

Unemployment insurance: what can it offer NZ?

Report for the
Technology and the Future of Work
Inquiry

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July 2019

Contents

Executive Summary	i
1 Introduction	1
2 The current system	2
2.1 Government income support for job loss	2
2.2 Employer-provided redundancy payments	5
2.3 Private redundancy insurance	6
2.4 Recommendations from other reviews	7
2.5 Broad options	8
3 Unemployment insurance	9
3.1 Unemployment insurance in other countries	9
3.2 Lessons from the OECD	10
3.3 Required features for New Zealand	10
4 Better income support following job loss	12
4.1 Widen access to Jobseeker Support	12
4.2 Earnings-related support	13
4.3 The impact of increased income support	14
4.4 How many people could benefit?	15
5 Funding earnings-related income support	17
5.1 Taxation	17
5.2 Flat rate levy	17
5.3 Levy on employers with risk adjustment	19
5.4 Summary of funding options	22
5.5 Earnings-related benefits versus mandatory redundancy payments	23
6 Administration and compliance	24
6.1 Delivery mechanisms	24
6.2 The need for a separate fund	25
6.3 Compliance and administration costs	26
7 Conclusions	27
References	28
Appendix 1: Features of current income support for job loss	30
Appendix 2: Examples of unemployment insurance schemes in other countries	32

Executive Summary

In the course of its inquiry into *Technology and the Future of Work*, the Productivity Commission has queried whether New Zealand would benefit from new measures to assist people to adapt to labour market change. In particular, if we were to experience a higher rate of job displacement due to technological change, and a growing group of people in non-standard forms of work:

- would our current income support arrangements be sufficient?
- could an unemployment insurance scheme, like those available in many other countries, give a better outcome?

What we have now

New Zealand's Jobseeker Support, our primary means of support following job loss, is set at very modest rates by OECD standards. It is also heavily income-tested so that most people with working partners do not qualify for any support following job loss. If the rate of job loss was to increase as a result of technological or other changes, more people would be affected by this low level of support.

For the majority of New Zealand workers, losing a job means a large drop in income that can make it difficult, if not impossible, to meet mortgage and other financial commitments. There is some support available, including the possibility of accessing Kiwisaver funds, or receiving the Accommodation Supplement. However, because these are subject to quite stringent eligibility criteria, relatively few people qualify.

The modest support available following job loss creates considerable pressure for a displaced worker to find a new job quickly. If they are successful, this means less reliance on Jobseeker Support and lower fiscal costs. However, there is a risk that skills will be underutilised with a negative impact on individuals and their families, and on productivity.

As well as being low when compared internationally, New Zealand's rates of Jobseeker Support are very low compared to the support available to people following injury, under ACC weekly compensation. The far more generous earnings-related support under ACC creates a tension in the wider New Zealand system resulting in calls for people who are unable to work due to an illness or disability to get similar support, or for more situations to be covered by ACC instead of MSD.

Options for greater income support following job loss

This report puts forward two options that would provide higher levels of income support following job loss and move New Zealand more into line with the levels of support provided in most OECD countries. These options are specified in some detail in order to assess their potential impact. However, the parameters could of course be altered to meet particular objectives, e.g. by lengthening the period that enhanced benefits can be paid.

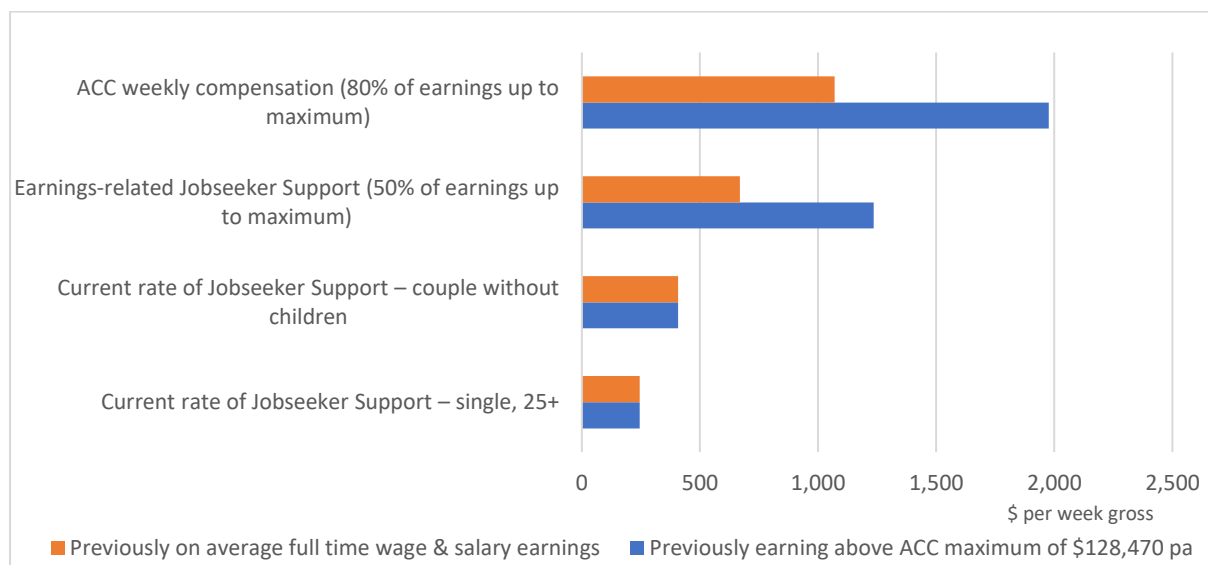
The first option would be to widen access to the existing Jobseeker Support by making it available with only a very limited income test for up to 3 months.¹ This extension would be available to those able to demonstrate an employment history e.g. losing their job after 9 months or more of employment during the last 12 months. This enhancement could be done on its own or in conjunction with the recommendations of the Welfare Expert Advisory Group (2019) to increase benefit rates and lift abatement thresholds.

¹ The only income taken into account would be the claimant's own income from any part-time employment. Any other income, or a partner's income, would be disregarded.

A second option would be to provide earnings-related compensation for 3 months to the same group, following the social insurance model that is widespread in Europe and available in many other countries, including Canada and the US. A replacement rate of 50% up to the ACC maximum annual income of \$128,470 would be consistent with many schemes in other countries and would provide a maximum payment of \$16,059 over the 3-month period. These parameters were chosen to align with a redundancy payment equal to 6 weeks of prior earnings – an amount typical of New Zealand collective agreements for people made redundant after between 1 and 3 years with an employer.

An earnings-related benefit would clearly provide a greater degree of income smoothing, as illustrated in Figure 0.1 below. Under both options, a person who has not found work after 3 months would revert to the standard Jobseeker Support provisions.

Figure 0.1 Comparison of income support levels for average and high wage earners



Note: The figure shows primary support only. Recipients may also be eligible for additional support such as the Accommodation Supplement.

Funding the extra support

Currently the costs of job displacement fall on the individuals losing jobs, those employers that pay redundancy, and taxpayers via publicly-funded income support.

For an earnings-related benefit, the contributory levies used elsewhere to fund unemployment insurance are a possible funding mechanism. Levies on employment income could piggy-back on the ACC system, and offer options to tax employees, employers or a combination of the two.

Levies on businesses offer the potential to risk-rate industries, or individual firms, to allocate the costs of job displacement to those generating them. The US unemployment schemes, and our own ACC, both apply experience-rating methods. Risk-rating at the industry level would impose higher levies on industries with high lay-offs, such as those that are rapidly displacing workers as a result of advances in technology, or industries that are more severely impacted by economic downturns. This model applies to new businesses in the US and ACC schemes, i.e. those that have yet to establish a track record.

The next step of adopting experience rating at the individual firm level, following the US and ACC models for established businesses, is not recommended. If there was a preference to have individual businesses face the costs of their lay-offs, that could be more simply and directly achieved by legislating for mandatory redundancy payments.

General taxation would be the obvious choice to fund a simple expansion of access to existing benefits. It could also be used to fund an earnings-related benefit, offering the advantages of simplicity and greater resilience if the share of income from employment was to fall.

Delivery

The options considered here can be delivered by existing organisations that already perform very similar functions. Benefits could be delivered by MSD, using ACC rules for calculating prior earnings, and information on earnings from IRD.

Levies could be collected by a combination of ACC and IRD, taking full advantage of systems already in place to collect ACC levies. Creating a separate fund, typical of social insurance schemes, is not proposed for the types of benefits being considered in this report. While maintaining a fund of this type can strengthen incentives to keep a sharp focus on long-term costs, this requires that a scheme has well-defined boundaries (e.g. 'injury' in the case of ACC) and is providing benefits long-term for some clients (e.g. ACC serious injury clients).

However, the earnings-related benefit option described here is short term – payable for at most 3 months – and would be only a part of the wider system of income support for those out of work. Isolating the earnings-related component in those circumstances, through the use of a separate fund, could prove to be quite unhelpful.

The benefit options and the preferred approaches to funding them are summarised in Table 0.1.

Table 0.1 Options for increased income support following job loss

Eligibility	Involuntary job loss; actively seeking work; at least 9 months of employment in the previous 12 months; full-timers must meet minimum earnings level in past 12 months			
Benefit option	<i>Description</i>	<i>Period</i>	<i>People with potential to benefit in the course of a year</i>	<i>Preferred funding method</i>
Wider access to Jobseeker Support at current rates	Jobseeker Support available with very limited income test (only the claimant's own income from employment would count. Any other income, and a partner's income, would be disregarded).	Up to 3 months. After 3 months, the standard income test would apply	30,000 (assuming a 3% displacement rate)	General taxation (like existing Jobseeker Support and ACC for people not in the workforce)
Earnings-related benefit	Individual entitlement to 50% of prior earnings. Prior earnings calculated using ACC weekly compensation rules. Very limited income test as above.	Up to 3 months. After 3 months, the standard rates and income test would apply	50,000 (assuming a 3% displacement rate)	General taxation OR Levy paid by businesses only, including the self-employed. Risk-rated at the industry level.

Performance against required features

The options considered in this report would deliver on the features required for New Zealand (see section 3.3 below) by:

- providing additional income security for people following job displacement so they can participate in society and take more time to find a job that matches their skills
- limiting the additional fiscal costs through the use of a 50% replacement rate and a maximum 3-month period
- treating employees, the self-employed, part-time workers, and people with frequent changes in their work, even-handedly. This is important to avoid incentives for employers to favour independent contractors over employees
- using existing schemes and organisational functions to keep compliance and administration costs low.

Finally, an earnings-related addition to Jobseeker Support would also offer:

- a higher level of support and income smoothing than a simple expansion of access to current Jobseeker Support benefits
- the potential to respond to the Public Advisory Group on Restructuring and Redundancy (2008) by providing more consistent support to people losing their jobs. An earnings-related benefit would support a much larger group than mandatory redundancy payments, including the self-employed and people who have changed jobs. It would also remove the risk of non-payment following business closure
- the potential to extend the same provisions to illness and disability over the longer term, reducing tensions between the relative generosity of ACC's weekly compensation and Jobseeker Support for those with a health condition or disability.

1 Introduction

As part of its inquiry into *Technology and the Future of Work*, the Productivity Commission is interested in better understanding what new policies or institutions could be considered to assist people to adapt to labour market change. The particular context is the potential for a higher rate of job displacement due to technological change, and the prospect of a growing proportion of self-employed workers.

The specific question to be addressed by this report is:

Would there be a net benefit in introducing an unemployment insurance scheme to provide greater income smoothing for people facing job displacement?

To address this question, the report first sets out the current arrangements that support people following job loss, together with recommendations for changes that have been made as a result of other related reviews. A broad set of options for providing improved income support is identified so that those with similar outcomes can be compared.

The report then looks at unemployment insurance schemes in other countries. The OECD has written extensively on how unemployment insurance schemes can impact traditional and non-standard workers differently, highlighting pitfalls to be avoided. These lessons are applied to list the features we would want to see in a New Zealand scheme, should one be introduced.

To progress a debate about whether New Zealand would gain from introducing unemployment insurance, this report describes a possible earnings-related benefit in enough detail to assess how well it would perform against the requirements set for it. The multiple alternative methods used in other countries to fund earnings-related benefits are also considered in some detail.

The final part of the report looks at how possible additions to existing arrangements could be delivered to take advantage of economies of scope with current functions and activities of government agencies (including IRD, ACC, and MSD).

Of particular interest to the Commission is the question of what lessons an unemployment insurance scheme in New Zealand could learn from ACC, and what problems a scheme should avoid. ACC features heavily in this report to illustrate how an earnings-related scheme can work and to discuss the merits of different levy options to fund the scheme, such as whether relative risk should be taken into account.

2 The current system

2.1 Government income support for job loss

Primary sources of income support

The New Zealand social security system already provides income protection for people who are either not working, or working less than they would like, following certain events or in particular circumstances:

- Weekly compensation from ACC for people unable to work following injury
- Jobseeker support (Health Condition or Disability) for people unable to work because of an illness or disability
- Jobseeker Support (Work Ready) for people who are able to work but can't find a job. This group includes people who have been displaced from a job through redundancy or business closure (involuntary job loss) as well as people who have chosen to leave a job.²

ACC weekly compensation is unique in New Zealand's social security system in having the replacement of prior earnings as one of its objectives. Weekly compensation is paid at 80% of previous earnings up to a maximum annual income of \$128,470 (corresponding to a maximum annual compensation amount of \$102,776). The rate of compensation is unaffected by any other income of the claimant or their partner.

ACC had 79,648 new weekly compensation claims in 2017/18 and paid weekly compensation to a total of 118,936 clients during that year at a cost of \$1.2 billion. As at June 2018, 13,333 people on weekly compensation had been receiving it for more than a year (ACC 2018).

Jobseeker Support offers a minimum level of income only – currently \$12,723 gross per year for a single person and \$21,204 for a couple without children. These levels are 18% and 30% of average full-time wage and salary earnings respectively. Many people receive reduced or abated amounts of Jobseeker Support, or are excluded access altogether, due to:

- having other income (e.g. from investments or from another type of work) which reduces the amount payable at the rate of 70 cents in the dollar for income over \$80 per week
- having a partner with income: a partner's income also reduces the amount payable at the rate of 70 cents in the dollar for income over \$80 per week. For example, a person with no children and a partner earning over \$31,304 gross per year (only 45% of average full-time wage and salary earnings) would not be eligible for any support.

To qualify for Jobseeker Support, a person needs to be available for and seeking full-time employment (defined as 30+ hours per week) or earning part-time but wanting to work more.

People in receipt of Jobseeker Support may also be eligible for a number of supplementary forms of income support and these are outlined below.

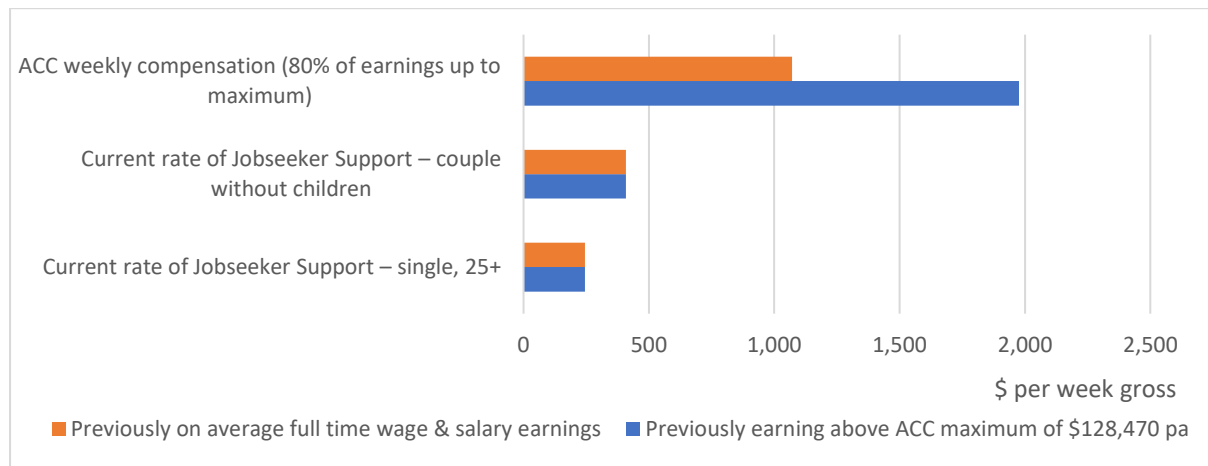
As at the end of March 2019, there were 131,720 working-age people, or 4.4% of the working-age population, receiving Jobseeker Support. Of these, 72,185 were 'Work Ready' and the remaining 59,535 were out of work due to a health condition or disability (MSD 2019a). In 2017/18 a total of \$1.7 billion was paid in Jobseeker Support³ and Emergency Benefit.

² There is a stand-down period of 13 weeks for voluntary job loss.

³ Note this includes payments for both 'Work Ready' and 'Health Condition or Disability' clients.

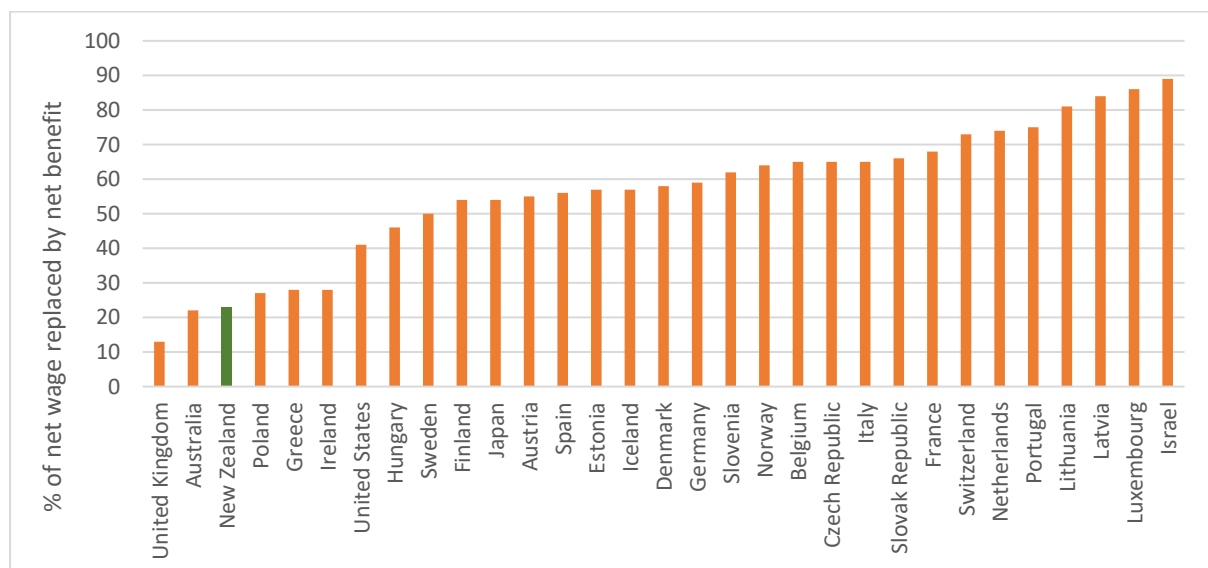
Figure 2.1 shows the stark contrast between the levels of support available under ACC weekly compensation and Jobseeker Support. Income support levels are usually shown for a representative person earning an average wage before losing their job. When high income earners are included, the difference in income support levels is even more pronounced (blue bars in the graph). This gap has led to tensions over many years, with calls for the scope of ACC to be expanded, either at the margin or to include all people unable to work due to illness or disability.

Figure 2.1 Comparison of income support levels for average and high wage earners



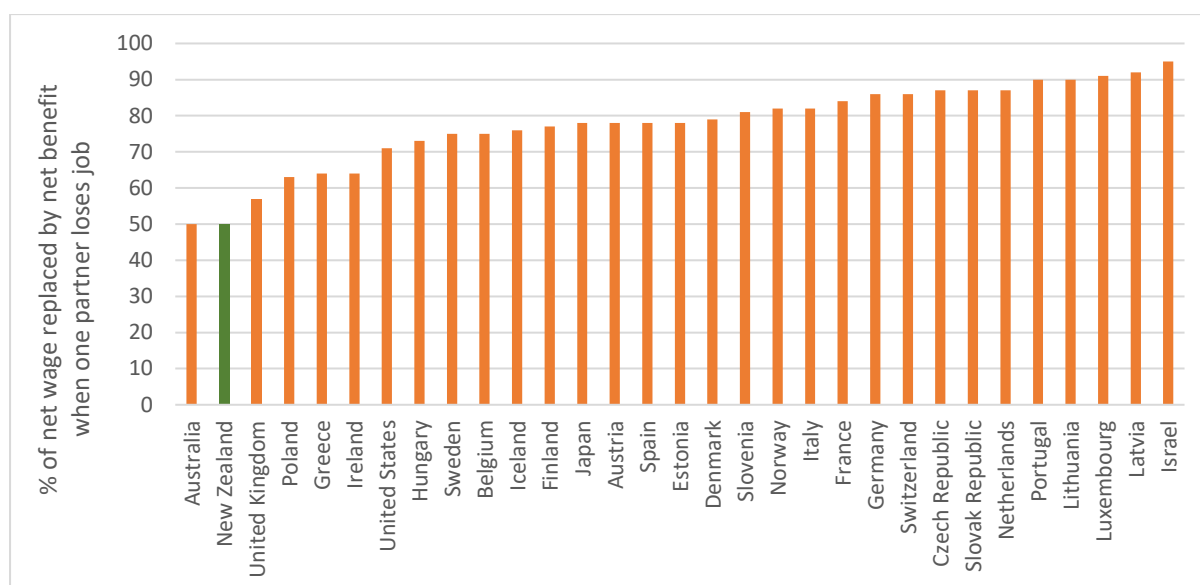
Figures 2.2 and 2.3 below illustrate how low New Zealand's rates of Jobseeker Support are compared with other OECD countries. The figures prepared by the OECD show the proportion of net wages replaced by net Jobseeker Support following job loss by someone who was previously earning the average wage in each OECD country. As the graphs show, New Zealand ranks second or third from the bottom. It is however difficult to compare schemes on one dimension alone: many of the schemes offering more generous replacement rates also have more demanding eligibility criteria than our Jobseeker Support, and are payable for a limited time. For a detailed discussion of how New Zealand's income support compares with other OECD countries, see Fletcher (2015).

Figure 2.2 Net replacement rate for single person without children, earning average wage



Source: OECD <https://stats.oecd.org> - Net replacement rates in unemployment.

Figure 2.3 Net replacement rate for couple without children – each earning average wage



Source: OECD <https://stats.oecd.org> - Net replacement rates in unemployment.

Appendix 1 sets out more information on ACC’s weekly compensation and MSD’s Jobseeker Support, including the basis of payments, work readiness requirements, income tests, and funding arrangements.

Specific provisions for the self-employed

Given the *Future of Work Inquiry’s* interest in a potential shift from employee to self-employed status, it is important to note that ACC weekly compensation and Jobseeker Support both provide the self-employed and employees with very similar access to support. The key differences in treatment for the self-employed and for employees, as set out in Appendix 1, aim to facilitate access for the self-employed rather than limit it. Part-time work is also accommodated by our current systems.

This means that access to these primary forms of income support should largely be maintained in the event of a shift towards self-employment and other non-standard forms of work.

Supplementary forms of income support

There are a number of supplementary forms of assistance that people can apply for when out of work, including but not limited to:

Working for families – A two-parent family must work at least 30 hours a week between them, and a single parent must work at least 20 hours a week to be eligible for this tax credit. People in self-employment are not eligible. The tax credit is reduced based on joint income and on the number of children.

If one partner of a couple lost their job, while the other remained working for wages or a salary, they may gain access to Working for Families, or receive a higher rate of assistance if they were already receiving the tax credit.

Accommodation Supplement – this is a weekly payment to assist people with low incomes (not in public housing) with their rent, board, or the cost of owning a home. There were 295,410 people receiving Accommodation Supplement as at the end of March 2019. Of those receiving Accommodation Supplement in 2016, 20% were not on a main benefit and 11% owned their own home.

For a non-beneficiary to access Accommodation Supplement they have to have cash assets below \$5,400 for a sole parent or couple, and below \$2,700 for a single person.

A person who loses their job and goes onto Jobseeker Support can potentially access extra help from Accommodation Supplement if they have assets below \$16,200 for a sole parent or couple, or below \$8,100 for a single person.

Access to Kiwisaver funds - There is a provision for people to access their Kiwisaver funds in cases of "significant financial hardship". A person can potentially qualify to access their savings following job loss if they are:

- unable to meet minimum living expenses
- unable to meet mortgage repayments on the home they live in, resulting in their mortgage provider enforcing the mortgage on the property

In such cases, members can potentially access their own and their employer Kiwisaver contributions, but not the government contribution.

A total of 17,092 people (0.59% of total number of people with Kiwisaver accounts) made financial hardship withdrawals in the year to June 2018. The withdrawals averaged \$6,177 and came to a total of \$104m. While these numbers are very small, the number of withdrawals and average amount per withdrawal have been growing rapidly.

As noted by the Productivity Commission (2019), there may not be a high level of awareness of all of this potential support.

2.2 Employer-provided redundancy payments

Redundancy payments made by employers are another potential source of income support following job displacement. However, there is no legislative requirement for employers to have redundancy provisions for their employees in New Zealand.

Stats NZ figures for 2016 show that 63% of employees have individual employment agreements, while 21% are covered by collective agreements.⁴ The extent of redundancy provisions has been found to vary considerably between the two forms of employment agreement:

- a study done for the Public Advisory Group on Restructuring and Redundancy (2008) estimated that only 20% of employees in small-medium sized firms with individual employment agreements provided redundancy entitlements
- according to Victoria University's Centre for Labour, Employment and Work (CLEW 2016), 90% of employees covered by collective employment agreements were entitled to receive redundancy payments as of 2015.

Combining this information suggests that approximately 30% of employees have redundancy pay entitlements.

Table 2.1 shows the amounts of redundancy payment, available after 1 year of service, that were most commonly found in collective employment agreements.

⁴ Another 8.6% didn't have an agreement and 2.8% didn't know if they had one or not.

Table 2.1 Redundancy payments after 1 year of service – collective employment agreements

<i>Redundancy pay provision</i>	4-5 weeks' pay	6 weeks' pay	7 – 10 weeks' pay
<i>% of people with this provision</i>	15%	37%	29%

Source: CLEW (2016)

For years beyond the first year with an employer, CLEW found that 2 weeks' pay per year was the most common form of provision, applying to 58% of employees covered by collective employment agreements in 2015.

The information presented here suggests that redundancy pay can be an important source of income support following job displacement. It is however very uneven in its coverage and in the amount of support provided. In addition to the estimated 70% of employees without redundancy entitlements, there are another 300,000 self-employed people with no access to support of this kind.

The relative merits of redundancy pay are discussed further in section 5.5 below.

2.3 Private redundancy insurance

While it is not a significant source of income support in New Zealand, some insurers do offer redundancy cover, usually as part of an income or mortgage protection policy that also covers death, illness and injury. For example, the AA's *Lifestyle Protection Insurance* includes life cover, accident, illness and disability, as well as redundancy cover. The cover for redundancy is available to people who had been working for salary or wages for a minimum of 30 hours a week. Cessation of work of a seasonal, contractual, self-employed or temporary nature or employment for a specified period are excluded from cover. The Redundancy Benefit is:

- available only if the person had been in continuous permanent fulltime employment for three months and continues to actively seek alternative employment
- not payable in the first 30 days of unemployment
- payable for up to 6 months up to a maximum monthly benefit of \$4,600 equating to a maximum total payment of \$27,600.

According to *Canstar* (an organisation that rates financial products) redundancy insurance is generally available to full-time employees and not to self-employed or contractors. Employees need to have been employed for a set period of time with the same company and not all occupations, industries, or employers are eligible.

To receive the benefit, the client will often have to prove that the redundancy was involuntary and did not have anything to do with their behaviour, conduct, or performance as an employee. Redundancy protection can pay monthly benefits of up to 85% of prior earnings for a set period of time, subject to:

- a no-claim (qualifying) period of 3 to 6 months from the start of the policy
- a waiting period of usually between 30-90 days.

2.4 Recommendations from other reviews

Welfare Expert Advisory Group (WEAG)

The Welfare Expert Advisory Group (2019) conducted a thorough review of New Zealand's social security system and reported in February 2019 making 42 recommendations. Among these were recommendations to make Jobseeker Support more generous and accessible to more people:

- significantly increase the level of the benefit itself (e.g. for a single person aged 25+ the recommended increase was from \$215 pw to \$315 pw)
- increase the abatement threshold for Jobseeker Support from \$80 per week to \$150 per week

To respond to changing patterns of work, the Group also recommended that government consider introducing a short-term benefit for partnered people who lose their jobs or incomes due to redundancy, a health condition or disability, or a health condition or disability of a dependent child. The Group proposed that a partner's income be disregarded, up to \$48,000 per year, for a period of 6 months (WEAG 2019, p99).

Another aspect of the current system covered in some depth by WEAG was the disparity in the level of support for people unable to work following an injury, compared with people unable to work because of a health condition or disability. The Advisory Group's report suggested that:

“the Government might consider how best to extend the advantages of an ACC approach for those with disability and illness, particularly long term, not caused by an accident, to reduce the current inequity” (WEAG 2019, p147).

The Public Advisory Group on Restructuring and Redundancy

The Public Advisory Group on Restructuring and Redundancy (2008) was established to examine the adequacy of redundancy laws and provisions in New Zealand workplaces.

The Group's first recommendation was that the government should consider the introduction of a statutory requirement for redundancy compensation and other entitlements incorporating the following features:

- a. notice of redundancy termination to the affected worker
- b. compensation based on length of service
- c. a maximum level of statutory compensation, and
- d. provision of redundancy support and other active labour market mechanisms to affected workers and organisations.

The Group considered a number of options to fund redundancy compensation, all aimed at ensuring workers would receive payment including in cases of insolvency. The options that would best ensure that payments can always be made to workers facing redundancy were:

- levies paid by employers (and possibly employees) to a centrally managed fund which would meet statutory redundancy payment costs as per the statutory formula
- levies paid by employers and employees (and possibly government) into one or more managed funds (similar to Kiwisaver) which then provide any lump sum compensation payable as per the statutory formula
- general taxation would fund statutory redundancy entitlements – effectively an enhanced unemployment benefit in redundancy situations.

To reduce administration costs, improve efficiency, and lower risks, the Group suggested that each option could be “*firmly aligned with a similar funding scheme already in operation for another purpose*” namely ACC, Kiwisaver, and Unemployment Benefit, now Jobseeker Support.

In its 2017 Election Manifesto the Labour Party (2017) committed that, within its first 12 months, it would:

“Begin consultation on improving minimum redundancy protection for workers affected by restructuring, giving regard to the recommendations of the 2008 Ministerial Advisory Group report on redundancy and restructuring.”

The OECD

In 2017 the OECD conducted a review of policies in nine countries, including New Zealand, aimed at helping people to return to work after being displaced from their jobs for economic reasons or structural change.

In its report on New Zealand, it was recommended New Zealand adopt an “active redundancy insurance system” that would combine financial and pro-active employment support following redundancy. The OECD commented that the system could be financed by a payroll-based levy but it could also be tax-funded (OECD 2017).

2.5 Broad options

As discussed in the Commission’s Issues Paper, there are a number of options that would provide greater support and smooth incomes following job loss, including:

- a. Legislating for mandatory redundancy payments
- b. A mandatory redundancy insurance scheme
- c. Making Jobseeker Support more generous and/or accessible to more people
- d. Providing earnings-related unemployment benefits (similar to ACC weekly compensation)
- e. Making it easier to access Kiwisaver savings in the event of job loss
- f. Offering a government-provided loan with a maximum based on prior earnings (similar to Student Loans).

This report focuses on income support options c) and d), while drawing attention to how these compare with the redundancy payment options, a) and b). The Kiwisaver and loan options are not explored.

3 Unemployment insurance

3.1 Unemployment insurance in other countries

Unemployment insurance schemes providing earnings-related compensation are widespread in Europe and in the US and Canada. The schemes in place in other countries have a number of common features as set out in the Commission's Issues Paper and listed below:

- Benefits are available following involuntary job loss and are conditional on work-readiness with active job search
- To be eligible, workers must have contributed to a fund and/or been employed for certain minimum periods and earned above a minimum amount
- Membership is usually compulsory, however, the self-employed may be excluded or have limited access to benefits
- Benefit payments are usually linked to previous earnings up to a maximum. This maximum can be quite low, which in practice means that the relationship to past earnings only applies to those on very low wages⁵
- Time-limited payments (there is a wide range of maximum durations, however several countries have maximums of 1 or 2 years)
- Payment determined on an individual basis
- Funded by levies on employment income that are payable by employees and employers, or by employers only.

Within these broad parameters, individual schemes vary considerably. To illustrate the wide variation, Appendix 2 includes descriptions of the unemployment insurance schemes in Canada, France, and the US.

It is important to recognise that schemes to assist people when they are out of work date back to the Great Depression, or earlier. In the US, Canada and Europe the contributory model has been in place for at least 80 years, albeit modified in numerous and various ways over that time.

New Zealand's unemployment assistance provisions were introduced by the Social Security Act 1938 alongside benefits for a wide range of circumstances, including old age and invalidity, and the earliest version of the public health system we have today. The politicians of the day were well aware of the social insurance models applying in other countries but rejected the idea of contribution-based entitlements. The major expansion in social welfare and health benefits was funded instead by an increase in tax on all income (to 5% or one shilling in the pound at that time). People were not required to have contributed in order to receive benefits.

These different histories need to be kept in mind when considering any enhancements to New Zealand's current arrangements.

⁵ For example, in France the replacement rate for people on very low incomes is 75% which appears generous, but for most workers the rate is 57%.

3.2 Lessons from the OECD

The OECD (2019) has reported that changes in work patterns are highlighting a number of gaps and shortcomings in current unemployment insurance schemes. In its report on the Future of Work, the OECD examined the support systems in member countries and found that:

- in a majority of OECD countries, fewer than one third of jobseekers receive unemployment benefits
- in some countries, workers engaged in independent work or short-duration or part-time employment were 40-50% less likely to receive any form of income support during an out-of-work spell than standard employees (e.g. Czech Republic, Estonia, Latvia, Portugal and Slovak Republic)
- access to support, including assistance with job search, was particularly problematic for the self-employed
- benefit levels for non-standard workers were often significantly lower than for employees
- social protection arrangements, by treating standard and non-standard work differently, created incentives to shift from standard to non-standard patterns of working –
“For instance, in the Netherlands, the total employment cost for a dependent employee can be 60% higher than for an otherwise similar independent contractor.”

The OECD found that 11 out of 28 countries did not offer any kind of unemployment protection for self-employed workers. Those that did cover the self-employed often imposed stringent requirements for them to demonstrate their business has ceased. For example, OECD (2019) noted that:

“...claimants of unemployment benefits in Sweden are required to wind down or “freeze” their business and cannot claim benefits again for several years if they once again take up their previous self-employment activity after a benefit spell.”

In the US, seven states have legislation for Self-Employment Assistance programmes which enable people to pursue self-employment while receiving unemployment benefits. However, these programmes are only actively used in Delaware, New York, Oregon, and Vermont (O’Leary and Barnow 2016).

These lessons are particularly relevant when contemplating the possibility of growing numbers of self-employed, and people with irregular patterns of work, in New Zealand.

3.3 Required features for New Zealand

In its Issues Paper, the Commission sought input on a set of labour market policy goals for wellbeing and the future of work. The goals most directly supported by the options considered in this paper are:

- resilience, adaptability and smooth transitions for workers – policies that support people affected by job displacement to find work that suits their skills and circumstances e.g. by allowing them time for job search, or to set up a new business, instead of taking ‘rebound’ jobs
- allowing all to participate in society – through the provision of greater income support for individuals and families facing more frequent job or career changes.

To pursue these goals, and avoid creating the problems observed in schemes elsewhere, any changes to income support following job displacement in New Zealand would also need to:

- provide very similar treatment to people in standard and non-standard employment so that –

- workers choose the form of work that suits them best rather than the form of work that exempts them from government-imposed costs (e.g. unemployment insurance contributions)
- employers' choices between employees and independent contractors are not influenced by differences in government-imposed costs
- the range of work opportunities a person can pursue following job loss is maximised.
- be portable across types of employment and employers
- be resilient in the face of changing work patterns and the possibility that labour income will decline as a share of the total.

Other requirements, applying to all potential policy changes, are that any new arrangements:

- are a good fit with the wider income support and revenue raising systems
- minimise compliance costs for workers and employers
- minimise administration costs for government agencies.

Finally, for any policy option meeting these objectives, there needs to be an assessment of whether the improvements for people experiencing job loss outweigh the associated fiscal costs. This assessment depends in large part on how unemployment duration and job outcomes are affected by more generous income support. This is discussed in section 4.3 below.

4 Better income support following job loss

This section puts forward two options for enhancing income support following job displacement in New Zealand to deliver on the goals and criteria set out in section 3.3. The options were informed by the schemes in other countries as well as by the recommendations of related reviews as discussed in section 2.4. To provide a concrete basis for assessing whether such changes would provide a net benefit, the options are reasonably specific. The parameters suggested are of course open to debate and variation.

The current requirements for Jobseeker Support (Work Ready) are that a person must be:

- not in full-time employment (including earning part-time and wanting to work more)
- be available for and seeking full-time employment (defined as 30+ hours per week)
- have taken reasonable steps to find, and be willing and able to undertake employment.

Any new entitlement aimed at enhancing income smoothing following job displacement would include additional requirements to focus it on job loss. A possible set of requirements are that a person has:

- suffered involuntary job loss through being laid-off, their job being made redundant, or closure of a business and
- been employed (including with more than one employer, or self-employed) for a total of 9 months or more over the previous 12 months as demonstrated by the payment of income tax on employment income over that period
- full-time workers would need to have earned at a rate above the ACC minimum earnings level of \$36,816 per annum,⁶ while part-time workers would not.

These criteria are intended to exclude fixed-term contractors and seasonal workers who have no expectation of long-term employment and so do not face an unexpected drop in income. Opening a scheme up to include those groups would increase costs significantly and could create incentives for employers to alter the way they contract with employees.

4.1 Widen access to Jobseeker Support

A first step to provide more income smoothing for those displaced from jobs, would be to widen access to Jobseeker Support for people meeting the eligibility requirements above.

Widening access could be done by using only a very limited income test, capturing only the claimant's own income from employment, for the first 3 months. For most people there would effectively be no income test, however a person working part-time while still meeting the eligibility criteria, would have their benefit abated in respect of their wages. Any other income of the claimant, and a partner's income, would be disregarded. A person meeting the eligibility criteria would be entitled to receive –

Single: the single rate for their age group

Partnered without children: half the couple rate

Partnered with children – half the rate for couples with children.

⁶ So, a person with 9 months of employment over the past 12 months would have to have earned 0.75 x \$36,816, or \$27,612.

This would be of greatest benefit to the estimated 43% of displaced workers who have a partner working part-time or full-time.⁷ The vast majority of this group are currently excluded from accessing any support because their partner's income exceeds the cut-out point. Individuals who would be better off on the standard Jobseeker Support (mainly people with non-earning partners) would receive that higher amount.

After 3 months, if still unemployed, the person would automatically revert to the standard Jobseeker Support provisions.

To provide further support, this change could be made in conjunction with some of the WEAG recommendations, in particular, increasing benefit levels and increasing the abatement threshold. Each change would enhance income smoothing for different sub-groups of people displaced from their jobs.

As this would not be a major departure from existing arrangements, the most obvious and simplest way to fund this option would be through general taxation.

4.2 Earnings-related support

A greater degree of income smoothing would be provided through a benefit modelled on ACC weekly compensation, payable for 3 months following job loss. Targeted at the same group of people as above, the benefit could be set at 50% of prior earnings up to the maximum for weekly compensation, currently \$128,470. This would mean a maximum earnings-related benefit over 3 months of \$16,059, equating to 92% of average full-time earnings from wages and salaries over that 3-month period.⁸

Payment for 3 months at 50% of prior earnings would provide the equivalent of 6 weeks' pay. That, in turn, would approximate a redundancy payment for someone who had been employed with the same employer for 1 - 3 years.

Benefits would be payable on this basis for three months. A person remaining unemployed after 3 months would automatically revert to the standard Jobseeker Support provisions, including the income test on the claimant's own income and the income of their partner.

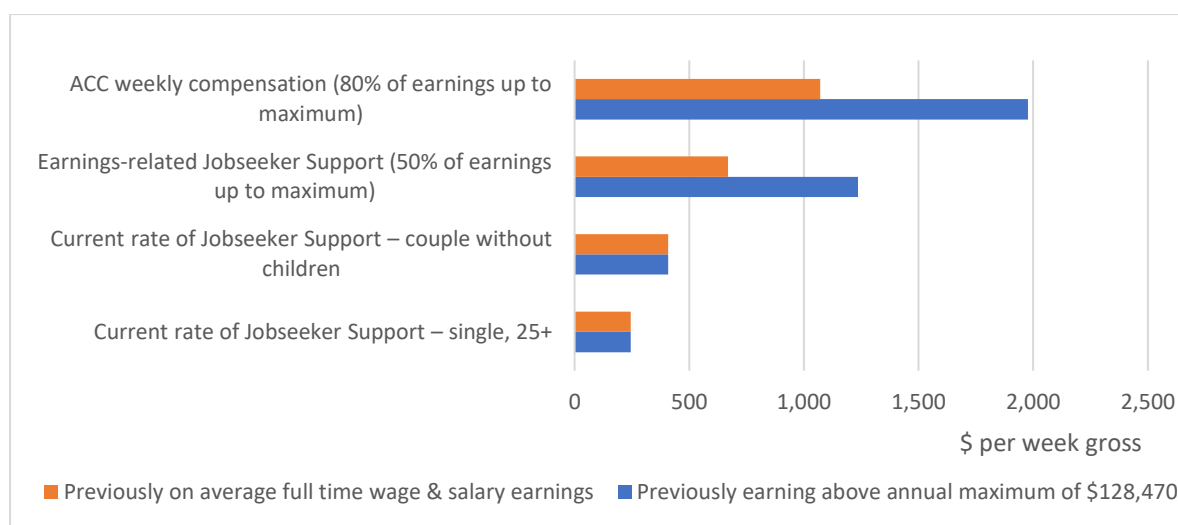
The ACC scheme already has a well-established method of calculating weekly compensation that is related to prior earnings, with provisions covering all variations of employment and income histories. Using the ACC model would avoid adding to what is already a complex array of social security and social insurance benefits and associated rules for accessing them.

Figure 4.1 shows how an earnings-related benefit for job loss would compare with existing Jobseeker Support and ACC weekly compensation benefit levels.

⁷ OECD 2017, p69. Note however that this is based on Household Labour Force Survey data on those laid-off/redundant/dismissed in the past 5 years and not currently employed, averaged over 2009-2016. This is a different definition to that proposed here to gain access to a non-income-tested benefit.

⁸ Stats NZ, June quarter 2018 adjusted to March 2019 using the movement in the index of salary and ordinary time wage rates.

Figure 4.1 Comparison of income support levels for average and high wage earners

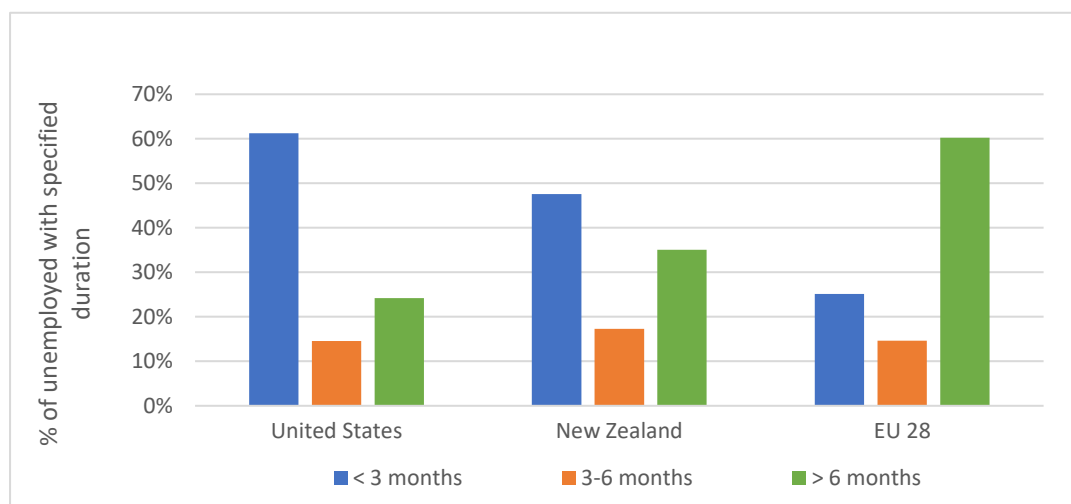


There are a number of options for funding an earnings-related benefit and these are discussed in section 5.

4.3 The impact of increased income support

The graph below indicates that on average, periods of unemployment in New Zealand are shorter than in Europe but longer than in the US – both with earnings-related unemployment benefits.

Figure 4.2 Unemployment duration 2017



Source: OECD <https://stats.oecd.org> – Dataset: LFS - Average duration of unemployment.

Schmieder and von Wachter (2016) summarised the variety of estimates that have been made of how unemployment benefit levels and maximum allowable benefit duration affect the time that people are unemployed. The studies they considered used changes to European and US schemes, as well as differences across and within schemes, to estimate these impacts.

The authors quote a median marginal impact of a 4-day increase in unemployment duration following a one month increase in the maximum allowable period on benefit. However, this median result of 0.13 sat in a range across 21 studies of 0.05 – 0.65, making the magnitude of the effect very uncertain.

There was a similarly wide range found for estimates of the elasticity of benefit duration in response to the benefit level. The median was 0.53 meaning that a 1% increase in the benefit level leads to a 0.53% increase in the period of unemployment. However, results across 18 studies varied from 0.1 to 2.0.

The authors also highlighted that the studies omitted many factors that impact on unemployment duration and on other outcomes, including:

- the welfare gains from those losing jobs being able to smooth income and consumption
- job outcomes including variation in the wages that the unemployed accept
- the interaction of unemployment schemes with other parts of the system such as assistance with job search, supplementary assistance, or benefits that are available once the maximum period on unemployment insurance is exhausted
- labour supply responses of family members, especially spouses
- the impact of individual savings which can be considerable. For example, one US study found that unemployment insurance payments replaced only 15 cents of each dollar lost, with reduced taxes replacing a further 26-35 cents of each dollar lost, and their own savings replaced 35-40 cents in the dollar
- government costs or savings in other programmes that may increase/decrease as a result of changes in an unemployment benefit scheme (Schmieder and von Wachter 2016).

More generous support following job displacement reduces the cost of time spent out of work and the incentive to quickly return to employment. While this can potentially lead to people finding higher quality jobs, more time off work can also make it increasingly hard for people to be re-employed.

The impact of unemployment duration on job quality is a key consideration for this paper as one of the aims is to improve skill matching by enabling a longer job search process. If more generous benefits improve skill matching, there should be a positive impact on post-unemployment wages. However, the vast majority of studies have found either a small negative effect or no significant impact on wages.

An exception is Nekoei and Weber (2015) which used Austrian administrative data and found a positive impact on wages from a longer job search. The potential to spend an extra 9 weeks on benefit⁹ was found to result in 2 days of extra job search and a 0.5% increase in wages. The authors noted that their finding could change the optimal benefit level and maximum duration i.e. the levels at which the positive effects of more generous benefits are outweighed by the negative effects of the increased taxes or levies that pay for them.

4.4 How many people could benefit?

This section provides an indicative estimate of the number of additional people qualifying for support, or for a higher rate of support, under the two options outlined above. A 2013 study found average annual rate of displacement for employees with at least one year's tenure in their jobs was around 1.5% from 2003 to 2007, increasing to 3.3% during the 2008–2009 recession (Dixon and Mare 2013).

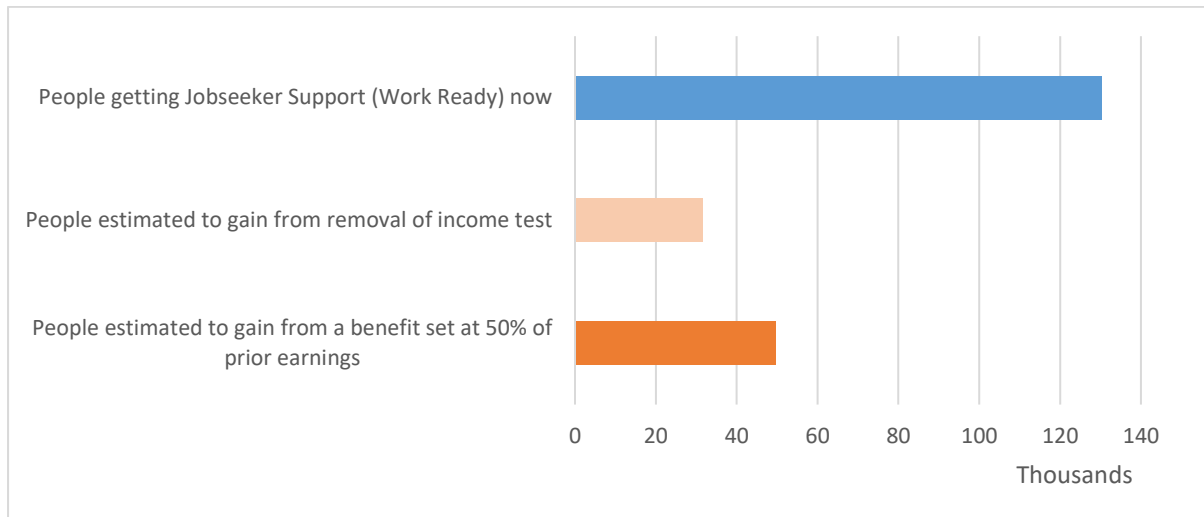
The numbers shown in Figure 4.2 below assume a 3% displacement rate (corresponding to 73,000 workers displaced in a year) and the following estimates:

⁹ The Austrian system provided a 39 weeks maximum duration for people aged over 40 compared with a maximum of 30 weeks for others.

- 43% of displaced people will have partners working full-time or part-time¹⁰ – these people would gain from having their partner’s income disregarded from the income test
- 68% of displaced people would have been earning more than double the applicable Jobseeker Support benefit rate¹¹ and would therefore qualify for an earnings-related benefit higher than current rates.

OECD (2013) found that displacement rates ranged from 2% – 7% in the OECD countries that collect the necessary data. Assuming a higher-end displacement rate of 6% would double the numbers of people who could potentially benefit.

Figure 4.2 Numbers of people who could benefit in the course of a year



¹⁰ From Stats NZ Household Labour Force Survey data.

¹¹ Estimated using Stats NZ’s Household Income and Housing Cost Statistics for the year ended June 2017.

5 Funding earnings-related income support

Currently the costs of job displacement fall on the individuals losing jobs, those employers that pay redundancy, and taxpayers via publicly-funded income support.

The first option set out above, which would widen access to Jobseeker Support for 3 months following job displacement, would be funded through a small increase in taxes. The sections below discuss options for funding an earnings-related benefit of the type described in 4.2 above.

In addressing this question, it is important to consider the existing system of support for job loss and avoid making the assumption that, because earnings-related benefits are generally funded through levies on labour income, we should follow that model in New Zealand. Given New Zealand already has a well-established system of support for people out of work, it makes sense to build on that rather than import a scheme from countries that have been using contributory models for 80 years or more.

5.1 Taxation

The simplest way to fund an earnings-related component of Jobseeker Support would be through general taxation. Above it was proposed that benefit eligibility would be linked to prior taxable income from employment, making the receipt of benefits conditional on having contributed a minimum amount of tax. The contributions made by individuals through personal tax rates would be very similar to the contribution under the kind of levy typically used to fund social insurance schemes. The main difference, aside from the presentational one, is that a levy typically has a maximum, whereas contributions through income tax do not.

This option may appear at odds with the earnings-related weekly compensation paid under ACC because, for the most part, ACC links eligibility for weekly compensation to the payment of an earnings-related levy. However, the exception to this rule is weekly compensation for people suffering motor vehicle injuries which is funded through levies on petrol and fees charged as part of vehicle licensing.

There are also exceptions to the link between levies on income and earnings-related benefits within unemployment schemes. For example, the UK now uses social insurance contributions to fund a flat rate benefit like our Jobseeker Support. The connection is further blurred in a number of countries by using general taxation to top-up social insurance contributions. Finally, OECD (2019) notes that social insurance budgets are under pressure in many countries, suggesting the need for “*a suitable balance of revenues from labour and non-labour tax bases*”.

The advantages of funding improved income support following job loss through general taxation are:

- it would be a very low-cost option as no new system of levies would be required
- general taxation has a much wider base than income from employment, making this a more resilient source of revenue in case the share of labour income falls, e.g. as a result of technological change.

5.2 Flat rate levy

An alternative would be to follow the typical social insurance model by raising the additional revenue using a flat rate levy on employment income (including income from self-employment). Assuming that 3% of workers would potentially qualify for an earnings-related benefit in the course of a year, a levy

would need to raise up to \$470m. This cost would be partially offset by a reduction in the funding required for existing Jobseeker Support as some beneficiaries would migrate to the more generous earnings-related benefit. The tax base for the levy would be the same as for the ACC Earners' Levy, which suggests a levy rate of up to 0.4%.

There are three variants of flat rate levies used in schemes in other countries as described below.

Levy paid by employees and the self-employed only

This variant would mirror the ACC Earners' Levy¹² which is deducted from salary and wages by employers and collected by IRD using the PAYE system. It is currently 1.21% (excl GST) of employment income up to \$128,470, equating to a maximum payment of \$1,554 (excl GST) per year per employee. Self-employed people pay the levy, calculated on the same basis, straight to ACC.

Following this model, a new *Unemployment Insurance Levy* could be introduced at a flat rate up to the same maximum that is used for ACC.

Levy split between employers and employees

A further refinement would be to follow the form of unemployment insurance common in the EU by splitting a flat rate levy between employers and employees, again up to a maximum annual income for each worker. The employee levy would be modelled on the ACC Earners' Levy as above while the employer component would be similar to the ACC Work Levy but charged at a flat rate.

Levy paid by employers and self-employed only

The final variation would involve a levy paid by businesses only, including the self-employed. France has recently moved to this model by removing the levy it used to apply to employees.

Again, this option would be similar to ACC's Work Levy but paid at a flat rate. It would also be similar to the *Working Safer Levy*¹³ collected by ACC and paid by all businesses to cover the cost of core activity undertaken by WorkSafe and other health and safety regulators.

Comparing these variants

Making workers responsible for the payment of a levy casts the scheme in a similar light to personal redundancy insurance, while making the employer responsible is more akin to legislating to make redundancy payments mandatory. Splitting it between the two gives a flavour of both and an argument could be made for each of these approaches. The contribution in levies, from any given business and its workers combined, should be the same under each variant. Although they are quite different in presentational terms, these options are likely to have a very similar impact over the long run.

¹² The Earners' Levy pays for treatment, rehabilitation and weekly compensation associated with injuries that happen outside work. Motor vehicle injuries are also excluded and funded separately through petrol excise and vehicle licensing.

¹³ Currently 8c per \$100 of liable earnings, GST excl. The Working Safer Levy is collected in conjunction with ACC's Work Levy.

5.3 Levy on employers with risk adjustment

A final step would be to impose the levy on businesses only, adjusted for their relative risk of job displacements. OECD (2019) argues that:

“the absence of a link between financing and lay-off behavior creates distortions in favour of accelerated, and possibly excessive, substitution of workers by artificial intelligence in some sectors or firms”.

To reduce those distortions, risk adjustment could be done at the industry level or at the level of the individual firm:

- under an industry-based levy, industries would face more of the costs associated with the lay-offs they generate
- experience rating each individual firm would provide an incentive for businesses to minimise lay-offs.

The unemployment insurance schemes that operate in individual states of the US incorporate both of these approaches as part of their experience rating regime. In all but 3 states, only employers are required to contribute to these schemes and, after 3 years in operation, the levy they pay has to be related to utilisation of unemployment benefits by their own former employees.

Businesses that have yet to establish a 3-year track record are generally charged using broad industry classifications, meaning that firms in industries with higher overall rates of job displacement pay higher tax rates than firms in other industries. However, the way this is done varies considerably between states, with some using a much more fine-grained system than others. For example:

- in Iowa, new non-construction employers pay 1.0%, and new construction employers pay 7.5% (Iowa Workforce Development 2019)
- in Hawaii, all new employers pay 2.4% (DLIR 2019)
- in Minnesota new employers pay the average for their industry which is chosen from a list of 51 industry groupings (DEED 2019).

The tax rates applied under experience rating at the firm level also have a wide range, both within and between states. For example, Minnesota has rates that range from 0.2% to 9.1%, while Hawaii's rates range from 0% to 5.6% (DEED 2019; DLIR 2019).

US firms that have been experience-rated have an incentive to minimise lay-offs and to monitor former employees' access to benefits. When a firm considers an employee was laid-off due to the employee's actions, rather than the firm's, it can challenge the former employee's access to benefits. If the challenge is successful, the firm's levies in future years will not be affected.

ACC levy for work-related injuries

ACC's experience-rating of employers for work-related injuries is very similar to the US model for job loss. ACC industry-based levies allocate costs to industries according to their injury experience. Individual experience rating then creates an incentive for injury prevention and for employers to assist workers get back to work after injury e.g. by offering part-time work or less strenuous duties for a period.

Experience rating is applied to businesses that have been running for at least three years and have had a work levy of over \$10,000 for three consecutive years. It provides a discount of up to 50%, or a loading of up to 75%, on the levy rate for a firm's industry group. The discount or loading is established based on the following measures over the preceding three years:

- the number of weekly compensation days for the firm's employees
- the number of ACC claims from the firm's employees with medical costs of over \$500
- any accidental death claims
- the firm's claims history compared to others in the same industry.

Smaller firms that do not meet the levy threshold fall under the *No Claims Discount* regime. Under this scheme, firms can pay a 10% loading or get a 10% discount on their levy based on the number of weekly compensation days and any accidental deaths over the preceding three-year period.

New firms, operating less than 3 years, pay the standard rate for their industry.

Evidence on the impact of experience rating

As discussed by the OECD, there is some evidence that experience rating reduces the overall costs of schemes (and associated levies) and increases employment (OECD 2019, section 7.3).

Washington state provided a natural experiment when it switched from payroll tax to experience rating in 1985. Without experience rating, the state's unemployment insurance payroll tax rate was 3.3% for all firms. After making the change, the range of levy rates was 2.5% - 5.4% (Anderson and Meyer 2000). This range has now widened to 0.13% - 5.72% (ESD 2019).

Anderson and Meyer's study of Washington's scheme in 2000 found that variation in industry average tax rates was largely passed on to workers through lower earnings. However, the results implied that the difference between a firm's rate and the average rate for their industry was more difficult to pass on. The study indicated that experience rating reduced turnover and unemployment insurance claims, and increased claim denials).

This evidence suggests that applying the US model of experience rating in New Zealand would lead to:

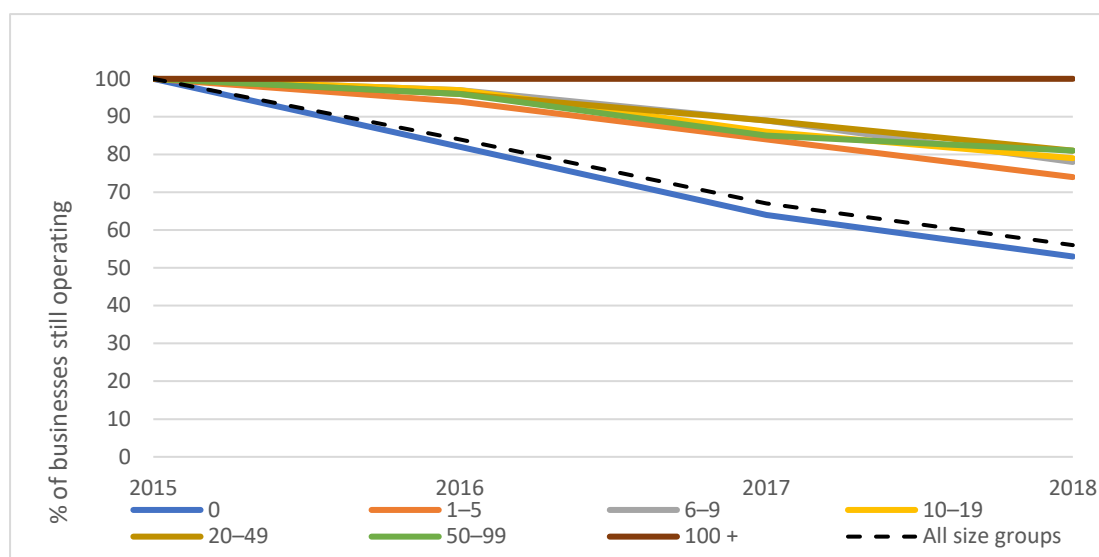
- relatively high levy rates for industries like manufacturing, utilities and construction, wholesale trade, and transport and storage that were found to have relatively high rates of job displacement by Dixon and Mare (2013). Over time, these would be expected to be reflected in lower wages for workers in those industries
- a reallocation of labour toward industries and firms with low rates of lay-offs
- if levies were linked directly to benefit costs, reduced benefit claims compared to without experience rating (in the US, claims were found to be 10 – 33% lower) and a significant increase in denials of unemployment insurance claims (due to the incentive on employers to challenge claims they consider invalid) (Anderson and Meyer 1998).

Experience rating at the firm level in New Zealand

To experience rate an individual business requires that it has sufficient numbers of employees, and that it survives long enough to create a meaningful track record of redundancies. Of the 535,000 business enterprises as at February 2018, 70% had no paid employees, and of the 56,300 businesses that started in 2015, 44% were no longer operating 3 years later.

However, the rate of business survival is very uneven across firms of different sizes as shown in Figure 5.1 below.

Figure 5.1 Survival of NZ businesses started in 2015 by employee count



Source: Stats NZ Business Demography

The vast majority of firms have either no employees or insufficient employee numbers for experience rating purposes. Another point is that lay-offs that occur when firms close would not be captured in experience-rating because, while the levy could be calculated, there would be no firm left to pay it.

These practical considerations mean that it would be challenging to implement experience rating at the level of the individual firm. However, these difficulties are managed by the ACC scheme in respect of work injuries, which suggests that it could be done. New businesses, small businesses and self-employed individuals would pay an industry-based levy rate, while larger established firms could each be experience-rated.

Whether it would incentivise fewer redundancies in those larger established firms is another question. The recent Cabinet paper on ACC levies for 2019/20 and 2020/21 discussed a number of proposed changes to experience rating for work injuries and noted that:

“The current programme is not well understood by employers, and recent assessments suggest that it has not proved to be effective in incentivising improved employer performance” (Minister for ACC 2018).

If not well understood, an attempt to discourage job displacements through an experience-rated levy on employers could be similarly ineffective.

The Public Advisory Group on Restructuring and Redundancy (2008) considered experience rating levies to fund mandatory redundancy payments. It suggested that profitability, length of time in business, and industry-specific redundancy rates, could be used to experience-rate firms. However, it concluded that the expense in setting up and administering such a system would probably not be warranted. The Group was also concerned about the possibility of perverse incentives.

The OECD was non-committal on the merits of experience-rating a levy on employers to fund a redundancy insurance scheme, saying:

“It may prove worthwhile to experience-rate levies according to industry and firm-related risks, but such a system can only realistically emerge over time, as historical information accrues on redundancy risks across industries over the business cycle” (OECD 2017).

Conclusion on experience rating

There is an argument for industries to bear the cost of their lay-offs, implying an industry-based levy system would be a good option. Industries that are laying-off workers due to new technology, and those that are more affected by economic downturns, would pay higher levy rates than other industries under that model.

However, if the preference was for individual firms to bear their own redundancy costs and create an incentive to minimise lay-offs, a more direct and obvious way to achieve that would be to legislate for mandatory redundancy payments.

The merits of mandatory redundancy payments, compared with earnings-related benefits paid by government, are discussed in section 5.5 below.

5.4 Summary of funding options

The options for funding an earnings-related benefit are summarised in Table 5.1. The preferred options are highlighted.

Table 5.1 Funding options for an earnings-related benefit

	<i>No risk adjustment</i>	<i>Risk adjustment</i>
<i>Taxpayers responsible for financing</i>	Funded by general taxation (like existing Jobseeker Support and ACC for people not in the workforce)	
<i>Workers responsible for financing</i>	Flat rate levy paid by workers on income from employment (like ACC Earners' Account Levy)	
<i>Businesses and workers share responsibility</i>	Flat rate levies paid by businesses and workers on income from employment (European model)	Risk-adjusted levy paid by businesses and flat rate paid by workers (US model in 3 states only)
<i>Businesses responsible for financing</i>	Flat rate levy paid by businesses only ¹⁴	Industry-based levy paid by businesses only ¹⁵ (US and ACC Work Account model for new businesses)
		Firm-based levy paid by businesses only ¹⁵ (US and ACC Work Account model for larger, established businesses)

¹⁴ Including the self-employed.

¹⁵ Including the self-employed who would pay an industry-based levy rate.

5.5 Earnings-related benefits versus mandatory redundancy payments

The parameters of the earnings-related benefit put forward above were chosen to provide a degree of alignment with mandatory redundancy payments, and therefore a similar level of support following job displacement.

Redundancy payments offer another way to have individual employers meet the costs associated with their lay-offs, without the added complexity and practical difficulties of an experience-rated levy on employers. This section reviews the advantages of each option.

The advantages of an earnings-related benefit, funded by levies on employers, over mandatory redundancy payments are:

- it removes the risk of non-payment or delayed payment due to bankruptcy or receivership
- a benefit is targeted to those unable to find a job, whereas redundancy payments go to all displaced workers (with sufficient tenure) regardless of how long it takes them to find a new job
- it can provide assistance to the self-employed as well as employees
- the benefits can be accessed by workers who have changed jobs recently or moved from standard to non-standard employment. (Compared with redundancy payments that generally require a year with the same employer to be eligible.)
- all employers contribute, including those who might ultimately avoid redundancy payments if they wound-up and had insufficient funds after paying secured creditors.

Advantages of mandatory redundancy payments compared with an earnings-related benefit, at least from the recipients' perspective, are:

- they are likely to be more generous for those employed with the same employer for over 2 years
- they provide a lump sum and avoid the need to apply to MSD for assistance
- there is no requirement to prove job search activity.

If an earnings-related benefit was introduced, accessible by everyone whose job is made redundant, employers that are currently committed to paying redundancy may choose to phase out their provisions over time.

6 Administration and compliance

6.1 Delivery mechanisms

This section identifies current functions and activities of government agencies (including IRD, ACC, and MSD) that would offer synergies in delivering aspects of the options described above. Table 6.1 makes it clear that the functions needed to deliver additional support following job loss are already established.

Table 6.1 Delivery of new income support measures following job loss

Feature of new arrangement	ACC existing functions	MSD existing functions	IRD existing functions	Preferred agency
Assessment of eligibility		<p>Already check for involuntary job loss as it results in a stand-down period</p> <p>Already check for actively seeking work</p>	Employment history and minimum earnings – IRD already does this for weekly compensation	MSD with IRD input
Payment of Jobseeker Support with very limited income test*, for up to 3 months		Yes, a relatively simple extension of what is paid now		MSD
Payment of Jobseeker Support at 50% of prior earnings up to a maximum for up to 3 months	Could do this in theory but would require a shift from ACC to MSD for people remaining unemployed for more than 3 months, leading to duplication and the potential for a lack of continuity in payments	Already paying Jobseeker Support. Could use IRD info (already being provided to ACC) to pay an earnings-related component	<p>Possible but quite different to anything done currently.</p> <p>Working for Families is the closest example at present.</p>	MSD with IRD input
Assistance with job search	Focus is on rehabilitation after injury rather than on job search.	Yes, strong focus on this		MSD

* The only income subject to the income test would be the claimant's own income from employment (essentially from part-time work).

The conclusion is that MSD would be the logical agency to deliver enhanced benefits, using IRD information as required to establish eligibility, and ACC rules for calculating earnings-related payments. The option of creating a new entity to deliver additional support is not recommended as it would involve considerable duplication and make it more difficult to ensure that any new elements were properly integrated into the wider system.

If general taxation was used to fund better income support, no additional revenue collection functions would be needed. The various levy-based funding options are considered in the next table: MSD has been excluded as it has no similar role at present.

Table 6.2 Collection of new levies to fund earnings-related support

New levy	ACC existing functions	IRD existing functions	Preferred agency
<i>Flat rate levy on employees & self-employed</i>	Yes - already collect Earners' Levy from self-employed	Yes - already collect Earners' Levy through PAYE for employees	ACC for self-employed and IRD for employees
<i>Flat rate levy on businesses and self-employed</i>	This could be collected in conjunction with the Work Levy as it would have the same base. It would be separately identified and calculated at a flat rate as happens with the <i>Working Safer Levy</i> .	This is an option but it would be more complex than ACC collecting it.	ACC
<i>Risk-adjusted levy on employers (adjusted at industry of firm level)</i>	Analogous to the Work Levy which ACC already collects		ACC

It would make sense for a flat rate levy on workers to be collected by IRD for employees and by ACC for the self-employed, as happens now for the ACC Earners' Levy. Collecting a levy from businesses, including the self-employed, would be most efficiently done by ACC, in conjunction with the Work Levy.

Clearly any new benefits or levies would require legislative changes and these would include changes to the functions of existing institutions as needed.

6.2 The need for a separate fund

Social insurance schemes typically collect levies into a separate fund which is then used to pay for the associated benefits. As happens with ACC, levy rates are reviewed and adjusted over time to ensure the fund is sufficient to meet the related benefit costs. Maintaining a fund of this type can be seen as creating incentives to keep a sharp focus on long-term costs and encourage the development of initiatives to keep costs down, e.g. through a more stringent approach to job search.

The Welfare Working Group that reported in 2011 was particularly interested in this approach, recommending that a work-focussed welfare system should:

“...manage the performance of the system using a regularly estimated actuarial calculation of the forward liability; and explore the setting up of a distinct welfare fund to cover the costs of the welfare system, with the ultimate possibility of partially funding the system” (Welfare Working Group 2011, p32).

A separate fund can help to sharpen these incentives where a scheme has well-defined boundaries ('injury' in the case of ACC) and is providing benefits long-term for some clients (e.g. ACC serious injury clients). When it has those features, an actuarial approach can lead to initiatives being developed that help people to regain their independence and move off the scheme. These conditions would apply if New Zealand was to:

- follow a model like the one in France where an earnings-related unemployment benefit is payable for up to 3 years; and/or
- adopt unemployment insurance as a **replacement** of Jobseeker Support, rather than as a way of augmenting it.

However, the earnings-related benefit option described here is short term – payable for at most 3 months – and would be only a part of the wider system of income support for those out of work. After 3 months, some people would move from the earnings-related benefit to the standard Jobseeker Support, and potentially remain there long-term. Isolating the earnings-related component in those circumstances, through the use of a separate fund, could prove to be quite unhelpful.

6.3 Compliance and administration costs

Anyone moving from being an employee to being self-employed will find they incur considerable compliance costs. The self-employed are responsible for paying their own taxes, including dealing with provisional tax, and ACC levies. The increase in compliance costs for a newly self-employed person will far outweigh the marginal saving in the equivalent cost for the employer they have left.

Accountants and small business software packages are available to help the self-employed comply with their obligations, but these come at a cost. A small business could expect to pay around \$2,000 - \$2,500 a year for a 'full service' option from an accountant (including advice and filing of tax returns) and a further \$700 a year for a software package that helps with sending invoices and quotes and reconciling bank statements.

Administration costs also increase for both ACC and IRD when people move from employee to self-employed status as discussed in an accompanying paper for the Commission.

The options of tax funding or a simple flat rate addition to existing ACC levies (Earners' and/or Work) would keep costs down for IRD, ACC, the self-employed and employers.

7 Conclusions

The enhanced Jobseeker Support and preferred funding options discussed in this report would deliver on the features required for New Zealand, as set out in section 3.3, by:

- providing additional support for more people following job displacement so they can participate in society and take more time to find a job that matches their skills
- treating employees, the self-employed, part-time workers, and people with frequent changes in their work, even-handedly. This is important to avoid incentives for employers to favour independent contractors over employees
- using existing schemes and organisational functions to keep compliance and administration costs low.

The option of an earnings-related benefit would offer further advantages as follows:

- a higher level of support and income smoothing than a simple expansion of access to current Jobseeker Support benefits
- the potential to respond to the Public Advisory Group on Restructuring and Redundancy (2008) by providing more consistent support to people losing their jobs. An earnings-related benefit would support a much larger group than mandatory redundancy payments, including the self-employed and people who have changed jobs. It would also remove the risk of non-payment following business closure
- the potential to extend the same provisions to illness and disability over the longer term, reducing tensions between the relative generosity of ACC's weekly compensation and Jobseeker Support for those with a health condition or disability. The Welfare Expert Advisory Group (2019) suggested that this be given consideration.

The effects that would likely be seen as disadvantages are:

- extra costs imposed on taxpayers or businesses who will be required to pay for the improved benefits for people displaced from jobs
- displacement of existing redundancy arrangements which are of greater benefit to those with long service with one employer
- the reduced incentive to quickly return to employment, leading to more time off work, which can make it increasingly hard for people to be re-employed
- the existence of ACC alongside Jobseeker Support is already seen as creating an inequity (e.g. by WEAG 2019 for people with health condition or disability). Extending earnings-related support to those displaced from jobs, yet still able to work, could be seen as having a lower priority than providing enhanced support to people unable to work due to a health condition or disability.

Of the two recommended funding options, general taxation would be simpler, and more resilient if there was a decline in the share of income from labour. The alternative of a levy on businesses, risk-adjusted at the industry level, would see industries bearing a greater share of their lay-off costs. Higher tax rates on sectors that displace more workers, e.g. as a result of new technology, could reduce the number of lay-offs.

Whether there would be a net gain from an earnings-related benefit is a difficult judgement, especially given the uncertainties about the effect it would have on unemployment duration, wage rates and job quality following a period of unemployment, and productivity. However, the many positives discussed above show there is a lot to recommend it.

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Appendix 1: Features of current income support for job loss

General provisions

Features	ACC's weekly compensation	MSD's Jobseeker Support – Work Ready
Payment linked to previous earnings	Yes, 80% of prior gross employment earnings up to a maximum. Payment does not vary for family circumstances.	Not linked. Payment is linked to age (under 25 or 25+) and living situation (single person, couple, couple with children)
Time-limited payments	No time limit except when person becomes eligible for NZ superannuation. Weekly compensation is paid for 3 months after vocational independence	Intended to be paid for up to a year. People needing support for longer have to re-apply.
Payment linked to work-readiness:	Payment is made based on the client being unable to work in their previous employment due to injury. Payment ceases 3 months after person is assessed as fit to return to work	To qualify a person must: <ul style="list-style-type: none"> not be in full-time employment be available for and seeking full-time employment (defined as 30+ hours per week) earning part-time and wanting to work more have taken reasonable steps to find, and be willing and able to undertake employment
Other income taken into account	Partner income is not relevant. No other income is taken into account while the injured person is not working.	A person's income from other sources (eg investments) and a partner's income both reduce the benefit payment by 70c in the dollar above \$80 per week of gross income.
Funding arrangements	<p>Work-related injury: Employers and self-employed pay a levy based on the assessed risk of the industry or firm. The levy is a percentage of wages up to the maximum of \$128,470.</p> <p>Motor vehicle injury: No connection to earnings. Levies come from fuel and vehicle licensing.</p> <p>Other injuries: Flat rate of 1.21% (GST excl) on employment earnings up to the maximum of \$128,470.</p>	Tax-funded so contributed to by all taxpayers. Income tax increases progressively with income, rather than at a flat rate, and there is no maximum. Higher income individuals contribute a higher proportion than they do under the ACC model.

Specific provisions for the self-employed

ACC weekly compensation and Jobseeker Support both include provisions for the self-employed which provide them with access to support that is very similar to that available to employees. The key differences in treatment for the self-employed and for employees are described below.

ACC weekly compensation

Unlike employees, the self-employed have to prove a loss of earnings resulting from job loss. Their weekly compensation is paid at 80% of taxable income based on the most recently completed financial year. A self-employed client who was also an employee within the last year, will have their earnings as an employee considered as part of the overall calculation.

The self-employed have the option to choose *CoverPlus Extra* which enables them to agree a level at which weekly compensation will be paid until they are fit to return to full-time work. This level of compensation is paid regardless of whether the business is generating income or there is a partial return to work. The agreed level must however be between \$29,453 and \$102,776.¹⁶ Employees, on the other hand, do not have any choice over the amount of weekly compensation payable.

Part-time self-employed people can also apply for CoverPlus Extra provided they earn over the CoverPlus Extra minimum level.

There is a further option to have weekly compensation paid at an agreed rate that is subject to abatement for business earnings while the person is injured – *Lower Levels of Weekly Compensation*. Levies for the two CoverPlus Extra options vary to reflect their differing costs to ACC (ACC 2019a; ACC 2019b).

Jobseeker Support

The self-employed can access Jobseeker Support provided their involvement in the business has completely stopped. The business does not have to be formally 'wound up': it can be temporarily finished or other staff can be continuing to run it.

The self-employed can also access other forms of assistance with their business or to start a new business, including:

- flexi-wage self-employment which pays a short-term wage subsidy to clients who need financial support while they start a business
- help with meeting business start-up costs of up to \$10,000 in a 52-week period
- a training and advice grant to help with the costs of investigating or entering self-employment.

Part-time self-employed people can also access Jobseeker Support, while still working, provided they meet the job search requirements. This means they need to be available for and seeking full-time employment and have taken reasonable steps to find it (MSD 2019b).

¹⁶ Corresponding to 80% of the minimum and maximum earnings that the full-time self-employed (working 30 hrs or more per week) are required to pay levies on.

Appendix 2: Examples of unemployment insurance schemes in other countries

Canada's Employment Insurance scheme

This scheme provides temporary financial help to unemployed Canadians in the following circumstances:

- looking for work or upgrading skills
- pregnant or caring for a new-born or adopted child
- sick or providing care to a family member who is gravely ill (Government of Canada 2019).

In 2019, employees contribute 1.62% of annual earnings up to \$53,100¹⁷ and the employer contributes a further 2.268% up to the same maximum income level per employee.

For most people, the basic rate for calculating benefits is 55% of their prior earnings, up to the maximum of \$53,100. This means that the maximum benefit payable is \$29,205 per annum or slightly under 50% of average full-time wages.

The benefit can be paid for a maximum period ranging from 15 to 45 weeks with the maximum period depending on the number of hours worked previously and the level of unemployment in the region where the claimant lives. So, for example, a person in a region with low unemployment who has worked for 700-734 hours would qualify to receive benefits for at most 14 weeks. A person in a region with amongst the highest levels of unemployment, who has worked for only 420-454 hours, would qualify to receive benefits for up to 26 weeks.

France's unemployment insurance

The earnings-related unemployment benefit in France is available to people who:

- have involuntarily lost their job (termination by the employer, the end of a fixed-term employment contract or an assignment contract, termination by mutual agreement or resignation for a valid reason)
- are physically fit for work
- register as a jobseeker within 12 months of losing their job and actively seek employment (CLEISS 2019).

A claimant must have had salaried employment for 3 months of the previous 28 months (or 36 months if aged 53+) to be eligible for benefits. The 3 months worked do not have to be continuous and may have been with one or more employers. All work periods are taken into account, with the exception of those which have already been used for unemployment insurance. Members can retain unused benefit entitlements for future out-of-work periods and cumulate benefit rights across successive out-of-work spells.

The amount of benefit payable is calculated using a complex formula. For most people – those who had previously earned between EUR 26,387 and EUR 162,096 per annum – the benefit is paid at 57% of prior earnings. The prior earnings are assessed using the last 12 months of salary. People who had previously earned above this level qualify for the maximum benefit of EUR 92,395 (UNEDIC 2019).

¹⁷ As of 1 January 2019.

The maximum duration of payment ranges from 2 to 3 years, depending on age.

The scheme does not offer any kind of unemployment protection for self-employed workers. In 2018, the French parliament passed a law that provides for flat-rate unemployment benefits for jobseekers who become unemployed after a period of self-employment with earnings of at least EUR 10,000 per year and subject to liquidation of the former business. The benefit, with a duration of 6 months, was scheduled to come into force in January 2019 but implementation has been delayed (OECD 2019).

Prior to 2019, levies were paid at the rate of 2.4% for employees and 4.05% for employers on salary of up to EUR 54,032 per worker. However as of 1 January 2019, only employers are required to contribute and their rate remains at 4.05% (CLEISS 2019).

Unemployment insurance schemes in the US

All states of the US have unemployment insurance schemes that must follow a number of federally-prescribed rules but can vary in several respects, as determined by each state. To receive payments from the unemployment insurance schemes in the US, applicants must be:

- involuntarily jobless because of an unavoidable job separation
- have sufficiently strong recent attachment to the labour force, and
- be able, available, and actively seeking work.

The federal government added incentives in 2009 for states to allow unemployment insurance eligibility while seeking only part-time work and this was taken up by 28 states (O'Leary and Barnow 2016).

With regard to benefit levels, most states follow the recommendations made by government bodies and pay benefits at 50% of prior earnings up to a maximum weekly benefit equating to two-thirds the average weekly wage. However, eight states have schemes that pay below 50% of prior earnings (Vroman et al 2017).

Maximum weekly benefit amounts for individual states ranged from \$240 in Arizona to \$1,083 in Massachusetts as of January 2016. While most state schemes provide payments for 26 weeks, in recent years eight states have cut duration to less than 26 weeks, and in 2016 the range was 13 to 30 weeks (O'Leary and Barnow 2016).

In all but three states, only employers are required to contribute to these schemes. Federal rules require experience rating to be applied to businesses after they have operated for three years¹⁸ and the levy that businesses pay has to be related to past utilisation of unemployment benefits by their employees (Vroman 2017). The US experience rating system is discussed further in section 5.3 above.

¹⁸ However, states can choose to apply experience rating to businesses at any time after 1 year in operation.