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Social Unemployment Insurance:
Concerns From Equity And Anti-Poverty Perspectives

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Social insurance (SI) for unemployment provides weekly earnings-related payments for the newly unemployed who met the criteria, usually financed by levying employers and employees. It is not an effective tool for enhancing social security or reducing poverty, particularly child poverty, in NZ (it is based neither on need nor universality).

Summary of concerns

- A social insurance scheme is likely to be regressive and would bake-in existing inequities in NZ. Social insurance is likely to exacerbate current patterns of income inequality, and if so, it will: (1) contribute to poorer, inequitable outcomes for Māori than Māori would otherwise experience, thereby breaching Te Tiriti o Waitangi; and (2) contribute to inequitable outcomes for other groups likely to receive lower or no wages, or for those who work several jobs, including Pacific, women (particularly caregivers) and those with disabilities.
- Compared to current entitlements, social insurance would favour people without dependent children over those with dependent children, and those on higher incomes (up to a ceiling) over those on lower incomes.
- Social insurance will increase the complexity in an already complex system, and it will be difficult to ensure criteria for inclusion in payouts are "fair". Those who miss out for any reason will be comparatively worse-off, in what is essentially a two-tier welfare system.
- The State needs to consider other ways to deal with the issues that social insurance purports to respond to, such as:
    - adequate social welfare, including provisions explicitly recommended by the Welfare Expert Advisory Group (WEAG) to address the issues of large income drops (adequate and individualised welfare would also eliminate a large number of other problems). WEAG explicitly stated: "we do not recommend changing our social welfare system to a social insurance model" (2019, p.136).
    - encouragement of employer-funded redundancy support and private insurance for loss of income.
    - higher housing-cost-related subsidies in the event of income loss, dependent on need
    - fully-funded childcare for all (which enables those for whom paid work and/or study are appropriate to seek, find and keep that work, without any disruption to children's care arrangements as jobs are lost and regained)
    - adequate student allowances, including for postgraduate study.

Background

Social insurance (SI) is income support for people who have “involuntarily lost their jobs” (MSD, 2020a); it offers an income replacement rate linked to prior incomes, unlike social welfare which offers flat rate taxable income entitlements based on need. SI is usually funded by some combination of Government, employer and employee contributions to the scheme. Social insurance provisions are common in many countries, albeit with significant variations in who is eligible for assistance and how the systems are funded. The closest existing SI parallel in NZ is the ACC scheme – funded by workers, employers, the state and vehicle owners, with regular payment linked to previous earnings, but unrelated to the amount of contribution. ACC time limits are determined by recovery from accident and potential for future employment.

Social insurance is proposed in New Zealand to mitigate “unusually large” falls in income by international standards when people lose a job (Tibshraeny, 2020). In 2015, about two-thirds of those who reported a job loss didn’t receive Jobseeker Support. About half of these people were not eligible because their partner earned too much; this would be overcome by individual eligibility for social security.

Evidence shows that, to a large extent, these worrying issues are outcomes of New Zealand’s inadequate welfare system (WEAG, 2019). Indeed, one of the three options the Productivity Commission (2020) put forward to ameliorate the situation was to adjust current benefit and tax credit policies (the other two options were social insurance and a redundancy-related Kiwisaver type of scheme) (Tibshraeny, 2020).

WEAG explicitly did not recommend social insurance but instead made recommendations, such as removal of the stand-down period and the disregarding of a partner’s income up to a cap for a period of time, to address the issue of job loss for multiple reasons, including illness and disability. Considering WEAG’s ideas to ameliorate the welfare state would be far simpler and fairer, while alleviating more job-loss distress, than social insurance. Child Poverty Action Group recommends that instead of introducing social insurance, the Government ensures the welfare system is robust and easily accessible for all who need it.

Interest has been shown in SI across the political spectrum in NZ. The Act Party put forward a form of social insurance as part of their 2020 election manifesto (see St John, 2020 for commentary). As part of Budget 2021 announcements, the Labour Government revealed the establishment of a Social Insurance Tripartite Working Group, to jointly design a scheme to support workers who lose their jobs (NZ Government, 2021). This Working Group comprises Government, BusinessNZ and the NZ Council of Trade Unions, who have been considering social insurance as part of their Future of Work programme for some time (Robertson & Sepuloni, 2020). Little detail has yet been provided as to what this scheme might look like; however, the Budget document suggested it would provide those who lose their jobs with around 80 percent of their income for a period of time, with minimum and maximum income caps (NZ Government, 2021). While public details are scant, currently most analysis has assumed that social insurance in NZ would be for involuntary job loss due to redundancy, not due to health, disability or caregiving reasons (for example).

The introduction of a social insurance scheme would reflect a significant policy change to the provision of support for the unemployed in New Zealand. Looking to other jurisdictions can be useful, but we urge caution in these comparisons as Aotearoa has its own unique historical, political and economic context. In particular:

- NZ lacks a robust welfare net; welfare provision is inadequate and piecemeal (WEAG, 2019), unlike many European jurisdictions such as Denmark. Australia, which has a similar welfare system to New Zealand's, is not considering SI.
- Wealth inequality has increased over the last few decades, and has likely accelerated since Covid-19.
- Patterns of wealth and income inequality, and poverty, tend to overburden Māori, as well as Pacific peoples, mothers, those with disability and other groups, while favouring Pākehā.
- Already, redundancy payouts are not counted as income, for the purposes of calculating Jobseeker entitlements.

As MSD (2020a) highlights: "UI schemes sit within specific local contexts that influence how they operate. Along with welfare institutions, industrial relations systems, the countries' political economy, and stakeholders' attitudes and interests all play a role in shaping each particular UI scheme."

Overseas, contributors usually need to have been paying into the social insurance scheme for a minimum period before they are eligible for assistance. That assistance usually has a limited time period (often up to one year). When the end of that time period is reached, the recipient then relies on some form of welfare benefit, if they are eligible. Currently, MSD quarterly benefit tables show approximately 55% of those currently receiving Job Seeker Support (JSS) have been receiving this benefit for more than one year.

Different schemes internationally have varying make-up of contributions from Government, employers and employees. As ACC has been highlighted as a potentially analogous scheme in NZ, it seems likely that a social insurance scheme here would involve contributions from all three parties. Levels of payment vary across schemes overseas, depending on how it is set up; however, coverage is limited to those who have contributed (and sometimes their family members/dependents). Payment rates can be (1) related to previous earnings; (2) linked to contributions; or (3) paid at a flat rate with no link to earnings or contributions. As was indicated in the Budget 2021 preliminary announcement, it appears the proposed design in NZ is the first type, at 80 percent of previous earnings.

Key Concerns

1. Social insurance would bake-in existing inequities

The people who stand to benefit most from a social insurance scheme are those who already benefit in the labour market - i.e. those who are in regular, full-time, well-paid work, without dependent children. Under a social insurance scheme, anyone in regular paid work would have access to social insurance payment if and when they lost that work (depending on why they lost work, subject criteria that is yet to be determined). This payment would not be affected by a partner's earnings. It would be linked to their previous earnings, and would be paid at a much higher rate for them than the current Jobseeker Support benefit.

Those who are in precarious, part-time, irregular and/or low-paid work (disproportionately Māori, Pacific and/or women, particularly caregivers) will either qualify for a low rate of payment under a social insurance scheme, or will not be eligible at all if a minimum contribution record is set, meaning they must rely on a welfare benefit. Those who are unemployed for a longer period, people who have a disability, and parents caring for dependent children who did not meet the contribution or eligibility requirements would all be reliant on the low welfare benefit payments. Children whose parents were receiving a social security benefit would continue to be at a disadvantage, further entrenching the pattern that exists today. Those who were no longer eligible for SI would receive a reduced income through social security. The ACC scheme – the closest existing SI parallel in New Zealand, as mentioned above – is biased against women, Māori and Pacific (Bradley, 2021; St John 2021); and many of the same systemic issues that create discriminatory ACC outcomes are also likely to affect an SI scheme.

The 2020 Covid-19 Income Relief Payment was seen as an informal frontrunner of an SI scheme (Robertson & Sepuloni, 2020). Deeply concerningly, Māori and Pacific applicants were much less likely to be awarded the Covid-19 Income Relief Payment than Pākehā (Cardwell, 2020). This was possibly partially due to different prevailing patterns of employment for different ethnicities – the design of the scheme (as with default SI schemes) favours people with one full-time job, not people with two or three part-time jobs:

> *The Covid Income Relief Payment is a really good example of people working within their own cultural paradigm where their reality is them and their friends have one job, they do it full time and if they lost it the world would be a terrible place. But [they're] not recognising that a lot of other people are in a different paradigm where they have two or three jobs and just losing one of them makes the world a terrible place because that'll be the one that puts food on the table.*
>
> – benefit recipient advocate Kay Brereton, quoted in Cardwell (2020).

Official observers were also concerned. Race Relations Commissioner Meng Foon stated: "The disparities are causing injustice and a breach of human rights to the Pacifica and Māori communities"(Cardwell, 2020) while the Children's Convention Monitoring Group, including the

Office of the Children's Commissioner, advised that: "The COVID-19 payments raised issues of direct and indirect discrimination in the realisation of children's rights with levels of financial support to parents varying according to when and why jobs were lost rather than children's needs." (CCMG, 2021)

With little detail yet available on what a New Zealand scheme would look like, it is unclear whether a person leaving the paid workforce due to a deterioration in their own health or that of a family member could be eligible for social insurance payments; however discussion has centred on those who have '"involuntarily" lost work via redundancy. The narrow definition of 'job loss' as business redundancy for the purposes of this scheme would be of great concern, as it could exacerbate the hardship already faced by people with disabilities or health conditions and their carers. MSD (2020a) states the exclusion of those not in work due to a disability or caring responsibilities "may create inequities". At present, children with disabilities and/or living with a disabled household member are already two to three times more likely to be living in material hardship (Stats NZ, 2021). A social insurance scheme accessible only to those who lose their job via redundancy could further strengthen this link between disability and poverty in New Zealand.

Linking many things to the paid workforce such as ACC and KiwiSaver contributions can be an unsurmountable burden for those on low wages, as well as those for whom work is impossible or inappropriate. Many low-wage workers do not have KiwiSaver contributions made for them by their employers and subsidies from the state because they cannot afford the extra 3% from their low wages that would secure these supports. An SI levy would compound this problem especially if it is a compulsory scheme. If like ACC, there is no exempt income for levies, many low income people would contribute but never qualify for a realistic amount of earnings-related payment. Moreover, those in short-term jobs and/or in precarious work are likely to be significantly disadvantaged; they would be required to contribute but may not meet eligibility conditions for payment.

2. Social insurance would not address most child poverty

A social insurance scheme is unlikely to lift those who are currently living in poverty, out of poverty, whether they are on benefits or in low-paid work. MSD points this out in their (2020a) advice to the Minister of Social Development, Carmel Sepuloni; "UI schemes alleviate poverty, but not for the most impoverished as UI schemes only support those who recently had an established employment relationship and involuntarily lost their job."

Such a scheme may mitigate poverty in households where caregivers lose work under the criteria and qualify for these payments. International evidence suggests that more generous social insurance schemes (in rate of payment and duration of coverage) can help to avert hardship and poverty during times of heightened unemployment (O'Campo et al. 2015). However, this would rely on a household's previous earnings from paid employment being adequate. For families in low-paid work, a social insurance scheme with payments at 80 percent of previous earnings may consign them to poverty.

It is also likely that a social insurance scheme would weaken the Government's focus on child poverty because the highest rates of child poverty are in welfare benefit-receiving households (Perry, 2019). These children are highly unlikely to benefit from any social insurance scheme. Children in benefit-receiving households have been left behind in previous governments' initiatives to address child poverty; for instance, Perry (2019) demonstrates that the introduction of Working for Families had "little impact" on poverty rates for children in workless households.

Interaction of a social insurance scheme with Working for Families is not entirely clear. As the social insurance recipient is, by definition, not currently in paid work, their eligibility for the In Work Tax Credit (IWTC) would cease if they were a sole caregiver, reducing the level and extent of support for children.

Meaningfully addressing hardship for children in poverty requires strengthening and modernising the existing welfare system. Payment levels should be adequate and regularly updated to prevent poverty (we note that even with the Budget 2021 increases, benefit rates still leave families below key poverty lines; CPAG, 2021), and rules and regulations especially around relationship status must be changed to reflect Aotearoa in the 21st century. Tax credits for children should not be reduced on the basis that parents have no paid work.

3. Social insurance could detract from much-needed welfare reform

We are concerned that the implementation of a social insurance scheme may divert resources from the welfare overhaul that is so desperately needed for many families. As MSD (2020a) highlights, a social insurance scheme would have "significant implications" for the welfare system. It would introduce a 'first tier' of income support, to which social security benefits become the residual, 'second-tier' form of welfare.

Much more work is needed to achieve the Welfare Expert Advisory Group's (WEAG) vision for the welfare system - one that enables whakamana tāngata, or for the dignity of all people, to be upheld - and we are concerned that beginning work on a social insurance scheme before this work is completed will derail or slow progress. Evidence suggests that two years on from the WEAG's report, the welfare system continues to stigmatise and diminish the wellbeing of those who interact with it (Humpage & Moore, 2021). Indeed progress to date on implementation of the WEAG's recommendations has been slow, as CPAG highlighted in our stocktake in November 2020 (Neuwelt-Kearns & Asher, 2020).

Establishing and maintaining a social insurance scheme would be expensive; MSD (2020a) estimated that the yearly revenue needed from all sources (Government, employers and employees) might be anywhere between $451.5 million and $5.16 billion. Thus in fiscal terms, depending on the design of the scheme, social insurance may limit Government resources that are allocated to ongoing reform of the welfare system. Further, establishing a social insurance scheme may affect public support for the welfare system in negative ways. Given that social insurance ties social support to individual contributions, appealing to notions of individual responsibility, such a scheme may erode a sense of collective responsibility for those relying on support from core benefits (e.g. a National Party member described the scheme as “essentially about giving the individual a feeling of responsibility for themselves in the event of catastrophe”) (Coughlan, 2021).

Some of the WEAG’s recommendations for how to uphold people’s dignity and mana within the welfare system - such as individualising entitlements, and raising core rates - are principles upheld within a social insurance scheme, which pays on an individual basis at a higher rate than welfare benefits. CPAG is concerned that the establishment of a ‘first tier’ of unemployment support would not necessarily lead to these principles being extended to welfare benefits, or the ‘second tier’, leaving those on ‘second tier’ support even further behind. Instead, CPAG recommends that these principles be adopted within the existing welfare system to strengthen it and extend strengthened support to all who are out of paid work - without also adding SI. As suggested by MSD (2020a), “Consideration could be given to including elements of a UI scheme within the current welfare system (e.g. changing the family income test to allow displaced workers with an earning partner to receive a time-limited benefit).”

4. Social insurance could further stigmatise welfare benefit recipients.

Drawing distinctions between those covered by this ‘first tier’ unemployment support and those reliant on ‘second tier’ welfare support serves to reinforce attitudes towards those on welfare benefits as the ‘undeserving’ poor. This could undermine growing public support for improved benefit support (Lock, 2021), and support for overall improvement in social security regulations and legislation.

Further, the establishment of a social insurance scheme circumvents Government taking any leadership in shifting this discourse of the ‘deserving’/’undeserving’ poor. In an evidence brief, MSD (2020b) includes in a list of ‘household and wider societal benefits’ of social insurance, the idea that it may be “less prone to the stigma often associated with benefit receipt because of their contributory financing models, reasonably broad coverage, and relatively generous replacement rates”. It would continue that stigma for those receiving benefits - it would simply enable those used to higher incomes to avoid it. Instead of instituting an entirely new unemployment scheme, the Labour Government - with its track record for skilled political communication, as demonstrated through Covid - could be leading New Zealanders in seeking to shift the stigmatising narratives that surround benefit receipt, and taking bolder steps to lift core benefit rates to ensure they are set at liveable levels.

Suggesting ‘reduced stigma for recipients’ is a benefit of social insurance overlooks the impact of establishing such a scheme on those who will continue to receive welfare benefits. The establishment of a two-tier welfare system via a social insurance scheme would likely exacerbate poor mental wellbeing among welfare benefit recipients and is likely to strengthen stigma for benefit recipients. Research indicates that the establishment of a Covid Income Relief Payment in 2020, which had some rudimentary characteristics of a social insurance scheme (paid at a higher rate than welfare benefits, individualised and only for the newly unemployed), had a “significant, negative impact” on the mental wellbeing of main benefit recipients, particularly due to the strict eligibility criteria (Humpage & Moore, 2021, pp. 2). Welfare benefit recipients described the establishment of the Covid Income Relief Payment, for which they weren’t eligible, as a “kick in the gut”, and a “slap in the face”.

NZ has a proud tradition of flat rate universal pensions that has worked well and there are no clamours for earnings-related pensions. Along with Australia, we have a unique Antipodean model of flat rate, not earnings-related benefits. It is hoped we can work on improving that model so that it is more inclusive and egalitarian; SI would take us in quite the opposite direction.

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