



Submission to MBIE on *A New Zealand Income Insurance Scheme*

INTRODUCTION

1. Thank you for the opportunity to submit on the New Zealand Income Insurance Scheme proposal. Social workers work primarily with those who experience economic disadvantage through structural barriers and the process of colonisation, therefore this issue is very close to the heart of many in our profession.
2. We commend the Tripartite Forum for exploring options to address financial hardship following job displacement, however we do not support this scheme in the current form as we have significant concerns that it will further perpetuate social and economic inequities across Aotearoa New Zealand.
3. In our submission, we explore the unintended consequences we can foresee and draw your attention to options not discussed in the proposal document, which in combination could still meet the objectives set out by the working group.
4. Lastly, we agree with those who have called for this policy to be debated as an election issue. This would allow for more time for robust cross-parliamentary discussions. It is our view that welfare reform, namely raising the welfare floor to attain adequate living standards should take priority over the implementation of a social insurance scheme at this time.

DISCUSSION

MEETING OBLIGATIONS OF TE TIRITI O WAITANGI

5. We have concerns regarding whether the insurance scheme meets basic obligations of the Crown under te Tiriti o Waitangi. The proposal document speaks to applying kāwanatanga, tino rangatiratanga and rite tahi (defined as governance, independence and equity of rights), however, we cannot see application of these principles within the proposal detail.
6. Kāwanatanga is not evident; we note that consultation has occurred with Te Puni Kōkiri and Māori Advisory Groups. However, without a primary seat at the table and full transparency during this development process we fail to see how the Tripartite Forum can ensure that this scheme contributes to whakapapa Māori achieving tino rangatiratanga as defined by tangata-ō-te whenua. In essence this approach has not demonstrated the principle of partnership under te Tiriti o Waitangi.

7. We are very concerned that in the current form, many Māori will not reap the benefits of this scheme. Income support is directly linked to previous wages which embeds existing inequities for Māori given proportionately higher rates of employment in lower-skilled and lower-paid occupations¹. They are also overrepresented in poverty statistics. Those on low wages will only be marginally better off than if they were receiving a primary benefit under this scheme, a rate which the Welfare Expert Advisory Group has argued is insufficient to meet the essential costs of living². We argue that this scheme breaches te Tiriti o Waitangi under article 3 of protection and works to create another structural barrier under which the process of colonisation continues, further disadvantaging Māori.

MAINTAINING EXISTING SOCIOECONOMIC INEQUITIES

8. We believe there is an unintended consequence of this proposal in that it will maintain, and in fact perpetuate existing socioeconomic inequalities which exist across Aotearoa New Zealand³. The biggest winners for the scheme are middle-income earners with relatively normative work patterns and history. This group currently experience significant income shock in the event of job displacement due to redundancy or ill health. The scheme will cushion their income loss and prevent what is termed 'downward social mobility'⁴. However, it does little to address the structural conditions of disadvantage in our low-wage economy and may in fact work to amplify such conditions by enabling an "easy-hire, easy-fire labour market"⁵.
9. Modelling this scheme on ACC exacerbates problems of inequitable cover which are already evident within the ACC scheme⁶. We know the rate of ACC claims is lower for Māori, despite Māori experiencing higher rates for serious injury than non-Māori. Gender differences in claim coverage is also seen, with men receiving weekly compensation more frequently than women⁷. Despite efforts in the proposal to widen coverage for working arrangements, the employment history and contribution requirements are still likely to disadvantage these same groups. Precarious or insecure employment is more likely to be experienced by women, Māori and Pasifika, young workers who have just entered the workforce and those who have a disability⁸, like ACC, these groups are at greater risk of ineligibility under the proposed scheme. We are concerned the scheme, in its current form, will further perpetuate disadvantage experienced by those who are already more likely to experience disadvantage.
10. We are also concerned that the levy, although technically a proportionate tax, becomes a form of regressive tax in practice. Those who earn above the cap of \$130,911 end up paying a lower

¹ MBIE. 2021. Māori in the Labour Market – June 2021 Quarter. Retrieved from: <https://www.mbie.govt.nz/business-and-employment/employment-and-skills/labour-market-reports-data-and-analysis/other-labour-market-reports/maori-labour-market-trends/>

² WEAG. 2019. Example Families and Budgets: Investigating the Adequacy of Incomes. Retrieved from: <http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/5269349623/Example-families-010419.pdf>

³ Duncan, G. 2021. Social Unemployment Insurance: A Case (more or less) in favour. Policy Quarter: 17:4 <https://doi.org/10.26686/pq.v17i4.7312>

⁴ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11. <https://doi.org/10.26686/pq.v17i4.7311>

⁵ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11. <https://doi.org/10.26686/pq.v17i4.7311>

⁶ Duncan, G. 2021. Social Unemployment Insurance: A Case (more or less) in favour. Policy Quarter: 17:4 <https://doi.org/10.26686/pq.v17i4.7312>

⁷ Duncan, G. 2021. Social Unemployment Insurance: A Case (more or less) in favour. Policy Quarter: 17:4 <https://doi.org/10.26686/pq.v17i4.7312>

⁸ Duncan, G. 2021. Social Unemployment Insurance: A Case (more or less) in favour. Policy Quarter: 17:4 <https://doi.org/10.26686/pq.v17i4.7312>

proportion of their overall income into the scheme because it is a flat rate of 1.39% up until that point. For example, someone who earns \$156,000 per year is only paying a contribution of 1.17% of their *total pay* into the scheme, for someone who earns \$208,000 this is even less at 0.87%. For those at the other end of the spectrum, earning a full-time minimum wage of \$44, 096 per year will result in a weekly contribution of \$11.79. This is significantly less than the \$34.99 maximum rate paid by high income earners, however the material impact in relation to meeting the essential costs of daily living will be more challenging for low-income earners who have no choice but to pay this levy. Additionally, the current economic climate in which there is significant inflationary pressure needs to be considered as any additional levies will only increase this pressure, particularly for those who spend a greater proportion of their income on essential costs. KiwiSaver is a case in point of how levies or contributions associated with social insurance schemes create inequalities and don't achieve the outcomes intended⁹. Average KiwiSaver balances across our working population are much lower than predicted when the scheme was created and persistent savings inequalities exist, with lower income-earners saving significantly less and utilising default funds more often, which tend to see lower returns¹⁰.

11. Inequities in the income insurance scheme are illustrated in our comparison table below, which shows the impact of the levy compared to weekly core expenditures. We use examples from the proposal brochure, referencing medium incomes for the job type named¹¹ and using core household expenditure from the Welfare Expert Advisory Group's example families and budgets¹². It is important to note that the weekly core expenditures are underestimates given the significant increase in inflation since these example budgets were calculated back in 2019.

	Usual Pay (gross) Per year/ per week		Weekly Contribution	Weekly Pay out	Weekly core expenditure	Jobseeker compared
Hemi (couple 2 children)	\$31, 200	\$600	\$8.34	\$493.84	\$1267	ineligible
Natalie (single, no children)	\$156,000	\$3000	\$34.99 (max)	\$2014.02	\$615	ineligible
Manaia (sole parent, 1 child)	\$62,400	\$1200	\$16.68	\$960.00	\$1025	\$511.65
Daiyu (couple no children)	\$44,096	\$848	\$11.79	\$678.40	\$1344.5*	\$604.00 (couple)

⁹ Townsend, W. (2018). Behavioural Economics and Retirement Savings improving KiwiSaver. Policy Quarterly; 14(4) Pp. 84-91. <https://ojs.victoria.ac.nz/pg/article/view/5153/4586>

¹⁰ Te Ara Ahunga Ora: Retirement Commission. 2022. KiwiSaver Balances Policy Brief. Retrieved from: https://cfc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/TAAO-RC-Policy-Brief-2022_Kiwisaver.pdf

¹¹ Taken from careers.govt.nz.

¹² WEAG. 2019. Example Families and Budgets: Investigating the Adequacy of Incomes. Retrieved from: <http://www.weag.govt.nz/assets/documents/WEAG-report/background-documents/5269349623/Example-families-010419.pdf>

*weekly expenditure data has been taken from Statistics New Zealand Household Expenditure Statistics: Year ended June 2019 for a couple living in urban Auckland. This is in absence of this family type within the Welfare Expert Advisory Group's (2019) Example Families and Budgets data.

RISK OF '2-TIER WELFARE'

12. Correcting the inequalities that exist between those who qualify for ACC support and those who become unwell and require welfare payments is a key objective of this proposal. However, we believe that achieving this through separate income insurance rather than concentrating efforts on welfare reform creates a '2-tiered' welfare system. One tier consists of social insurance (ACC and income insurance) and the second is what is currently, substandard welfare payments. Evidence clearly articulates the unintended consequences of this approach, namely eroding public and government support of the welfare system which increasingly widens the gap between the two 'tiers' over time as income insurance is given preference in both public attitude and government investment¹³.
13. Providing wage replacement payments outside of the existing welfare system risks eroding public support for the system¹⁴, which on the back of over three decades of neo-liberal public discourse could work to significantly impact social cohesion over time. The welfare system requires ongoing public support as there is a sizable group of our population who aren't eligible for the income insurance scheme due to reasons such as, disability which has not enabled someone to enter the workforce, caregiving responsibilities which prevent normative working patterns, those who are studying or those who have newly entered the workforce and are not eligible under the work history criteria. Therefore, it is paramount that these groups are not stigmatised and that their interests are considered and supported during policy making. 'Othering' those who are unable to work and require welfare payments works against the principles of horizontal trust required to achieve social cohesion and a well-functioning democracy¹⁵.
14. Additionally, removing the middle-class from the welfare system through provision of income insurance payments works to reinforce this notion of 'deserving and undeserving' recipients. It should be noted that without the middle-class 'voice' experiencing the challenges of the welfare floor, even for short periods, there is even less of an incentive for government to reform this system¹⁶ as they are more likely to be held to account by those who have not experienced intergenerational poverty and often feel unable to affect change.
15. Over time, these interlinked factors risk under-investment in the welfare system while progressively improving the income insurance scheme which further amplifies inequalities between these groups¹⁷.

¹³ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11. <https://doi.org/10.26686/pq.v17i4.7311>

¹⁴ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11. <https://doi.org/10.26686/pq.v17i4.7311>

¹⁵ Gluckman, P., Bardsley, A., Spoonley, P., Royal, C., Simon-Kumar, N. & Chen, A. (2021). Sustaining Aotearoa New Zealand as a Cohesive Society. Koi Tū: The Centre for Informed Futures, University of Auckland. Retrieved from: <https://informedfutures.org/wp-content/uploads/Sustaining-Aotearoa-New-Zealand-as-a-cohesive-society.pdf>

¹⁶ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11 <https://doi.org/10.26686/pq.v17i4.7311>

¹⁷ Chapple, S. & Fletcher, M. 2021. A Critical Consideration of Current Social Insurance Policy Developments in New Zealand. Policy Quarterly: 17(4). Pp 3- 11 <https://doi.org/10.26686/pq.v17i4.7311>

ALTERNATIVE POLICY OPTIONS

Extending ACC coverage

16. We agree that the inequitable coverage provided for accident and injuries compared to health conditions and disabilities needs to be addressed as a priority. Health and community social workers commonly work with whānau who are diagnosed with conditions such as cancer or stroke, which requires a period of intensive treatment and recovery. Individuals are rarely able to work during this time, and often whānau are required to take time off work in a caregiving capacity. However, the current ACC system does not extend cover to this type of situation and many whānau are ineligible for primary welfare support based on household income and assets tests. This creates significant secondary stress for whānau, which can impact their mental health and treatment outcomes¹⁸. Extending ACC to provide income replacement for all health conditions and disabilities, even for a limited period, would close this gap.
17. We acknowledge that the fiscal impact of extending cover to this group would need to be examined, and it is likely that ACC levies would need to increase to cover this shortfall. This may create similar issues to the proposed income insurance scheme; however, we believe this option is worth exploring further.

Mandatory redundancy notice periods and pay

18. We strongly support the introduction of mandatory notice periods for redundancy regardless of whether the income insurance scheme is legislated. Allowing employees to plan during the four weeks leading up to their redundancy, may help cushion the income shock and associated wellbeing impacts.
19. It is concerning to note that a large proportion of our workforce does not have redundancy pay agreements within their contracts. Ideally this would be legislated to ensure that all have access to pay-outs, shifting the financial consequences of redundancy back onto employers. We note the limitations of this particularly for businesses or whole sectors going into liquidation who are unable to pay their employees. The government would need to step in and provide payment in these situations, however there is currently no fund for this. It would likely require redistribution of funds from general taxes which could be costly.

Prioritising welfare system reform – widening eligibility

20. We strongly support the option of widening eligibility for Jobseeker Support to ensure that more of those who are job displaced are eligible for this payment. The current household income assessment which assumes that a one-earner model is sufficient to support a family is out of step with current costs of living despite very recent benefit rate increases¹⁹. The Welfare Expert Advisory Group notes that narrow eligibility is the reason why there appears to be a low number of couples on primary benefits and directly contributes to “the growing number of working poor” (2019, p. 8).
21. Income caps and abatement rates would need to be reassessed in context of an individualised assessment. Consideration of recent work history and payment duration for individual assessment (e.g. for 3 - 6 months post job displacement) could be utilised as a way to encourage re-entry into

¹⁸ Bradley, C.J., Yabroff, R., Zafar, Y & Shih, Y-C, T. 2020. Time to add screening for financial hardship as a quality measure? CA:A Cancer Journal for Clinicians. <https://doi.org/10.3322/caac.21653>

¹⁹ WEAG. 2019. Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand. Retrieved from: <http://www.weag.govt.nz/assets/documents/WEAG-report/aed960c3ce/WEAG-Report.pdf>

the workforce²⁰. This option is likely to both achieve the objectives of the income insurance scheme, and act on some of the recommendations made by the Welfare Expert Advisory Group around wider welfare reform.

Create an earnings-related compensation benefit

22. Creating a stand-alone benefit which provides time-limited earnings-related compensation is a model close to the proposed income insurance scheme, however with one key difference which would mitigate some of the unintended consequences of the scheme.
23. This key difference is that general taxation could cover the cost rather than the 'user-pays' levy which has been proposed. Following a redistributive tax model, which Aotearoa New Zealand already utilises, is likely to produce more equitable outcomes than the flat-rate levy. An employer-only levy has also been suggested as an alternative to reduce the burden on employees, however this creates its own set of issues for Aotearoa New Zealand which is primarily made up of small to medium sized businesses which may struggle to fund levies without having to pass on costs of such a scheme onto employees²¹.
24. Applying income caps as the insurance scheme has proposed and making this benefit time limited (such as 3-6 months), would reduce income shock for individuals and whānau, stabilise the economy during recessions through continued spending and promote re-entry into the workforce as after the eligible period, those who have not found work would drop to a standard Jobseekers Support. Therefore, this option could achieve most objectives of the income insurance proposal.
25. The objective of supporting recently displaced workers back into work could be achieved through applying a case management model to those in receipt of this benefit as ACC does currently. Further work into how this could be applied is required, as concerns around the consistency and quality of ACC case management in supporting claimants back into work has been raised by social workers. The workforce providing this support needs to be appropriately trained in whānau-centred and empathetic approaches and resourced to meet the anticipated demand for this service, particularly during economic shocks when job displacement rates may increase.

Revenue base for benefits

26. In relation to both these welfare system reform options, a discussion about taxation in Aotearoa New Zealand is needed. Although outside of the scope of this proposal, we support implementing recommendations by the Tax Working Group to achieve a larger revenue base for improved welfare support²².
27. Aotearoa New Zealand has some of the lowest rates of tax on wages in the OECD²³, and very little capital gains and other forms of income tax. This means that workers have more 'take-home' pay, however it directly impacts the level of public services government can provide and welfare support through benefit rates and narrow eligibility. We note that the Government has promised no new taxes this term (albeit we argue that this levy is really a form of regressive tax), however we

²⁰ Spencer, K. 2019. Unemployment Insurance: What can it offer NZ? Report for the Technology and Future of Work Inquiry. Retrieved from: <https://www.productivity.govt.nz/assets/Documents/74b7e80d3a/Unemployment-insurance-what-can-it-offer-NZ-Kathy-Spencer.pdf>

²¹ Spencer, K. 2019. Unemployment Insurance: What can it offer NZ? Report for the Technology and Future of Work Inquiry. Retrieved from: <https://www.productivity.govt.nz/assets/Documents/74b7e80d3a/Unemployment-insurance-what-can-it-offer-NZ-Kathy-Spencer.pdf>

²² Tax Working Group: Te Awheawhe Tāke. 2019. Future of Tax: Recommendations. Final Report Volume 1. Retrieved from: <https://taxworkinggroup.govt.nz/sites/default/files/2019-03/twg-final-report-voli-feb19-v1.pdf>

²³ OECD. 2021. Taxing Wages – New Zealand. Retrieved from: <https://www.oecd.org/tax/tax-policy/taxing-wages-new-zealand.pdf>

think this promise is short-sighted and harmful to achieving equity and reducing child poverty in Aotearoa New Zealand.

CONCLUSION

28. We do not support the Tripartite Forum working group in implementing the New Zealand Income Insurance Scheme as proposed.
29. Our key question for the forum to consider is: do we require a new insurance scheme which acts to protect the economic interests of middle-income earners at the expense of those who are increasingly struggling to pay essential living costs and experiencing “in-work poverty”²⁴, or should we concentrate our efforts on extending existing safeguards so that they more readily apply to those who become job displaced due to redundancy or a change in health status?
30. We advocate strongly for welfare system reform to take precedence over implementing a social insurance scheme such as this, and believe that by doing so, the objectives to which this scheme aspires can be met through greater investment in welfare support.
31. Thank you for providing the opportunity to submit, we welcome any further discussion with you regarding our submission.

ABOUT ANZASW

The Aotearoa New Zealand Association of Social Workers (ANZASW) is the professional association for social work in Aotearoa New Zealand. We have over 3,600 members who work throughout the community in both statutory social work and community social work settings. We advocate on behalf of members for social change and justice.

Definition of social work

Social work is a practice-based profession and an academic discipline that promotes social change and development, social cohesion, and the empowerment and liberation of people. Principles of social justice, human rights, collective responsibility and respect for diversities are central to social work. Underpinned by theories of social work, social sciences, humanities and indigenous knowledges, social work engages people and structures to address life challenges and enhance wellbeing.²⁵

Social work in Aotearoa New Zealand

Social workers in Aotearoa are required to be registered with the Social Workers Registration Board. Social workers are registered under the Social Workers Registration Act 2003 and are not included in the Health Practitioners Competence Assurance Act 2003.

²⁴ Plum, A., Pacheco, G., & Hick, R. 2019. In-Work Poverty in New Zealand. Auckland. Retrieved from: https://workresearch.aut.ac.nz/_data/assets/pdf_file/0009/326709/In-work-Poverty-in-NZ_PDF.pdf

²⁵ Global Definition of Social Work - International Federation of Social Workers and International Association of Schools of Social Work

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