn't just about helping people find good jobs, it's about giving people the freedom and confidence to enter new sectors, which they might traditionally avoid for fear of not having secure work.

**A New Zealand Income Insurance Scheme could play a significant role in better protecting workers and incomes, matching skills with where they are needed, and helping communities and industries during economic shocks and transitions.**

The proposed scheme would also go a long way to addressing the current inequity whereby a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, despite a similar loss of ability to work.

New Zealand is almost alone in the developed world in not having some kind of mandatory, nationwide income insurance scheme or other protection, such as mandatory redundancy payments, for people who lose their jobs.

We believe a New Zealand Income Insurance Scheme could be an important step-change that lets us manage the challenges and harness the opportunities that lie ahead for New Zealand.

The proposed scheme most directly benefits working people, but there are also significant benefits for employers. The proposed income insurance scheme would help shift New Zealand to being a higher productivity economy where businesses generate more value and greater returns. The proposal will also create a clearer process for redundancies, with more predictable costs.

Our proposed scheme – which we would like your feedback on – will see workers receive 80 percent of their usual salary for up to seven months. It will cover them if they are made redundant, laid off, or when a health condition or disability means they have to significantly reduce their work hours or stop working entirely. This will give them the time and financial security to find a good job or take part in training or rehabilitation.

The scheme will require people to look for work or take part in training and rehabilitation. It will be paid for by levies on wages and salaries, with both workers and employers paying an estimated 1.39 percent each. ACC will manage the scheme.

The challenges of the future are real and inescapable. That's why Business New Zealand, the New Zealand Council of Trade Unions and the Government have developed this proposal to protect workers, improve productivity and prepare New Zealand for the changing world of work. Now it's time to hear what the country thinks.

We want to get this right, and we look forward to hearing your views on everything we've proposed.

Hon Grant Robertson  
**Minister of Finance**

Richard Wagstaff  
**President**

Kirk Hope  
**Chief Executive**

New Zealand Government

**nZCTU**  
Te Kauae Kaimahi

**BusinessNZ** 

## **Q** Our questions for you

Please take the time to read this summary of our proposals and the questions throughout. You can read the full discussion document and answer the questions online at [www.mbie.govt.nz/incomeinsurance](http://www.mbie.govt.nz/incomeinsurance)

Should New Zealand introduce an income insurance scheme for job losses due to redundancy, layoffs or health conditions and disabilities? Please state, yes, or, no, and feel free to expand on why or why not.

# Our proposals at a glance

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Broad coverage for different working arrangements



Coverage for job losses due to redundancy, layoffs and health conditions and disabilities



A four-week notice period and four-week payment, at 80 percent of salary, from employers



A further six months of financial support from the scheme, at 80 percent of wages or a salary



Option to extend support for up to 12 months for training and rehabilitation



A case management service to support people's return to work




Administered by ACC



Funded by levies on wages and salaries, with both workers and employers paying an estimated 1.39 percent each



Workers eligible after six months of levy contributions in the previous 18 months



A New Zealand Income Insurance Scheme could play a significant role in better protecting workers and incomes, matching skills with where they are needed, and helping communities and industries during economic shocks and transitions.

# Most workers will be covered by income insurance

Our proposed scheme aims to cover as many workers as possible, to reflect the different ways people work, ensure more people can benefit and to keep costs low.

People working in New Zealand will pay insurance levies to support them if they lose their job.

To be eligible, people will need to have worked or been on statutory parental leave for at least six months in the past 18 months.

We've developed different eligibility criteria for people who stop working because of a health condition or disability, and those who are made redundant or laid off.

## **Coverage for employees made redundant or laid off**

Insurance is about covering unexpected risks outside of one's control, so our coverage for redundancy and layoffs reflects this. We've taken care to cover as many people as possible who have a pattern of regular, ongoing work, while excluding or limiting coverage for people who have much greater control of when and how they work.

Non-standard employment arrangements will have additional criteria for access to the scheme:

- › Fixed-term and seasonal workers are eligible, but generally only up to the original intended end date of the job: for example, if someone loses their job four months before it was due to finish, they'll be supported by the scheme for a maximum of four months.
- › Fixed-term and casual workers who can show a regular pattern of work with an employer, and a reasonable expectation of future income, will be treated like permanent workers and eligible for the full support offered if their regular pattern of work is disrupted.
- › People working multiple jobs are eligible if they lose a job that provides more than 20 percent of their income. Any payments will top up these workers to 80 percent of their previous income.

## **Coverage for loss of work due to a health condition or disability**

Most workers will be covered for health-related job losses, including part-time, fixed-term, seasonal and most casual employees, as well as contractors and the self-employed. This recognises that health conditions and disabilities are something people generally can't control.

It will help address the current disparity where a person who experiences an accident can receive much more support than a person with a non-accident-related health condition or disability, such as being diagnosed with cancer, despite a similar loss of ability to work.

## **Coverage for contractors and the self-employed who lose work**

We're seeking your views on coverage for self-employed people. Ideally, we want the scheme to cover self-employed workers who most resemble employees, such as those with a small number of clients.



The self-employed are a diverse group. Some depend on a few contracts (such as ridesharing or courier drivers or construction subcontractors), while others (like independent tradespeople) work for many clients. We want to protect people who genuinely lose work for reasons beyond their control, while not covering people who may choose to close their work down in order to access the scheme.

**Broad eligibility means Māori, Pacific peoples and women benefit**

We want the scheme to reflect the different ways population groups work and meet the obligations under Te Tiriti o Waitangi. We know Māori, Pacific peoples and women are more likely to have non-standard working arrangement. Women make up 62 percent of people with multiple jobs and 75 percent of those working part time, 32 percent of seasonal workers are Māori and 10 percent of Pacific peoples work in casual jobs. By designing a scheme that covers as many people as possible, we're helping to establish a scheme that is fair and equitable.



**Hemi is a mobile crane operator who has three different jobs working for oil and gas companies.**

One company, which provides 50 percent of Hemi's usual income, decides it no longer needs his services, and makes him redundant. He's eligible for insurance payments to top up his take-home pay back to 80 percent of normal. He uses his spare time and the financial security these payments provide to begin looking at other sectors. After four months, he has a new job installing wind turbines, and his insurance payments end.



**Natalie is an experienced airline pilot, flying Kwis around the country and the world for 15 years.**

Her career outlook looks promising, until a pandemic strikes: borders are closed, travel bookings plummet, and Natalie is made redundant. Flying a plane involves more than handling the wheel, it requires an eye for detail, critical thinking, communication, data literacy and leadership. Natalie uses her insurance payments to take stock of her career and look for a new path. After five months, she finds a job that matches her skills: operations manager at a recycling plant.

**Q Our questions for you**

Many types of working arrangements exist, including permanent, fixed-term and casual employees, as well as contractors and self-employed people. What do you think about our proposals to cover a broad range of working arrangements?

What do you think about our requirements for workers to be eligible for payments? For example, having paid levies, being a New Zealand citizen or resident, and different coverage for health and disability-related job losses?



# Financial support is provided for most job losses

Our scheme is designed to provide enough of a financial cushion that workers have the time and financial security to find a good new job, rehabilitate, or retrain for a different career.

This also benefits employers as it contributes to New Zealand becoming a higher productivity economy where businesses generate more value and greater returns. It helps maintain consumer spending through economic shocks, and keeps people connected to their employers.

Our scheme will see workers receive 80 percent of their usual salary – capped at salaries of \$130,911 a year – for up to seven months if they lose their job. Workers aren't covered if they're dismissed for poor performance or misconduct, or they quit their job.

These payments aren't affected if someone has assets (such as property they own), or if they receive money from other sources (such as government support), or if others in their house (like their partner) continue earning.

## **Employers will give notice and four weeks' pay if they lay off workers or make them redundant**

All permanent employees will get four weeks' notice, and their employer will continue to pay wages for four weeks at 80 percent when the job ends, after which income insurance payments would begin. These payments are in addition to any other redundancy provisions in an employment agreement.

The payment encourages employers to consider if redundancy is necessary, or if alternatives can be found. It will also discourage fraudulent claims. Employers could seek a refund of some or all of the payment if they assist the worker to find work within the initial four-week period. This payment also reduces costs for all employers and employees, supports good employers, and makes sure that the costs of redundancy are more fairly shared.

In the event a business fails and the business can't pay, the scheme will cover this payment and seek to recover this from liquidators.

Employers will need to provide this notice period and payment if they end someone's employment because a health condition or disability means the employee can no longer do their work. This encourages employers to make reasonable attempts to accommodate the employee's health condition or disability, through things like new equipment or flexible working arrangements. These obligations don't apply if a worker quits for health reasons.

## **Workers made redundant or laid off for economic reasons will receive up to six months of financial support from the scheme**

To qualify, the job must end. A reduction in hours worked at the job is not an event that is covered by the scheme.

After four weeks, if a worker hasn't yet found work, the scheme will provide them with 80 percent of their usual income for up to six months, to give them the financial security to find a good job that matches their skills, experience and aspirations. If they lost their only job, they'll receive the full 80 percent, but if they have other jobs, their income will be topped up to 80 percent of what they were earning across all their jobs.



People can only receive six months of insurance payments every 18 months. This can be spread over multiple claims (using any unused financial support), and the 18 months begins from the first claim.

### **Workers with health conditions or disabilities will receive the same amount of insurance cover**

To be eligible, someone must stop working entirely or experience a reduction in their capacity to work by at least 50 percent. The health condition or disability must be expected to last for at least four weeks. Any health issues shorter than this should be addressed with sick leave and other leave options.

Employers will be encouraged to make reasonable efforts to hold the position open if the worker is likely to recover within six months. Doctors will certify a person's capacity to work and, where appropriate, employers will provide supporting information.

The scheme will pay workers 80 percent of their salary for up to six months. If they can remain in part-time work with the employer, the scheme will top them up to 80 percent of their usual salary.



#### **Anastasia is a machinist at a forestry mill that has gone into liquidation, and one of 150 workers laid off.**

Anastasia uses her time and insurance payments to set up a boutique manufacturing business, selling high-quality hardwood furniture. The products are a hit, and within a year she has hired 10 staff. Anastasia isn't the only one to try a new venture – her success and the success of others mean the community continues to thrive despite the closure of a major employer.



#### **Siaosi is in his late 50s, and has worked a long career as a public defence lawyer.**

It is a busy, stressful job, and Siaosi struggles to balance his work, family and personal commitments. Eventually, this stress catches up with him: he survives a heart attack but his doctor warns he must make changes. Siaosi's employer leaves his job open, while he takes time off work to improve his health, supported by insurance payments. Three months later, Siaosi returns to part-time work, with less-stressful responsibilities mentoring younger lawyers. He moves up to full-time work in this new, less-stressful role a month later.

## **Q Our questions for you**

What do you think about our proposals for up to six months of support from the scheme, at 80 percent of someone's normal salary? Higher levels or longer durations of financial support will mean the levies paid by employers and employees will be higher.

Employers will provide a four-week payment for redundancies and layoffs, to discourage unnecessary redundancies and provide extra assurance that the scheme is only used by those who should be eligible, lowering costs to other employers. What do you think about this payment? Are there other ways to promote integrity?

If you're a worker, and you lose your job, how do you think you would use the financial support you would get through this scheme?

# Claimants will be offered support to get back to work

Our scheme aims to help people find good new jobs that match their skills and aspirations. It also aims to help people use the time to learn new skills or rehabilitate from a health condition or disability.

## **Claimants are expected to look for work or participate in training or rehabilitation**

Claimants will need to search and prepare for work, and demonstrate this. They'll need to accept any job offer that matches their previous income and other terms and conditions.

These obligations may be waived if someone's health condition or disability limits what they can do. They could also be waived if someone is in an approved training or rehabilitation programme to help support a return to work.

Claimants will need to remain in New Zealand while receiving payments, except when going overseas for things like funerals, weddings or health treatments.

## **Support for people will be available to find work and connect them with training or rehabilitation programmes**

Claimants' needs are likely to vary significantly. Some people may not need support in their job hunt, while others may benefit from more active guidance. Case managers will be available to develop a tailored return-to-work plan for claimants who need it. Case managers can also encourage and motivate claimants in their job search or help them to return to work.

Services will vary for people who need help for health or disability reasons. Some people will be able to return to work relatively quickly with support. Others may take longer to return to work and need more structured and intensive support. Income insurance provides the time for people to get this.

As part of implementing the scheme, we'll be looking at ways to ensure case management meets people's cultural and personal needs, including for Māori, Pacific peoples and other ethnic groups.

While financial support will be for a maximum of six months, this could be extended for up to 12 months for people undertaking appropriate training or vocational rehabilitation programmes. This is common in international schemes, and ensures those in the scheme have financial security if they are training or rehabilitating.

## **Most other forms of government support are not affected**

Insurance payments will be considered as income. They'll be taxed, and used to work out if someone's eligible for other support, like Working for Families, the Accommodation Supplement or the Student Allowance. People can receive superannuation at the same time. People on paid parental leave will be eligible for insurance payments at 80 percent of their normal salary, but these won't be paid at the same time.

If people are not able to return to work, the welfare system remains available to support them. The Government is committed to ongoing reforms to improve the welfare system.



### **People can work part-time while receiving payments**

Taking on occasional or part-time work can be valuable in a job search. It can keep people's skills and experience fresh and boost their mental health and wellbeing. The scheme will allow people to earn up to 20 percent of their previous income without their insurance payments being affected. Any earnings above this will see their insurance payments reduce by \$1 for every \$1 they earn.

### **If claimants don't meet their obligations, payments may be stopped as a last resort**

People will be encouraged and supported in their job search. In rare cases of a pattern of non-compliance, people will be given notice and time to meet their obligations. If they fail to do so, insurance payments may be temporarily stopped.



**Manaia has worked for 30 years as a primary school teacher. She loved the job, but chronic back pain due to osteoarthritis means she can no longer bend down to help her young students with their studies.**

Manaia's doctor advises her to stop working, so she takes a break, supported by insurance payments. She works with her case manager on options, and signs up for a 17-week course in business administration. She returns to her primary school, this time in an administrator role in the school's office. It's a win-win – Manaia continues to play an important role in the children's education and the school can use her insights and experience in new ways.



**Angeli is a mechanical engineer working on industrial boilers, but a vacancy in New Zealand's growing space industry attracts their interest.**

They always had a passion for space, and would love to take on the role, but with a mortgage and two children, Angeli is nervous to trade their secure job and enter a new industry. The introduction of an income insurance scheme provides them with the security they need. Angeli takes the risk, and, two years later, is still working for the same company as one of their lead rocket engineers.

## **Q Our questions for you**

Aside from financial support can you think of any other support that would help workers return to work?

What obligations should there be on people receiving income insurance payments?  
What should happen if claimants don't fulfil their obligations?

Should people be able to receive support for up to 12 months if they are in an approved training or rehabilitation programme? Extended support will mean higher levies and may help some people return to work.

# The scheme will be managed by ACC, which will also collect the levy

Publicly provided income insurance is a new concept for New Zealand, but we do have a similar system for accidents: ACC. We propose that the New Zealand Income Insurance Scheme is funded and managed in a similar way.

## **We'll build on ACC's experience by having it run the New Zealand Income Insurance Scheme too**

Governance of the scheme will include Business New Zealand, New Zealand Council of Trade Unions and Māori representation.

Any scheme with defined rules will have disputes, but we expect these to occur in only a small number of cases. The scheme will have an independent dispute resolution process.

## **We want a scheme that honours the Treaty partnership**

We seek te ao Māori perspectives to inform the design, development and operation of the proposed scheme, to ensure it applies the principles of kāwanatanga (governance), tino rangatiratanga (independence) and rite tahi (equity of rights).

The way the scheme is governed, delivered and evaluated should recognise a partnership approach, ensuring Māori have real authority to develop and implement policies that address Māori needs and respect te ao Māori.

This can be achieved through governance representation (including on the ACC Board and/or an advisory group to the Board); kaupapa Māori approaches to research, service delivery and evaluation; and seeking the perspectives of Māori claimants about service delivery.

## **Our scheme will be funded through levies on workers and employers**

The scheme will be funded by levies on wages and salaries, with both workers and employers paying an estimated 1.39 percent each. These are estimates and will be reviewed after two years. They may need to be adjusted from time to time, depending on the number of claims and how long people receive financial support. This is the same way ACC levies work.

Everyone's situation will be different, reflecting their circumstances. The following are examples for people who work 40 hours per week, and experience complete loss of work. Figures are before any tax deductions. Workers' insurance levies will be also matched by employer contributions.

### **Person A:**

Earns \$880 a week  
Pays \$12.23 per week in levies  
Receives \$704 a week in insurance payments.

### **Person B:**

Earns \$1160 a week  
Pays \$16.12 a week in levies  
Receives \$928 per week in insurance payments.

### **Person C**

Earns \$2000 per week  
Pays \$27.80 a week in levies  
Receives \$1600 per week in insurance payments.





**Daiyu is a manager for a local florist. An economic downturn, combined with changing demographics in the area, have led her boss to call time on the business.**

Jobs are scarce, and Daiyu may have taken the first available retail position. But with insurance payments, she takes the time to study e-commerce and tries her hand at establishing an online flower store. She partners with another start-up – a delivery services using e-bikes to deliver goods – to offer two-hour deliveries. The online store fills an important gap in the market and becomes a hit, eventually expanding to other New Zealand cities.



**Michael has built up his mechanic business over 30 years. His employees are like family.**

In the past few years, business has been declining, and Michael thinks he knows why: a new train line has connected the suburb to the city and fewer people are driving. Electric vehicles sales are also up, but they need less maintenance, and Michael's business isn't equipped to repair them. Michael makes the devastating decision to lay some of his staff off, but he's reassured to know they'll be supported by insurance payments, and will have the time to find new work, or improve their skills to work on electric vehicles.

## **Q** Our questions for you

The scheme would be funded by levies on wages and salaries, with both workers and employers paying an estimated 1.39 percent each.

Do you think the levies are good value for the protection and benefits the scheme would introduce for you and for New Zealand?

How affordable do you think the levy will be for you?

How can we ensure the proposed income insurance scheme honours the Treaty partnership?

We propose that ACC delivers the scheme. Do you have any suggestions that will be important to consider for ACC's delivery of the scheme alongside the existing accident compensation scheme?

Now that you have read about different aspects of our proposed New Zealand Income Insurance scheme, what do you think overall? Do you think New Zealand needs the scheme, taking into account what employers and employees will need to pay? What do you see as the strengths and weaknesses of the scheme?

## **HAVE YOUR SAY**

Answer questions in a short survey  
or provide a detailed submission at  
**[www.mbie.govt.nz/incomeinsurance](http://www.mbie.govt.nz/incomeinsurance)**

Submissions close 26 April 2022

