

# A New Zealand Income Insurance Scheme

## NZSA Submission

31 March 2022



# Income insurance consultation

- In February 2022, the Government, Business New Zealand and the New Zealand Council of Trade Unions proposed an income insurance scheme to provide income replacement to workers who lose their job through redundancy or loss of work for health conditions.
- The scheme would be an expansion of social insurance in New Zealand (proposed to be managed by ACC) and would have an impact on the insurance industry.
- The Consultation asks 90+ questions across many sections including:
  - 1) Coverage for displaced workers
  - 2) Entitlements for displaced workers
  - 3) Coverage and entitlements for loss of work due to health conditions or disabilities
  - 4) Insurance claimants' obligations
  - 5) Delivering income insurance
  - 6) Funding income insurance
- Public submissions are due by 26 April 2022.
- NZSA working group: Sam Segal, Shaun Ashman, Anagha Pasche, Luke Fieldes, Nick Sutherland

## RULES OF THE NEW ZEALAND SOCIETY OF ACTUARIES (INCORPORATED)

### 1. NAME

The name of the Society is the New Zealand Society of Actuaries (Incorporated) hereinafter called the Society.

### 2. STRUCTURE

The affairs of the Society will be conducted by the President, the Council, the Secretariat and the various committees, as described in these Rules.

### 3. OBJECTS

The objects of the Society are:

- a) To establish, promote and maintain high standards of competence and conduct within the actuarial profession.
- b) To develop and maintain New Zealand actuarial professional standards and liaise with government, regulators, officials and interested bodies on standards and regulations.
- c) To make submissions in the public interest and provide a source of reference on actuarial matters for Government and various official and interested bodies.
- d) To provide a formal link with actuarial bodies elsewhere in the world.
- e) To assist student actuaries in their studies, assist members with continuing professional development and help familiarise new members with New Zealand conditions.
- f) To facilitate taking such action as the Society may agree in respect of any matter that is relevant to the actuarial profession.
- g) To afford members the opportunity of discussing actuarial and other matters of interest to members.
- h) To promote fellowship amongst the actuarial profession.



# Purpose of today's sessional meeting

- In this session we will present an outline of the Working Group's thinking on the questions in the consultation paper.
- To date very little feedback has been received. To ensure we appropriately capture the views of the Society in our submission we are seeking more feedback from members.
- We do not intend to discuss the response to each question. Instead, we have allocated time to focus on particular aspects that the Working Group considers to be most significant and/or most likely to have a wide range of views.
- If responses to the Consultation questions do not have Society consensus, this will be noted in the submission and the range of perspectives and/or considerations will be presented.
- Due to time constraints, we may be unable to listen to everyone's views in this session. Please raise any new issues or additional comments to [submissions@actuaries.org.nz](mailto:submissions@actuaries.org.nz).
- This session will be recorded to ensure all feedback is captured.

# Nature of the Society's response

- Although one of the Society's objectives is to make "submissions in the public interest," it is acknowledged that views on what is in the public interest will vary between members.
- We have set our scope to reply to questions in public consultation and make general comments.
- The NZSA submission should as much as possible avoid communicating opinions around social/political positions. The Society should be providing factual feedback within our areas of professional expertise.
- As such, we intend to provide a submission focused on:
  1. Risks of the proposal, in particular those that have not been considered or have been mis-assessed
  2. Costs/benefits of the proposal, in particular those that have not been considered or have been mis-assessed
  3. Design options that may not have not been considered and their potential implications
- If members feel that the Society should submit on other topics, they are welcome to provide an argument as such. However, in the absence of such feedback, no response will be provided.



# Areas we do not intend to comment on

- How the proposal allows for the Treaty of Waitangi and the Maori population.
- Who should administer the scheme (including ACC, other government department or private insurers).
- How claims management is best executed and how claimants are helped back into work.
- How dispute resolution will work.
- The impact of the scheme on the insurance market/other government departments
- Any areas outside the Society's expertise.



# Responses to specific questions



# Coverage for displaced workers (1 of 2)



<b>Issue 1</b>	<b>Complete job loss due to disestablishment only</b> “Job loss” only covers involuntary loss due to job disestablishment and excludes resignations, poor performance and partial job loss (hours/duties reductions).
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Risks of unfair treatment, including forced resignations, poor performance due to extenuating circumstances (disability, miscommunicated job requirements) and reducing hours vs full redundancy</li></ul>
<b>Issue 2</b>	<b>Cover for non-standard employment</b> Cover for fixed term, seasonal, casual and self-employed workers via a principal approach of a “established pattern of work” and “loss of reasonably anticipated income”.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Need for clarity on rules applications (employee certainty, allowing supporting insurance products to be developed), potential cost and equity considerations for non-paid workers.</li></ul>



# Coverage for displaced workers (2 of 2)



<b>Issue 3</b>	<b>Cover for self-employed</b> The document outlines the potential challenges of covering the self-employed, including their ability to influence their job stability, variety of self-employment types (many vs few clients), how to define redundancy, etc. The document does not provide a concrete proposal for how to deal with these.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Highlight some further challenges (income from personal exertion vs company profits) and potential for gaming the scheme</li></ul>
<b>Issue 4</b>	<b>Claim limits</b> Minimum contribution period (6 months of preceding 18) and maximum claims in period (6 months in any 18)
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Highlight situations of genuine need for repeated claim. Present an alternative “accrual” approach to minimum contributions (rather than an all-or-nothing threshold)</li></ul>

# Benefits for displaced workers (1 of 2)



<b>Issue 1</b>	<b>Caps and replacement rates</b> Matches accident compensation scheme but higher by international comparison.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Impacts overall costs of the scheme and the incentive to search for work</li></ul>
<b>Issue 2</b>	<b>Receiving ACC and income insurance at the same time</b> Unclear how abatement rules will be applied to ensure claimant is not better off
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Complexity with different duration coverage. Design and rules need careful consideration</li></ul>

## Benefits for displaced workers (2 of 2)



<b>Issue 3</b>	<b>Extension for training or vocational rehabilitation</b> Estimated costs +0.13% to +0.53% on top of proposed levy
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Burden on employer/employees (higher levy). Introduce moral hazard and/or reduce incentive to search for work</li></ul>
<b>Issue 4</b>	<b>Minimum 4 weeks notice period</b> Cost borne by employer (100% at 4 weeks) in addition to levy
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• Burden on employer (higher costs)</li></ul>

# Coverage for health and disability (1 of 2)



<b>Issue 1</b>	<b>Entitlements</b> Income insurance for health conditions and disability would largely provide the same entitlements as income insurance for displacement (i.e. same replacement rate, length of coverage, limits on subsequent claims etc.)
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• To discuss why the entitlements for health conditions and disability may not be appropriate or reasonable relative to displacement cover and cover for injuries under ACC.</li></ul>
<b>Issue 2</b>	<b>Thresholds for Claim</b> The threshold for cover will influence the total cost of the scheme. Various thresholds for coverage including conditions covered, what work arrangements are covered, level of reduced earnings before eligible for cover, length of time that earnings are reduced before cover is eligible.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• To discuss where coverage may be unfair or inequitable for different types of health conditions/disabilities and employment arrangements</li></ul>

# Coverage for health and disability (2 of 2)



<b>Issue 3</b>	<b>Assessment of Claim</b> The claimants health practitioner will be the main assessor of work capacity for most cases, and employers can provide information to support the assessment of the claim.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• To discuss the implications of the proposed assessment approach for claims, in particular the cost of assessing claims versus the cost of paying claims.</li></ul>
<b>Issue 4</b>	<b>Requirements for employers</b> Employers will be expected to hold roles open for claimants, and support claimants' return to work.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• To discuss the implications for employers and employment of staff if there are requirements to support claimants.</li></ul>

# Claimants' obligations



<b>Issue 1</b>	<b>Expectations around a claimant's obligation to accept a suitable offer of employment</b> How to define suitability? The proposal uses pre-displacement wages as one measure and also refers to "terms and conditions" of prospective jobs.
<b>Proposed submission points</b>	<ul style="list-style-type: none"><li>• The definition of suitable is vague and should be further clarified</li><li>• In some situations, it may not be reasonable to expect there to be suitable jobs available offering "at least pre-displacement wages."</li></ul>
<b>Issue 2</b>	<b>Obligations of claimants who have a health condition or disability</b> There is no distinction made between people with health conditions/disabilities that are expected to be temporary and those that are expected to be permanent.
<b>Proposed submission point</b>	<ul style="list-style-type: none"><li>• To note the risk of unfair treatment of claimants who may not be reasonably expected to return to work within 6 months, or who may only be able to return to work at a reduced capacity.</li></ul>

# Funding the scheme



<b>Issue 1</b>	<b>How the scheme is funded</b> Funding would come from a compulsory levy on wages, payable by employers and employees
<b>Proposed submission points</b>	<ul style="list-style-type: none"> <li>• A levy helps ensure that scheme funding will be ring-fenced and increases transparency, as opposed to funding from general taxation. It is prudent to allow for the Government as lender of last resort.</li> <li>• An equal split between employers and employees is a simple and easily understandable approach.</li> </ul>
<b>Issue 2</b>	<b>A flat levy or something more complex?</b> The document discusses a levy-free threshold for employees and experience rating for employers
<b>Proposed submission point</b>	<ul style="list-style-type: none"> <li>• To note the introduction of cross-subsidies with a universal flat rate and the trade-offs between simplicity (ease of administration and public understanding) and more complex levy calculations.</li> </ul>
<b>Issue 3</b>	<b>Funding approach</b> PAYGO vs SAYGO approach, How often will levies change?
<b>Proposed submission point</b>	<ul style="list-style-type: none"> <li>• To note the trade-offs between approaches, e.g. the benefits of maintaining levy stability over time, the likelihood of a shortfall in funding, etc.</li> </ul>





# General comments

# General comments

## **We propose to make general comments on:**

- Likelihood of the scheme achieving its intended goals
- Timeframes for implementing the scheme
- Appearance of wanting to rush in the scheme and not allow for significant public debate
- Consistency of the scheme with ACC
- Little visibility around how the costs of the scheme are derived
- How the scheme interacts with private insurance
- International comparisons – e.g. benefits, caps and costs
- Unintended consequences of the scheme
- Moral hazard, risk of gaming in displacement and health conditions/disability claims



**Next steps**



## Next steps

- An income insurance scheme would be a significant change in public policy with regards to social insurance and would have an impact on the insurance industry in New Zealand. It is, therefore, important that the Society has a view on the proposal.
- With the knowledge and experience of our members, the Society is well-positioned to provide a submission. We would like to hear from you.
- Please send your feedback to [submissions@actuaries.org.nz](mailto:submissions@actuaries.org.nz) by 5pm on 5 April 2021.