

# Income Insurance Scheme

## Consultation response, April 2022



New Zealand Council Of  
Christian Social Services

Contact Name:	Nikki Hurst Rachel Mackay
Organisation Name:	New Zealand Council of Christian Social Services (NZCCSS)
Ko wai au   Who we are:	<p>The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on the Income Insurance Scheme.</p> <p>NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.</p> <p>Through this membership, NZCCSS represents over 250 organisations providing a range of social support services across Aotearoa. We believe in working to achieve a just and compassionate society for all, through our commitment to our faith and Te Tiriti o Waitangi. Further details on NZCCSS can be found on our website <a href="http://www.nzccss.org.nz">www.nzccss.org.nz</a>.</p>

### Tirohanga Whānui | Overview

Social welfare and the assurances it provides to New Zealanders is of critical importance to NZCCSS and the member organisations we serve. The quality of, and access to, this support is something we have long promoted and will continue to do so. The capacity of our welfare system to ensure that those who rely upon it in times of need to continue to live with dignity during this time is paramount. Our foundational commitment to equity underpins all that we do.

We applaud the efforts to reduce the disparity in access to support between those who lose income due to illness compared to injury, and appreciate the security of support this will afford New Zealanders with long term illnesses and disabilities. However, while we see this legislation as a positive step in ensuring some security in these economically uncertain times, we cannot ignore the clear inequity that a system like this will create. We express strong concern for the codification of a two-tiered welfare system, and the moralisation of paid work that this creates. We encourage instead the incorporation of many of these ideas and concepts intended to fill current gaps in the system into core welfare legislation to ensure the betterment of all New Zealanders.

## Kaupapa | Purpose

We strongly recommend that the following points be considered closely:

1. We tautoko the intent to remove disparity between illness and accident in financial support.
2. We tautoko the support to reduce the damage that wage scarring can have on lifetime earning potential of individuals after redundancy.
3. We tautoko the benefits and assurances that this provides disabled and unwell New Zealanders that the current system does not.
4. We ask government to commit to plan for coming years NGO funding to include the additional levy generated by this scheme.
5. We support widening the scope of this scheme to include support for individuals who lose their jobs for reasons other than redundancy.
6. We believe that this separate support system will create a two-tiered system of welfare access.
7. We assert that should the Social Security Act function appropriately and in accordance with its Principles and Purpose, that this legislation would be unnecessary.
8. We suggest acknowledgement and mitigation efforts surrounding the disproportionate effects of this additional levy on wages of low-income earners, further compounding the wage inequity for gender, sexuality, ability, and ethnicity minority groups.

## Horopaki | Context

### **1. We tautoko the intent to remove disparity between illness and accident in financial support.**

Under the current system, there is a significant disparity between individuals who find themselves unable to continue working based on illness and injury. The ACC system provides for 80% of the pay of an individual who is unable to work through a qualifying injury. Assets and partner income are not included in the assessment, and there are no abatement rates on their payments. Additionally, the injury does not need to have occurred while at work in order to qualify an individual for support, so appreciates that individuals may be unable to continue in employment based on their lives outside their workplace and that this should be accounted for.

In contrast, individuals who are unable to work due to illnesses, which can be similarly debilitating, have instead only the option to go on JobSeeker or Supported Living Payments, depending on the duration of their illness. Both payment types can in many cases be significantly less than the 80% payment of ACC and are accompanied by partner income and asset testing and abatement rates.

We tautoko bringing equity to these two comparable situations in terms of financial support through this scheme.

**Recommendation One** - Continue to pursue legislative change that reduces the disparity in support between individuals who lose their income from accident than from illness.

### **2. We tautoko the support to reduce the damage that wage scarring can have on lifetime earning potential of individuals after redundancy.**

Evidence collated by Arulampalan et al. (2001) illustrates that “job displacement is followed by a lower trajectory for future earnings after re-engagement.” Research conducted in New Zealand (Dixon & Maré, 2013) found that 0-1 years after displacement from a role, the wage of a reemployed individual was on average 12% lower than that of a matched individual and remained at a 7% disparity at the 2-3 year mark.

There are multiple facets to wage scarring (Arulampalan et al.). Major issues include the loss of firm-specific human capital in the lost role, alongside the likelihood that the individual is pressured into taking roles resulting in skills under-utilisation - thus lowering future employment prospects. While the first cannot yet be accounted for in legislation, the second is aptly protected against by this scheme.

By providing the time and support for an individual to ensure that they can pursue roles that match their skill set and experience, they are allowed the opportunity to ensure that they are earning at the same levels as before. We tautoko the acknowledgement of the serious long-term implications of wage scarring and the intent to reduce its effects in the case of redundancy and illness.

We see this as a logical follow-on from the excellent work done in the Future of Work sector to ensure the long-term capacity of New Zealanders to access and retain employment. As such, we support the ethos of protecting long term income prospects in a legislative capacity.

**Recommendation Two** - Continue to pursue legislative change that supports individuals to maintain their previous levels of income and standing, and to actively reduce the lifelong impacts of wage scarring.

### **3. We tautoko the benefits and assurances that this provides disabled and unwell New Zealanders that the current system does not.**

All New Zealanders deserve our fullest support throughout their lifetimes, and this includes those of us living with ongoing illness and disability. We consider legislation such as this to be highly beneficial to ensuring the protection of these vulnerable groups and their ability to integrate into the workforce.

Benefit rates and eligibility criteria lack nuance and individual consideration. Furthermore, rates and eligibility are highly changeable based on current political will.

A scheme such as this will ensure a consistent and reliable point of support for individuals who find their medical concerns are barring them from work. In addition, the provisions for returning to work, and managing illness and working situations in this scheme will empower individuals experiencing illness and disability to remain engaged and self-supporting, instead of being reliant on the highly changeable social security system. Furthermore, many individuals who have experienced injury, illness, or disability find themselves uninsurable from private providers, and this scheme would provide them surety of support should their conditions worsen to the extent that they cannot work.

While not explicitly mentioned in the consultation document, we hope that these provisions will be duly extended to individuals who are recovering from addiction, and also to individuals who find themselves unable to work through the health implications of pregnancy.

**Recommendation Three** - Prioritise legislative protections and changes that protect New Zealanders with disabilities and long-term illnesses, as well as their capacity to earn and be engaged in community.

#### **4. We ask government to commit to plan for coming years NGO funding to include the additional levy generated by this scheme.**

Should this legislation pass, the government will be committing employers to an additional levy of 2.8% to service this scheme. For employers directly or in-directly funded by Government, including many not for profit / community / NGO's there is concern that this funding will not increase to cover the levy.

This proposal comes at a time of sustained stress across the for-purpose sector. Staff-wellbeing is low, financial challenges are high. An additional cost as we recover from our role in the covid response would be hard to stomach. Both as employers, but also for our employees.

Should this legislation pass, we need a clear commitment from all governmental agencies to increase their contract values by a corresponding 2.8% to cover the additional imposed costs associated with this scheme.

**Recommendation Four** - Should this legislation go ahead, mandate the increase of all government contracts to NGOs to increase by the scheme's contributory amount to prevent additional burdens in this sector.

#### **5. We support widening the support levels of this scheme to include support for individuals who lose their jobs for reasons other than redundancy.**

Redundancy and illness are not the only ways that individuals find themselves out of work. If an individual is forced to leave paid income to care for a family member, then they may be eligible for Supported Living Payments. These payments are likely to be significantly less than what they would receive under this scheme. Additionally, if the person being cared for is your partner, you are ineligible for this payment. The person being cared for must apply for the Supported Living Payment, while the partner providing care must cobble together additional benefit supports that they are eligible for.

This is just one example of an individual finding themselves unable to work through no fault of their own – the criteria that this scheme is focused around – who would not be supported. We suggest re-examining the context of eligibility to ensure that as many individuals who fit these criteria are supported equally.

**Recommendation Five** - Acknowledge that income loss happens in a variety of ways, not just redundancy, and ensure the support of all who find themselves without income.

#### **6. We are concerned that this separate support system will create a two-tiered system of welfare access**

The Social Security Act 1938 established Aotearoa as a nation with comprehensive welfare support. The intention was, in-part, to eliminate the previous classifications of “worthy” and “unworthy” poor. The expansion of benefit support beyond those historically supported for “moral” reasons for unemployment was a landmark moment in social welfare. The architects of the Act specifically decided against an insurance-based scheme on the understanding that it is the responsibility of society to support every citizen within it.

Those who find themselves without paid work are currently supported by the JobSeeker programme. This payment occurs at the current benefit rates, which are significantly lower than the proposed scheme, and with all the associated restrictions and abatement rates. This scheme would seek to elevate a specific subset of those currently on the JobSeeker benefit to a higher rate of remuneration and fewer restrictions on payments. In doing so, effectively reclassifying these out of work individuals into the new “worthy” and “unworthy” poor based on the way that they have come to be out of work.

We saw similar levels of support inequity with the Covid Income Relief Payment schemes, where individuals who were out of work for “worthy” pandemic-related reasons were provided disproportionately higher levels of support. This inferred moralisation ties in with recent political discourse reinforcing the existing and damaging sentiments surrounding those on a benefit. This is antithetical to the base principles of the Social Security Act, and the core values we hold that all people are of equal value and worthy of equal respect and support.

Economic remuneration is clearly one of the ways that worth is judged in Aotearoa, it is increasingly clear that we do not value a substantial portion of our society. This scheme as written will further “other” our financially vulnerable. Individuals who cannot engage in paid work for a variety of reasons deserve to have their dignity of life affirmed and supported by adequate social welfare. Reinforcing the already existing divide in social worth, opportunity, and dignity of life between those who can and do engage in paid work and those who can or do not is antithetical to aspirations for a just and equitable society.

**Recommendation Six** - Acknowledge that the implementation of legislation such as this will result in a two-tiered welfare system prioritising the new “worthy poor,” in direct opposition of the foundational principles of New Zealand’s welfare system.

## **7. Should the Social Security Act function appropriately and in accordance with its Principles and Purpose this legislation would be unnecessary.**

The Social Security Act 2018 lists under its purposes,

“(i) to help people to support themselves and their dependants while not in paid employment; and (ii) to help people to find or retain paid employment”.

Further, that the act will,

“enable under certain circumstances the provision of financial support to people to help alleviate hardship”.

With the above embedded in our law, the question remains as to what prevents these core purposes being enacted within the current system? What is not happening within our welfare system to allow these outcomes?

If our current Social Security system functioned in line with its own Principles, individuals would be adequately supported, while out of work, to find employment and provide them with the necessary financial support to alleviate hardship. The introduction of this scheme indicates that this is not the case, and we seek formal acknowledgement that the Social Securities Act and the mechanisms of welfare it provides are insufficient to support New Zealanders undergoing financial hardship.

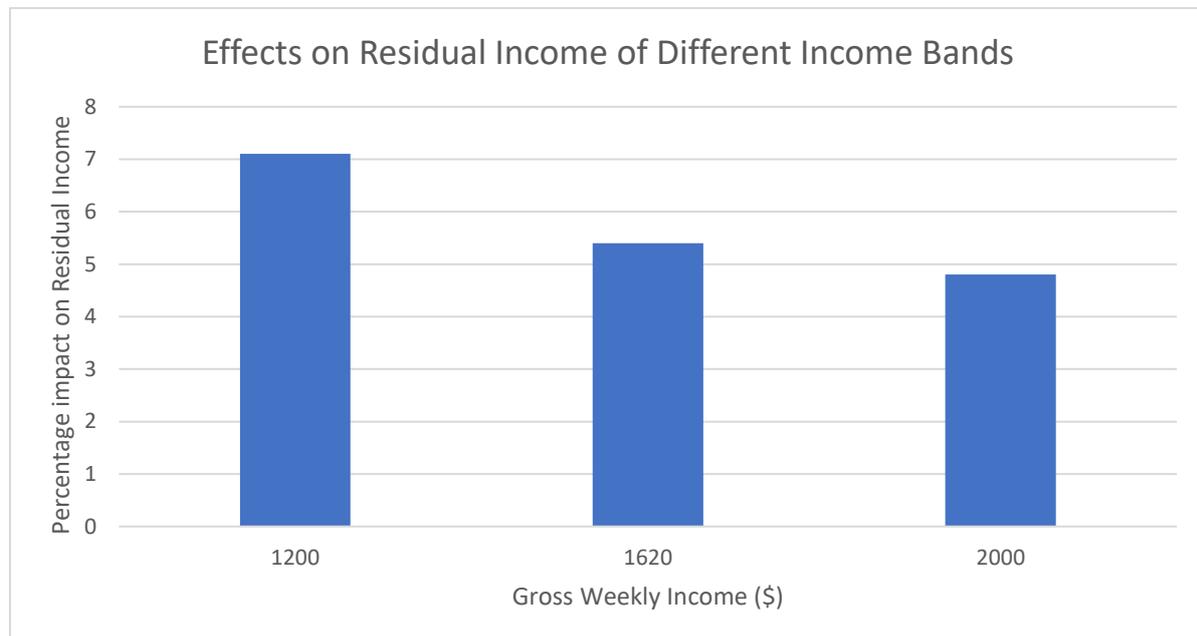
Put simply, if our social security system functioned, we wouldn’t need this income insurance system.

**Recommendation Seven** - An acknowledgement from this legislation that should the wider welfare system work as intended, this legislation would be unnecessary

**8. We suggest acknowledgement and mitigation efforts surrounding the disproportionate effects of this additional levy on wages of low-income earners.**

In 2021 the cost of living in Aotearoa increased by 5.2%. This is not anticipated to slow, following the ongoing economic effects of the Covid era. Households at the bottom end of income levels are already struggling to make their wages stretch to meet the essentials that they and their families need.

Kore Hiakai’s Ka Mākona report (2019) illustrates the economic deficit that low-income families experience. Since its publication, inflationary pressures have increased by 5.2% to 31 December 2020. For a two parent, two child household with minimum wage incomes, their food and grocery cost was estimated as \$271.98<sup>1</sup> per week. After core cost’s (housing, utilities, transport and food) were paid, this family would have residual available funds of \$233.56 to cover healthcare, education, clothing, and leisure. Should these families lose an additional 1.39% of their gross income to this scheme, this would result in an additional reduction of \$16.68. This has an overall impact of 7.1% reduction to this family's residual available funds. Using the same calculations for the same family receiving the median wage, they would lose an additional \$22.51 to the scheme, equating to a 5.4% reduction in their residual. By the time there is a gross household weekly income of \$2000, the percentage decreases to 4.8%, and so on.



The more someone earns, the more they are paying as a dollar value, but the less they are paying as a proportion of their residual income.

We cannot afford to exacerbate the dual issues of increased cost of living and persistent income inadequacy. Levying another blanket tax without consideration of the impact it will play in the lives

<sup>1</sup> Figure increased from Ka Makona amounts to account for 5.2% inflation

of our lowest earners is irresponsible – even as the scheme attempts to support this group. One solution may be creating a progressive levy system to mirror the existing taxation bands.

It cannot be ignored that disadvantaged groups are the most likely to be over-represented in low-income brackets. These individuals are most in need of consideration and support. Further over-burdening their already stretched income would be counter to many of the wellness goals of this government.

**Recommendation Eight** - Acknowledge the inequitable impacts that additional wage levies have on low-income earners, and the demographics that are most represented in this sector.

### Tūtohutanga | Recommendations

1. Continue to pursue legislative change that reduces the disparity in support between individuals who lose their income from accident than from illness.
2. Continue to pursue legislative change that supports individuals to maintain their previous levels of income and standing, and to actively reduce the lifelong impacts of wage scarring.
3. Prioritise legislative protections and changes that protect New Zealanders with disabilities and long-term illnesses, as well as their capacity to earn and be engaged in community.
4. Should this legislation go ahead, mandate the increase of all government contracts to NGOs to increase by the scheme’s contributory amount to prevent additional burdens in this sector.
5. Acknowledge that income loss happens in a variety of ways, not just redundancy, and ensure the support of all who find themselves without income.
6. Acknowledge that the implementation of legislation such as this will result in a two-tiered welfare system prioritising the new “worthy poor”, in direct opposition of the foundational principles of New Zealand’s welfare system.
7. An acknowledgement from this legislation that should the wider welfare system work as intended, this legislation would be unnecessary
8. Acknowledge the inequitable impacts that additional wage levies have on low-income earners, and the demographics that are most represented in this sector.

### Tohutoro kua tohua | Selected references

Arulampalam, W., Gregg, P., & Gregory, M. (2001) Introduction: Unemployment Scarring. *The Economic Journal*. 111(475), F577-F584

Dixon., S. & Maré, D.C. (2013) The Costs of Involuntary Job Loss: Impacts on Workers Employment and Earnings. *Motu Economic and Public Policy Research*.  
<https://www.motu.nz/assets/Documents/our-work/population-and-labour/individual-and-group-outcomes/13-03.pdf>

Kore Hiakai (2019) Ka Mākona - Income Inadequacy in Aotearoa New Zealand: Three Household Scenarios.  
<https://static1.squarespace.com/static/5e8e4bf34078e655d8150f64/t/616e173d0e5a5418b713f92a/1634604867226/101782+-+Kore+Hiakai+-+Ka+Ma%CC%84kona+Report+Design+%28Web%29.pdf>

