

# Unemployment support: just fix the scheme we have

**Kathy Spencer**

The Government has proposed an income insurance scheme to address the shortcomings of the present unemployment benefit, or Jobseeker Support.

The scheme put forward for discussion is very expensive, complex, open to abuse, and would further encourage the use of independent contractors over employees.

If only there was a much easier, cheaper way to improve support for people who lose their jobs...

But wait, there is. In 2019 the Welfare Expert Advisory Group highlighted that Jobseeker Support is too narrowly targeted, meaning many people don't qualify for any support at all, and that it needs to be paid at more generous rates.

The Advisory Group made specific recommendations to address these problems. But rather than fixing the current system, the Government plans to go off in an entirely different direction. It now wants to add a new scheme for job loss resulting from redundancy, illness or disability.

Employment insurance schemes operating overseas pay benefits based on prior earnings, typically at the rate of 50-60% of what a person earned before job loss.

The maximum benefit paid is generally quite low, for example, half or two-thirds of the average full-time wage.

In stark contrast, the scheme proposed for New Zealand would pay a benefit at 80% of prior earnings and the maximum benefit would be \$2,014 per week before tax, equating to 1.7 times average weekly full-time earnings.

The more generous the scheme, the more tempting it will be for people to take advantage of it when they could fairly easily get another job, or abuse it by agreeing on a redundancy instead of termination for poor performance, for example.

The Government's discussion document states - *"... employers could become more inclined to make people redundant, or workers in declining firms could wait to be made redundant rather than seeking other employment."*

It is proposed that employers and employees would each fund the scheme at the rate of 1.39% of the wages they pay or receive.

However, the discussion document says - *"...while the costs are proposed to be evenly split between workers and employers, employers could over time pass on such costs to workers, for instance, by suppressing wage increases."*

If correct, this would certainly help explain why Business NZ has co-authored the proposal.

What would the scheme mean for nurses working in our DHBs, for example? Nurses are at very low risk of having their job disestablished, and they have good sick leave provisions.

Should nurses have to pay 1.39% of their salaries into a new fund, with minimal chance of seeing any benefit from it, or would they be better-off keeping that money in their own bank accounts?

Should DHBs have to pay another 1.39% of nurse salaries into this scheme, or would they do better to hire more nurses, or increase the pay of the ones they have?

Despite the scheme costing around \$3.5 billion a year, it would not replace Jobseeker Support (which was around \$2 billion a year pre-Covid).

The current benefit would still be needed for people who don't qualify for the proposed scheme. This would include those with an illness or disability who haven't been able to work at all, people made redundant after less than 6 months as an employee, and the self-employed.

Whether a person qualifies for the generous second tier of support will hinge on having a 6-month track record as an employee in the 18 months prior to job loss.

Should that justify a difference in support that could amount to hundreds of dollars a week?

One of the objectives of the proposal is to give displaced workers more time to search for new jobs that match their skills. Workers being matched to better jobs improves productivity.

However, there is a lack of evidence that the proposed scheme would achieve this.

There are many studies showing that people do tend to be unemployed for longer when offered more generous support. But while that extra time sometimes leads to a better job, being out of work for longer can also worsen job prospects. These two effects roughly cancel each other out.

### **What should happen?**

The Government should forget about introducing an expensive new scheme that we don't need. Instead, it should improve Jobseeker Support as recommended by the Welfare Advisory Group:

- allow more people to qualify by disregarding a partner's income for 6 months. This would provide support to about half of those who currently miss out
- implement the benefit rate increases specified by the Group, adjusted to present day equivalents.

Changes like these are the priority for assisting people who are out of work.

People wanting \$2,014 a week for up to 7 months following redundancy, should look to the private insurance market, or their own savings.

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