



**METHODIST
ALLIANCE**
NGA PURAPURA WETERIANA

**Submission to the Ministry of
Business, Innovation and
Employment
on the
Proposed Income Insurance
Scheme
26 April 2022**

This submission is from:

The Methodist Alliance
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Methodist Alliance Submission

Proposed New Zealand Income Insurance Scheme

1. Who we are

- 1.1 The Methodist Alliance is a formal alliance of Methodist Missions, parishes and community based social services and trusts, including cooperating ventures. This grouping constitutes a major provider of a range of services for tamariki/children, rangatahi/young people, and their families/whānau.
- 1.2 The Methodist Alliance brings together a number of large and medium social service providers such as Lifewise in Auckland, Methodist City Acton in Hamilton, Palmerston North Methodist Social Services, Wesley Community Action in Wellington, Christchurch Methodist Mission, Methodist Mission Southern in Dunedin, as well as local community services provided by individual parishes. It includes new social service organisations, for example: Siaola Vahefonua Tongan Methodist Mission; Puna'Oa - the Samoan Methodist Mission that operates within the Samoan Synod of the Methodist Church; and Te Taha Māori.
- 1.3 The Methodist Alliance is grounded in a commitment to Te Tiriti o Waitangi and the bi-cultural journey of the Methodist Church of New Zealand - Te Hāhi Weteriana o Aotearoa, where Te Taha Māori and Tauīwi work in partnership.

2. Overview

- 2.1 The Methodist Alliance supports the three objectives identified by the Tripartite Forum, to:
 - minimise the immediate financial impact of losing income and work for workers and their families
 - support workers back to good jobs
 - support the economy to adjust more rapidly to shocks or downturns.¹
- 2.2 We support the equitable approach to cover all types of health conditions including disability and mental health conditions, and address the current inequity that exists for support to those that have an accident and those that have a similar loss of ability due to a health condition or disability. We also acknowledge the significant income shock, wage scarring, and effect on wellbeing that job loss can have.

¹ New Zealand Income Insurance Scheme Discussion Document p8

- 2.3 We do not support the implementation of an income insurance scheme in the proposed form and believe that changes could be made to the current welfare system and Work and Income.
- 2.4 The Methodist Alliance believes that it would be better to ensure all benefits are increased to a level that provides people with an adequate standard of living, rather than creating a two-tiered benefit scheme which will increase inequity and create more division within society in Aotearoa New Zealand.
- 2.5 If our current welfare system is overhauled and the recommendations of the Welfare Expert Advisory Group (WEAG) are enacted, there may not be a need for the proposed income insurance scheme, as one of their recommendations included the establishment of a short term benefit for those who lose their jobs. We believe this would enable many of the objectives of the proposed income insurance scheme to be realised with lower set-up costs e.g. better matching of skill set to new employment role.
- 2.6 We note the progress the Government has made to date on implementing some of the WEAG recommendations, but this progress is very slow. The Methodist Alliance believes the Government needs to take urgent action to ensure that all New Zealanders have a sufficient income. In particular, we **recommend** the abatement rate is indexed to the minimum adult wage and restored to the original level of 15 hours per week.
- 2.7 The Methodist Alliance would support a small increase to the tax rate to fund a complete overhaul of our welfare system to ensure the wellbeing of all New Zealanders.

3. Support for and concerns about the proposed Income Insurance Scheme

- 3.1 The Methodist Alliance supports the three objectives identified by the Tripartite Forum, to:
- minimise the immediate financial impact of losing income and work for workers and their families
 - support workers back to good jobs
 - support the economy to adjust more rapidly to shocks or downturns.²

² New Zealand Income Insurance Scheme Discussion Document p8

3.2 We acknowledge the significant income shock, wage scarring, and effect on wellbeing that job loss can have and that increased support when a person is displaced from their employment would have a positive effect on their wellbeing.

3.3 However, we do not support the proposed two tier system or how it is proposed for this to be delivered. We note the document is transparent in its acknowledgement that it would create a two tier benefit system.

“Such a scheme would ensure that a wider range of people losing work would receive support than currently, and receive a higher level of support.”³

The creation of a two tiered benefit system is at odds with the Methodist Alliance’s vision of a just and inclusive society in which all people flourish. We strongly believe that the proposed income insurance scheme would increase inequality in Aotearoa New Zealand.

3.4 We also note that the proposed scheme appears to contrast starkly with Labour’s values of “Equality – Oritetanga – the vision is of a just society founded on equality and fairness. We believe in more than just equal opportunities – we believe in equity and equality of outcomes.”⁴ The proposed scheme would result in inequity of outcomes.

3.5 The proposed scheme appears to deliver greater benefits to higher paid workers who lose their jobs, while not addressing the poverty of low paid workers and people receiving benefits at levels insufficient for an adequate standard of living. Our experience is that when people who earn higher incomes lose their employment, they have more financial and personal resources to call on than those on lower incomes.

3.6 Whakamana Tāngata,⁵ which was released in February 2019, highlighted the shortfalls between the benefit rates and what was sufficient for an adequate standard of living. At that time, a Jobseeking couple with two children, who received the accommodation supplement and Working for Families, faced a shortfall of \$356 a week; and a single person on a supported living payment, who received the accommodation supplement, faced a shortfall of \$137 per week.⁶ With significant increases in the cost of living since 2019, these shortfalls have magnified trapping people in poverty and in accommodation unsuitable for their needs.

³ New Zealand Income Insurance Scheme Discussion Document p9

⁴ Labour Party Manifesto 2022 P4

⁵ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019

⁶ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019, P96

3.7 The Methodist Alliance believes that it would be better to ensure all workers who lose the employment are supported for sufficient time to find good jobs that fit their skillset regardless of their original income. We also believe that benefits need to be increased to a level that provides people with an adequate standard of living, rather than introduce a two tiered benefit scheme which will create more division within society in Aotearoa New Zealand.

3.8 We believe the proposed scheme would have the same effect as the COVID-19 Income Relief Payment (CIRP) introduced in 2020. The payment of \$490 per week was a significantly higher rate than the Jobseekers Support payment of \$254.⁷ In addition the CIRP provided a much wider scope as it could still be accessed if your partner earned less than \$2,000 per week. This was significantly different to main benefit recipients, who were justifiably enraged by this inequality.

The level of the CIRP was a tacit acknowledgement of the inadequacy of the benefit levels which continue to fall well short of an income sufficient to provide basic living costs. The proposed income insurance scheme is another implied acknowledgement that our benefit system is failing. The justifications for the level of the CIRP can also be applied to benefit increases. The same can be said for the justifications for the proposed income insurance scheme.

3.9 We note that the discussion document also acknowledges that our current benefit system is failing:

“The current lack of support may explain why New Zealand workers who are made redundant appear to suffer a bigger wage loss when they do get back to work, than workers in other comparable countries.”⁸

If our current welfare system is overhauled and the WEAG recommendations are enacted, there may not be a need for the proposed income insurance scheme.

3.10 We note that the discussion document states:

“The Forum expects an income insurance scheme would help people return to good jobs, especially with investment in effective support to find and prepare for work. This is a critical objective.”⁹

Our understanding is that this is exactly what Work and Income is intended to do. One of the stated purposes of the Social Security Act 2018 is:

⁷ Jobseeker Support Payment for a person married, civil union, or de factor couple with one partner not on the benefit and with one or more children – see <https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2020.html#null>

⁸ P22

⁹ New Zealand Income Insurance Scheme Discussion Document p9



3 Purpose of this Act

The purpose of this Act is -

- (a) to enable the provision of financial and other support as appropriate -
 - (i) to help people to support themselves and their dependants while not in paid employment; and
 - (ii) to help people to find or retain paid employment; and
 - (iii) to help people for whom work is not currently appropriate—because of sickness, injury, disability, or caring responsibilities—to support themselves and their dependants.¹⁰

3.11 The key difference appears to be any job compared with a ‘good’ job. We believe that it would be better for Government to put more resources into changing our welfare system in line with the recommendations of the WEAG, rather than duplicating an existing service Government currently provides.

3.12 The WEAG specifically recommended against changing our social welfare system to a social insurance model.¹¹ However, the report included recommendations relating to redundancy support.¹²

The Methodist Alliance agrees with the WEAG in acknowledging that there is inadequate support for workers who experience job losses. The low benefit levels combined with the stand down provisions between work and benefit entitlement, benefit eligibility linked to family income, and the lack of compulsory redundancy pay and notice periods can result in households losing more than half their income and not being eligible for any income support from the benefit system.¹³

The WEAG recommended that “workers made redundant or who lose their jobs should be entitled to welfare support for 6 months without regard to their partner’s income (up to some cap, so that, for example, the first \$48,000 of a partner’s income is disregarded).”¹⁴

3.13 We note the WEAG also discussed the inequities between the provision of financial support for people with health or disability issues provided by different Government agencies.¹⁵ The report made recommendations regarding the

¹⁰ Social Security Act 2018, clause 3

¹¹ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019, p136

¹² Ibid

¹³ Ibid

¹⁴ Ibid

¹⁵ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019, p144 – p155

provision of “financial support that is adequate to live a life with dignity and is equitable across the social sector.”¹⁶

3.14 Therefore, instead of introducing this scheme, the Government should enact all the recommendation of the WEAG report including the establishment of a short term benefit for those who lose their jobs.

3.15 The discussion document proposes to establish a system which includes support from a case manager to help people plan their return to work, and connect them with any available employment or vocational rehabilitation services.¹⁷ It also states:

“The scheme would operate a case management system and connect insurance claimants with support to find or prepare for work. The scheme would assign a case manager whose involvement would increase where this would improve a worker’s chances of getting a good job.”¹⁸

The Work and Income website describes how a case manager will help people –

- identify jobs available in your area
- upskill and train
- create a CV or cover letter
- use local networks to find the job that's right for you.¹⁹

We note the only distinguishable feature between the service offered by case managers at Work and Income and those in the proposed scheme is the claim that the proposed scheme classifies the jobs as “good jobs.”²⁰ There are 22 references to “good jobs” throughout the document and the document even goes as far as defining “good jobs” as:

“...those that can provide similar pay and conditions to what the worker received before losing their job. Part of this is seeking to minimise wage scarring.”²¹

We are therefore left wondering whether the distinction between the service offered by the proposed scheme and that of Work and Income is that Work and

¹⁶ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019, p153

¹⁷ New Zealand Income Insurance Scheme Discussion Document p11

¹⁸ New Zealand Income Insurance Scheme Discussion Document p121

¹⁹ <https://www.workandincome.govt.nz/work/job-search/employment-case-management.html#:~:text=A%20case%20manager%20will%20help,a%20CV%20or%20cover%20letter>

²⁰ New Zealand Income Insurance Scheme Discussion Document on pages 5, 7, 8, 9, 12, 17, 22, 29, 33, 34, 48, 121, 125, 128, and 149,

²¹ New Zealand Income Insurance Scheme Discussion Document p34

Income will support people back into **any** job – not necessarily one that can provide similar pay and conditions the person received previously.

3.16 We affirm the many acknowledgements made in the discussion document in relation to job loss and anxiety.²² We note that these references are often made in relation to the lack of support and uncertainty created by job loss.²³ This would appear to support the WEAGs recommendations to restore dignity to social security in New Zealand, and ensure people are provided with liveable incomes so they can “participate more fully in their school, community and cultural lives.”²⁴

3.17 The Labour Manifesto 2020 promised to modernise our welfare system:

“... so all New Zealanders can live with dignity and contribute meaningfully to their communities.”²⁵

And,

“Labour will continue the welfare overhaul and work towards implementing the recommendations of the Welfare Expert Advisory Group to improve the welfare system.”²⁶

Now is the time to do this, rather than tinker with the system or build another ‘work-around’ scheme. The Methodist Alliance calls on the Government to be brave, to deliver on their promises and overhaul the welfare system to:

“... ensure that all New Zealanders in need are able to have an adequate income, are treated with respect and dignity, and are able to participate meaningfully in their communities.”²⁷

This will include enacting all the recommendations in the WEAG report Whakamana Tāngata. We note the progress the Government has made to date, however, one immediate action it could take to remove a significant barrier to finding employment would be to raise the benefit abatement threshold.

3.18 The abatement threshold is currently equivalent to seven and a half hours at the minimum wage. This is in stark contrast to when the abatement rate was first introduced in 1986, when it amounted to 15 hours per week at the minimum wage. We **recommend** the abatement rate is indexed to the minimum adult wage

²² New Zealand Income Insurance Scheme Discussion Document on pages 8, 22, 23, 26, 32, 133, and 162.

²³ Ibid

²⁴ WEAG, Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand, 2019, p11

²⁵ Labour Party Manifesto 2022 p14

²⁶ Ibid

²⁷ Ibid



and restored to the original level of 15 hours per week. Many people re-entering employment after a period of illness or injury begin with part time employment often on a casual employment contract. Such employment often leads to more permanent employment and/or fulltime work. Employers and employees may want flexibility of hours during this transition, but the current low abatement threshold combined with the delay in reinstating benefit payments when hours return to normal creates a significant barrier to achieving stable employment, income, and self-sufficiency. Transitional arrangements need to be addressed in any support system, but we do not believe the proposed income insurance scheme is necessary to achieve the stated objectives.

- 3.19 The Methodist Alliance struggles to believe that this scheme will benefit employers. The discussion document claims the scheme will improve access to skilled workers, but provides no detail of how this will happen, or how this is different to the current situation.
- 3.20 The proposed scheme is effectively another tax on both employers and employees. The discussion document states:
- “We have proposed an initial levy of 2.77 percent of salary and wages. This will be split between firms and workers, with each paying 1.39 percent.”²⁸
- 3.21 The Methodist Alliance would prefer a small increase to the tax rate to fund a complete overhaul of our welfare system and to fund all benefits at a rate which enables sufficient incomes for people to live life with dignity and provide the ability to participate in their community. We believe this would be a much better investment of worker, employer and taxpayer funds to ensure the wellbeing of all New Zealanders.
- 3.22 The Government could consider the recommendations of the Tax Working Group in relation to bringing about fairness and balance of the tax system.
- 3.23 The discussion document acknowledges that,
- “...welfare payments remain an essential safety net, but main benefits provide a low wage replacement rate (or none at all) for some families, particularly higher earners and those with earning partners. This means that welfare can effectively smooth the incomes for some lower income families, while many others face

²⁸ New Zealand Income Insurance Scheme Discussion Document, p18

significant drops in income following involuntary job loss, especially those not eligible for welfare support due to partner earnings.”²⁹

If the welfare system was providing sufficient and liveable incomes, the fall in income would not be as great.

3.24 The discussion document states,

“We see this approach as a mutual commitment by society and government. It will provide effective support to workers through change, treating them with dignity and empathy, and let workers actively search for work that suits their skills and experience, and engage in programmes that help in that or in retraining.”³⁰

We understand this to be the vision of a people-centred social security system and what we would expect from the services provided by Work & Income. One of Aotearoa New Zealand’s strengths is the universal flat-rate pension that New Zealand Super provides to everyone over 65 years. This universal benefit is inclusive for all, egalitarian, and simple. We should be building on this strength rather than introducing a scheme which will create inequities and further divisions in our society.

3.25 There is a lack of clarity whether the scheme will cover the situation where a person who holds two jobs and has their hours reduced from a higher paying job which results in a loss of total earning of 20% of their income or more. This situation would be a loss of reasonably anticipated income, however it would not fit within the scope of the proposed scheme as it would not cover a reduction of hours within a job.

The discussion document states, “the scheme would not cover a reduction of hours within a job”³¹ and instances “where the income loss (for example from losing one of the jobs) was greater than a 20 percent loss of total earnings, counting income from all of the jobs.”³² We note one of the principles is the proposed income insurance scheme would cover the “loss of reasonably anticipated income.”³³

Example: Hana works two jobs – 20 hours each week. One job pays \$40,000 and the other pays \$10,000. The employer of higher paid job reduces Hana’s hours to

²⁹ New Zealand Income Insurance Scheme Discussion Document, p45

³⁰ New Zealand Income Insurance Scheme Discussion Document, p29

³¹ New Zealand Income Insurance Scheme Discussion Document, p56

³² Ibid

³³ New Zealand Income Insurance Scheme Discussion Document, p59

10 hours per week. This means that Hana's overall income drops from \$50,000 to \$30,000 – resulting in a 40% loss of income.

It would appear that the proposed scheme would not cover this loss of income.

- 3.26 The discussion document provides very little detail on how the scheme would be able to force payment of the four week bridging payment to the employees who have been made redundant. If the business has collapsed and made its employees redundant it may not have the funds to make these bridging payments. How does the newly redundant employee survive during those first four weeks in these circumstances?

The discussion document does not address this situation specifically, however it does state:

“In no circumstances would non-compliance by an employer alone affect a worker’s entitlements.”³⁴

However, if the payments under the proposed scheme do not take effect until after the first four weeks, how will affected workers survive those first four weeks? Will they have to use their own savings to cover this period?

- 3.27 We note the risk identified in the discussion document of employers pushing employees to become independent contractors to avoid paying the employer levy.³⁵
- 3.28 If the proposed scheme includes self-employed workers, what support is provided for these workers during the first four weeks?
- 3.29 If a person is eligible for more than four weeks redundancy under their employment contract, are they also entitled to claim income insurance payments at the same time?
- 3.30 If after the six month period that the proposed scheme covers, the affected person has not secured another job or not in training, do they then move to income support provided by Work and Income on a lower level of benefit? This means that the affected person would then have to deal with another Government agency and, potentially, face a stand-down period, if the proposed scheme is not managed by Work and Income within MSD.

³⁴ New Zealand Income Insurance Scheme Discussion Document, p 132

³⁵ New Zealand Income Insurance Scheme Discussion Document, p68

3.31 Apart from sharing an insurance model, ACC does not seem the right fit for the proposed employment insurance scheme. Functionally the proposed scheme has more in common with MSD, as the proposed scheme offers employment support services similar to Work & Income. The proposed approach seems like it is designed more for administrative efficiency than customer focus. The Methodist Alliance believes that if the proposed scheme was to be implemented it should sit within Work & Income, and this would provide an opportunity to address failings in the welfare system.

Many people's experience of ACC is that it focuses on excluding cover rather than including cover. Like all insurances the ACC model is great when it works well, but it has a degree of exclusion. The proposed model of income insurance also has exclusions like not providing cover for a reduction in hours within a job.³⁶

3.32 The proposed scheme has eligibility which is independent of a partner's income. In contrast, entitlements in our welfare system are directly affected by a partner's income. This creates further disparity between the welfare system and this proposed scheme that could be easily mitigated by changes to benefit criteria.

3.33 If a person is displaced after two months of taking a new job which has a significantly higher salary than their previous employment, will their entitlement be based on their latest salary? This needs to be clarified.

3.34 The discussion document states,

"Employers will be expected to make reasonable efforts to protect a job where a reasonable prognosis is made of return to work within six months. However, this expectation will not be obligatory, because requiring employers to keep jobs open could deter hiring."³⁷

What constitutes "reasonable efforts" needs to be defined.

3.35 We consider that it would be fair and reasonable to make this a mandatory obligation on employers and, if not, mechanisms for the displaced employee to seek recourse need to be defined.

3.36 We support the equitable approach of the proposed scheme to cover all types of health conditions including disability and mental health conditions, and address the current inequity that exists for support to those that have an accident and those that have a similar loss of ability due to a health condition or disability.

³⁶ New Zealand Income Insurance Scheme Discussion Document, p56

³⁷ New Zealand Income Insurance Scheme Discussion Document, p109

However, we think the proposed scheme will increase the dismissals on grounds of medical incapacity. This will arise because of the proposed restriction to the bridging payment:

“Where the employer and employee agree to end the employment relationship – medical retirement – the bridging payment would not apply.”³⁸

An employee in this position would be better off not agreeing to end the employment relationship and push the employer to dismiss on grounds of medical incapacity.

4. Summary

- 4.1 The Methodist Alliances believes it would be better to ensure all benefits are increased to a level that provides people with an adequate standard of living, rather than creating a two tiered benefit scheme which will create more division within society in Aotearoa New Zealand. We believe that providing support to those who have lost their employment, and removing the disparity between illness and accident, can be done by amending the current welfare system and we would support this change.
- 4.2 We believe that the proposed income insurance scheme will have a detrimental effect on the fabric of our society by creating a two tier benefit system.
- 4.3 We note the progress the Government has made to date on implementing some of the WEAG recommendations, but progress is very slow. The Methodist Alliance believes the Government needs to take urgent action to ensure that all New Zealanders have a sufficient income and to enact all the recommendations of the WEAG. In particular, we **recommend** the abatement rate is indexed to the minimum adult wage and restored to the original level of 15 hours per week.

Carol Barron
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³⁸ New Zealand Income Insurance Scheme Discussion Document, p111