

Income insurance: it's not too late to get this right

Kathy Spencer

Once again, the Government is in danger of ruining its good policy intentions with poor execution.

The good intentions in this case are to provide greater support to people who lose a job due to redundancy, a health condition or disability.

Greater support is certainly needed because the existing system, Jobseeker Support, provides inadequate assistance, with many people not qualifying for any support at all because they have a partner who is earning.

In 2019, the Welfare Expert Advisory Group highlighted that Jobseeker Support was too narrowly targeted, and that it needed to be paid at more generous rates.

Instead of taking that advice, the Government's plan is to introduce a separate scheme for job loss, run by ACC, and with employers and employees each funding the scheme at the rate of 1.39% of the wages they pay or receive. Contributing to the scheme would be compulsory.

Modelled on ACC, the 'income insurance' scheme would pay out 80% of a person's prior income, up to a maximum salary of \$136,544, for up to 6 months. That means a pay-out of \$2,100 per week before tax for anyone earning above the income cap.

The employer would pay for a further 4 weeks immediately following job loss, giving a maximum total pay-out of over \$63,000 before tax.

The current Jobseeker benefit would still be needed for people who don't qualify for the proposed gold-plated scheme. People 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 many of the self-employed would not qualify for the new scheme. As a result, there would be significant inequities between people in similar circumstances.

The proposed scheme's generosity would also make it attractive for some people to be laid-off in order to take advantage of the scheme before finding another job.

Having a parallel scheme run by ACC, while MSD continues to administer Jobseeker Support, doubles-up on administration costs and makes it even more complex for people who move from one scheme to the other.

But it's not too late for the Government to avoid another failure of policy implementation. It can do that by increasing support for people facing job loss in the simplest, most effective way, without creating new inequities or perverse incentives. It can do it via Jobseeker Support.

The Government has received many submissions opposing the introduction of the scheme. Among these are three thorough and well-researched submissions from senior academics at Victoria University's Institute for Governance and Policy Studies.

In his submission, Institute Director, Simon Chapple argues that: *"The examination of policy alternatives to social insurance is cursory, dismissive, and hence seriously flawed."*

Michael Fletcher, author of several reports on our welfare system, says that: *"... the proposal would be highly inequitable, creating a two-tier structure in New Zealand's welfare system."*

The third, Geoff Bertram writes: *“The entire complex and difficult topic of the interface between social insurance and the welfare system is missing in action.”*

He goes on to say: *“The simple answer to this would be to fix the welfare system.”*

The views of these academics are shared by a range of other submitters. For example, the Foodstuffs supermarket chain said: *“The Discussion Document presents a NZ Income Insurance Scheme as if it is the only option available for discussion. There has been no public consultation on the alternatives.”*

And the Salvation Army agreed that: *“The proposed scheme introduces further complexity to the income support system and will result in a two-tiered approach to welfare that is more likely to increase inequalities than reduce them.”*

What should happen?

The Government can achieve its good intentions by changing Jobseeker Support and funding the improvements through taxes.

The first step is to allow more people to qualify for Jobseeker Support by disregarding a partner's income for 3 months. The next is to increase benefit rates in line with recommendations from the Welfare Expert Advisory Group.

The Government can then build-in additional support for those who have lost a job due to a redundancy, illness or disability. It could add an earnings-related component into Jobseeker Support, payable for up to 3 months only.

The final step is to ensure that this earnings-related component is targeted to those in greatest need after losing a job. That doesn't include people on high incomes who are likely to have savings to tide them over while they find other employment.

Lowering the income cap from \$136,544 to around the median full-time wage will target the right people.

Kathy Spencer was a senior manager in the Ministry of Health and ACC, and a tax policy manager in the Treasury.