Michael Fletcher

Were We Being Sold a Lemon?

Analysing the distributional implications for those Labour's proposed social insurance scheme would have covered

Abstract

In February 2023, the Labour government announced that it was shelving its proposed income insurance scheme for now, but indicated that the scheme may be revived if Labour is re-elected in October. The proposal raised many equity and efficiency issues, including the inequities of a two-tier system which favours workers who would be covered by the scheme ahead of others who would not. This article focuses on differences in outcomes *within* the insured group. Using a family vignette methodology, it finds that the scheme, layered on top of existing welfare provisions, would have been highly regressive and poor value for money for many low- and middle-income families.

Keywords social welfare, social insurance, unemployment insurance, model-family analysis, New Zealand

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At his second post-Cabinet press conference as prime minister on 8 February 2023, Chris Hipkins announced that the government was shelving its proposed New Zealand Income Insurance Scheme. The dropping of the scheme was part of a so-called policy reprioritisation first signalled by his predecessor, Jacinda Ardern, in late 2022, and which involved ending, deferring or amending a number of major government policy initiatives ahead of the October 2023 general election. Behind-the-scenes policy and legislative work for the social insurance scheme was already well advanced. Although ministers never gave a firm timetable publicly, a September 2022 briefing note released to me later by the Ministry of Business, Innovation and Employment (MBIE) included a timeline that had legislative drafting instructions for the Parliamentary Counsel Office completed by mid-September and the bill introduced to Parliament in December 2022 (Ministry of Business, Innovation and Employment, 2022). The obvious delays in this MBIE timetable suggest that the idea of dropping the policy was possibly being actively considered from sometime towards the end of 2022, well before Jacinda Ardern's January announcement that she had decided to step down as prime minister.

Hipkins' comments were ambiguous as to whether the social insurance proposal was being axed or just deferred. He stated that 'social insurance will not proceed as previously proposed' and also signalled a wider consideration of options, stating that 'work will be continuing to consider the best ways to address inequalities in the current system in the longer term, when the economy is better positioned to make that change' (Hipkins, 2023, p.1). Questioned at the press conference, however, Hipkins also noted that there are a range of options to deal with inequities in the system and that 'the income insurance that was on the table was one possible option for doing that but that there are others as well' (ibid., p.5). It is therefore quite possible that the insurance proposal will resurface next year if Labour wins the election. Given this, the analysis in this article remains important and will, it is hoped, help inform comparisons with alternative policy options.

The article uses a family vignette methodology to analyse the net benefit scheme contributors could have expected to have gained from the scheme if they experienced a job loss. The net benefit in excess of existing welfare entitlements, rather than the gross insurance payout, is a critical parameter for assessing the proposal for contributors because it compares scheme levy contributions against the additional financial support provided by the insurance scheme. It is an aspect of the central policy issue for the scheme, that of additionality. As one submission expressed it: 'How much additional support would social insurance add to existing institutions to cushion families' short-term consumption when people lose jobs?' (Chapple, 2022, p.13). Welfare and social assistance programmes are, of course, only one such institution, but the net benefit of insurance cover over and above the existing set of programmes provides a baseline before considering other sources, such as private savings, potentially available for consumption-smoothing purposes.

> Eligible contributors were to receive 80% of their prior earnings for a period of up to six months if they lost their job as a result of displacement … or because they had to stop work because of a health condition or disability.

Information and transparency issues

The analysis in this article is based on the design of the scheme as set out in *A New Zealand Income Insurance Scheme: a discussion document*, which was released on 2 February 2022 by the Future of Work Tripartite Forum, a committee comprising government, Business New Zealand and the New Zealand Council of Trade Unions (NZCTU) representatives (Tripartite Unemployment Insurance Working Group, 2022). At the time of writing, efforts to find out if, and if so how, the final version of the scheme the government intended to introduce differed from the discussion document proposal have been unsuccessful. In September 2022 I sought information from MBIE relating to advice provided on the scheme, but my request was declined, citing section 9(2)(f)(iv) of the Official Information Act 1982 relating to maintaining the confidentiality of advice tendered by ministers and officials. I renewed that request after the prime minister announced that the scheme was no longer being progressed. After the maximum response time of 20 working days, I received a reply refusing to release most of the relevant documents, citing section 18(d) of the Act, which says that information does not have to be released if it is already or will soon be publicly available. With wonderfully Orwellian use of language, the MBIE letter stated that most of the papers I had requested were to be 'proactively released' and would be on their website within eight weeks.[1] By making use of two different sections of the Act, MBIE has been able to create a 12-week delay in providing me with information that should be released. I am currently waiting on a decision by the ombudsman as to whether a gap of up to 12 weeks between my request and release of the information is an acceptable interpretation of 'soon' in the context of this section of the Act. Desirably, it would have been the system set out in these documents that I would be modelling below.

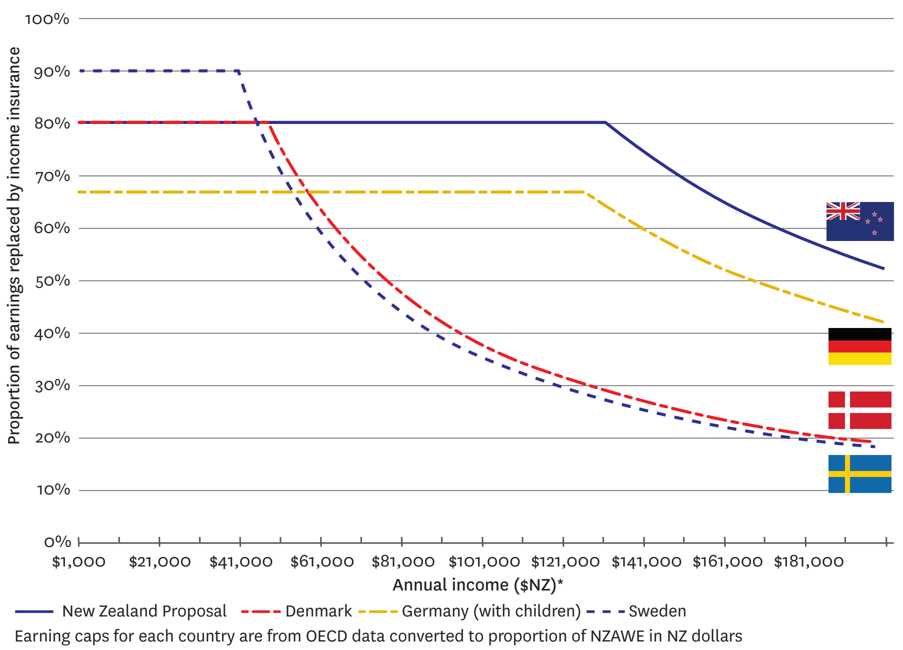
Even if technically within the letter of the law, MBIE's (and ministers' offices?) behaviour suggests a focus on information management that is not in keeping with good public policymaking and inclusion of the public's views. While I have yet to see the content of the papers, this appears to be reinforced by the fact that two of the withheld Cabinet papers, 'New Zealand Income Insurance: detailed design' and 'New Zealand Income Insurance: agreement to proceed', are dated 16 June 2022. This date, which suggests the details of design were basically settled and agreed by Cabinet, is almost three months before the MBIE paper 'Report summarising NZII submissions' went to ministers (13 September 2022). The clear implication is that the time and effort New Zealanders spent on the 255 public submissions on the discussion document had little or no impact on the design of the scheme.

The insurance scheme as proposed in the February 2022 discussion document

The broad parameters of the scheme as it was proposed were very simple, even if the detail would be far from straightforward. Eligible contributors were to receive 80% of their prior earnings for a period of up to six months if they lost their job as a result of displacement (redundancy or lay-off) or because they had to stop work because of a health condition or disability. It was proposed that a cap on the maximum level of earnings that would be covered be set equal to the existing Accident Compensation Act cap, which in 2022 was $130,911 per annum. The self-employed would not be covered and neither would many workers on temporary migrant visas (although the latter would have to pay the levies). Eligibility to receive a payout would require a minimum of three months' levy-paying employment in the previous 18 months. The discussion document proposed that a work-test obligation would apply to those receiving insurance payouts, although the conditions of this work test were to have been unusually light, as a person would not be required to accept any job that had lesser pay or conditions than their previous employment. In addition to the insurance cover, employers would have been required to pay four weeks' 'bridging payment' or compulsory redundancy pay (at 80%) in the case of job displacement (but not if the employee leaves their job because of sickness). This requirement was intended to reduce the incidence of gaming of the scheme by collusion between employers and employees. Existing redundancy agreements in individual and collective employment agreements would remain over and above the insurance provisions unless they were negotiated away by the parties.

Many Western developed countries have Bismarckian social insurance-based schemes to cover social security in the event of job loss, while New Zealand, Australia and the United Kingdom have Beveridgean tax-funded income support provisions.[2] While, on the face of it, the insurance-based schemes can be thought of as focusing on compensation for loss (for those who qualify), whereas the tax-funded approach is based on meeting minimum needs, the distinction is in fact more blurred. Different countries use the design parameters of their social insurance schemes in different ways to focus the schemes more or less tightly on protection against hardship and on meeting need. For example, the Scandinavian countries typically have a high replacement ratio (the percentage of prior income that is replaced) but a low earnings cap. Germany has a somewhat higher cap, but a lower replacement ratio (60% or 66% for people with dependent children).

Figure 1: Comparison of replacement ratio and maximum payment of proposed New Zealand scheme and Danish, Swedish and German unemployment insurance schemes



Source: Fletcher, 2022. **Notes and sources**: Data on schemes are taken from the OECD tax–benefit model policy descriptions (2020 year). Data on average weekly earnings are taken from the OECD database (2020 year). In the case of Germany, the replacement ratio for people without dependent children is lower than shown in this figure (60%). The earnings cap for each European country has been converted to a proportion of the New Zealand average weekly earnings to allow cross-country comparisons. Other methods of comparison, such as PPPs or direct currency conversions, would produce slightly different results.

New Zealand's proposal is unusual internationally in that it would have had both a high cap and a high replacement ratio (see Figure 1). These two parameters were taken from the existing accident compensation (ACC) scheme, presumably for no other reason than that they already existed in that scheme. And yet critical to ACC is its removal of the right to bring court proceedings for compensation for personal injury (Accident Compensation Act 2001, s317). The *quid pro quo* for the removal of this right (which the Woodhouse Committee responsible for the design of ACC described as a 'legal lottery') were two of the Woodhouse report's guiding principles for ACC, namely real compensation, and comprehensive entitlement. No legal right is being removed in the case of the social income insurance proposal, however, so this is not a justification for the same near-universal cap and high replacement rate.[3]

Moreover, the insurance scheme proposal is inconsistent on the comparison with ACC. A key part of the concept of real compensation under ACC is that earnings-related compensation continues without limit (until age 65) for as long as the injury continues to cause an inability to earn. The insurance scheme, on the other hand, is limited to a maximum of six months.[4] In short, despite the claims of some proponents, the income insurance proposal had little in common conceptually with ACC, and the choice of the high cap and high payout ratio must be judged on their own terms, not in relation to ACC. As the section below highlights, a key element of this judgement is the very regressive nature of the proposal, even among that part of the population that would have been covered by it.

Vignette analysis method

This article uses a vignette approach to analyse the net effects on family income of the proposed scheme. Family or household vignettes are frequently used in assessing the consequences of social policy changes and proposals (Bradshaw et al., 1996; Hakovirta and Hiilamo, 2012; Skinner et al., 2017). The vignette approach cannot cover all situations, nor can it provide estimates of population-wide gains and losses, but it has the advantage that it can elucidate the complex interactions between multiple policies and programmes to isolate the overall net income effects for different family and household types at different income levels.

In this article I consider four different family compositions:

- a couple with two dependent children;
- a couple with no dependent children;
- a sole parent with two dependent children;
- a single person.

Thirty-two per cent of the New Zealand population aged 18–64 years live in couple families with dependent children (i.e., under 18 years), a further 32% live in couple families with no co-resident dependent children, 7% live in sole parent families with dependent children, and 29% live as a single person family unit.

In the analysis, the families are treated as stand-alone family units. In situations where families share accommodation, the results would be the same as long as the assumptions regarding each family unit's share of total household accommodation costs are unaffected. For example, a group of four single people may flat together but the results of the analysis are the same if the assumptions about each person's rent and, therefore also their accommodation supplement payments, are not affected.

In the interests of simplicity, the children are assumed to be school-aged, and the childcare and out of school care and recreation subsidies, as well as the Best Start tax credit for under three-year-old children, are not included in calculations. Because these are income-targeted (except Best Start for 0–12-month-old children), inclusion of these programmes would reduce the net gain from insurance cover in most families with children.

Each of the four model family types is analysed at three different gross earnings levels:

- the 2022/23 minimum wage ($848 per week or $44,096 p.a.);
- the June 2022 median wage ($1,189 per week or $61,828 p.a.);
- the proposed maximum earnings cap for the insurance scheme ($2,518 per week or $130,911 p.a.).

The adult or adults who work are assumed to work full-time (40 hours per week) or to have been working full-time before the job loss. In the couple families the assumption is that one of the two loses their job.

> Taking the minimum wage and median wage examples together shows that for the bottom half of the earnings distribution, the net benefits of the insurance scheme, ... are relatively modest compared to the gross payout amounts.

Housing costs are assumed to be at least equal to the amounts of rent or mortgage payments that would entitle the family to the maximum accommodation supplement in accommodation supplement area 1, which covers Auckland and some other high housing-cost locations. These amounts are set out in the Appendix. Where housing costs are higher than is assumed here, the calculations would be unaffected. If housing costs were lower than these figures, the net gain from a payout under the insurance scheme would be higher, but, equally, the need for an insurance cushion would in most instances be correspondingly lower as housing costs are typically a substantial and relatively inflexible part of a family's budget.

Two outcome measures are used. The first is the net dollar gain from the insurance scheme conditional on the family experiencing a job loss and receiving the maximum entitlement of six months' insurance payout. Net gain is calculated as the difference between the family's net income after the job loss event if receiving insurance and their net income after the same job loss in the absence of the scheme (or, equivalently, if they are not eligible for insurance) for the six-month period. The comparison takes into account earnings, welfare entitlements (or, alternatively, the insurance payout entitlement), and any accommodation supplement or Working for Families tax credit entitlements. The cost of the insurance levy itself is not included here as it is accounted for separately. This outcome measure is a measure of the maximum the model families can gain from the introduction of the scheme if they experience a job loss.

The employer-paid 'bridging payment' is not included in the analysis as it is not part of the insurance scheme itself. It is a regulatory policy change that could be implemented irrespective of the insurance scheme.

The second outcome measure is the ratio of the net gain from the insurance scheme to the annual levies the same family and their employer(s) would be required to pay for the scheme. This measure can be thought of as a 'return on investment' or net value of the insurance: how frequently would the family have to experience a job loss (and receive the maximum six-month payout) for the total cost of the levies to equal the net gain from scheme coverage.

Results

The results of the analysis are summarised in Table 1. Column (b) is the family's total net income prior to job loss. It comprises gross earnings plus any Working for Families and accommodation supplement entitlements less income tax and ACC levies. The income insurance scheme levies are not deducted from this figure as they are itemised separately in column (c), which is the total of both employer and employee levies. Column (d) is the gross (i.e., pre-tax) payout by the insurance agency following the job loss. It equals 80% of the person's prior gross earnings for the six-month period.

Table 1: Summary of results for each family type

(a)	(b)	(c)	(d)	(e)	(f)
Each adult earning:	Annual net family income after tax, ACC levy, WFF & AS	Annual levies (total worker and employer)	Gross (pre-tax) insurance pay-out (6-months)	Maximum net gain from insurance scheme after job loss (6 months) over & above status quo	Ratio of maximum net gain from pay-out to annual levies
			Couple 2 children		
Minimum wage	$83,406	$2,452	$17,638	$4,871	2.0
Median wage	$98,801	$3,438	$24,731	$8,945	2.6
Insurance scheme maximum	$189,941	$7,279	$52,364	$38,896	5.3
			Couple no children		
Minimum wage	$75,666	$2,452	$17,638	$9,472	3.9
Median wage	$98,801	$3,438	$24,731	$16,057	4.7
Insurance scheme maximum	$189,941	$7,279	$52,364	$38,896	5.3
			Sole parent, 2 children		
Minimum wage	$67,281	$1,226	$17,638	$3,332	2.7
Median wage	$70,733	$1,719	$24,731	$7,032	4.1
Insurance scheme maximum	$94,970	$3,639	$52,364	$21,404	5.9
			Single person		
Minimum wage	$42,214	$1,226	$17,638	$4,828	3.9
Median wage	$50,454	$1,719	$24,731	$6,775	3.9
Insurance scheme maximum	$94,970	$3,639	$52,364	$26,416	7.3

Source: Author's calculations

Column (e) reports the first outcome measure: the net gain from being covered by the insurance scheme in the event of a job loss on the assumption that the family receives the maximum period of six months insurance payouts. Column (f) is the second outcome measure: the ratio of column (e) to column (c); that is, the ratio of the net gain resulting from insurance entitlements should a job loss occur to the annual total levies payable by that family and their employer(s).

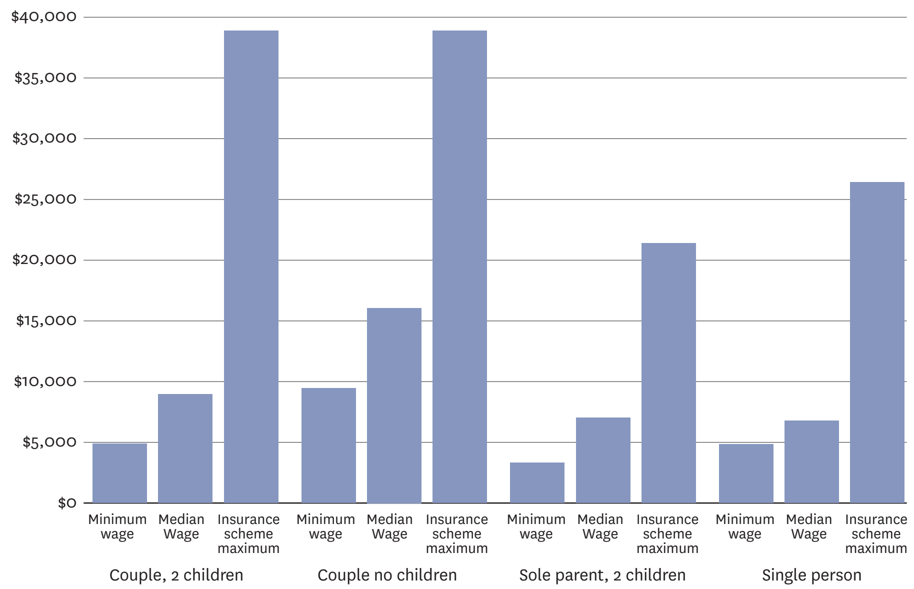
How much extra would families who experience a job loss have gained from the insurance cover?

The net gain figures in column (e) are based on the maximum unemployment duration that would be covered. If the person was out of work for less time, the net gain would be correspondingly less. For example, if they received insurance payouts for three months, the figure would be half that in column (e). In reality, the average duration would be less than six months, although the high payout ratio and light job search requirements could be expected to result in some moral hazard effects lengthening average unemployment durations.

Column (e) shows that the extra support the scheme would provide minimum wage families is substantially less than the gross insurance payout. For the sole parent earning the minimum wage, a six-month gross payout of $17,600 results in a net gain of $3,300; for the couple with children and the single person it is approximately $4,800. Only in the case of the minimum wage couple family with no dependent children is the amount higher, at $9,500. If the model families are earning median wages, the net gain is somewhat higher, but still far less than the gross payout of 80% of lost earnings. For the single person the net benefit from scheme coverage is $10,050, for the sole parent family it is $7,000, and for the couple with two children, $8,900. Again, the figure is higher for the couple with no dependents, at $16,100. The higher gain for this family type is due to two things: first, the fact that New Zealand's main welfare benefits are very tightly targeted on joint couple income, whereas the income insurance would be assessed on individual income; and second, that this family type's income is not cushioned by Working for Families tax credits, which apply only to people with children.[5]

Taking the minimum wage and median wage examples together shows that for the bottom half of the earnings distribution, the net benefits of the insurance scheme, while not insignificant, are relatively modest compared to the gross payout amounts. This conclusion is emphasised by considering the second outcome measure, the ratio of the maximum net gain from receiving the insurance to the total annual cost of the levies in column (f). This column provides an indication of the extent to which the insurance proposal represented value for money for the different model families at different levels of earnings. For example, looking at the first row, a couple with two

Figure 2: Net benefit from insurance scheme in event of job loss and maximum payout time, by families' earnings levels



Source: author's calculations

children and both partners on the minimum wage would need to experience a job loss and six months' unemployment for that worker every two years for the total levies that are paid to equal the difference between the insurance payout and existing social security provisions. For a minimum wage sole parent, the equivalent figure is every 2.7 years, and for the single person and couple without dependents it is approximately 3.9 years. At median wage earnings the ratios range from 2.6 for the couple with children to 5.9 for the single person. Few people or couples are likely to experience repeated job losses that frequently over their working lives. Moreover, it was proposed that a person would not be eligible to receive more than six months' payout every 18 months, so the job loss events would need to be spaced out with almost 'perfect' regularity for the cumulative levy payments to be less than the payouts.

These figures are based on the total payroll levy of $1.39 per $100 of wage from each of the workers' and employers' contributions. The total levy cost is highly relevant as it represents the overall cost effectiveness of the scheme. At the same time, it is also important to consider the potential benefits from the worker's perspective, as, at least in terms of legal incidence, they pay only half of the levy. Considering only the levy on workers, the figures in column (f) would be twice what is reported in the table. However, based on international evidence, it is likely that much of the employer levies would be passed on to workers by way of reduced wage increases, so that the final incidence of the employer levy rests on the worker. This was set out in detail in advice provided by Inland Revenue to the working group developing the scheme (Inland Revenue, 2021).

The figures in column (f) can therefore be thought of representing something between the two ends of the feasible range from the point of view of the employees only. To the extent that the family does not bear the final incidence of their employers' levies, job losses would need to be less frequent than implied in column (f) for the benefits to match levy costs; but to the extent that the duration out of work is less than six months, then job loss events would need to occur more frequently than implied by column (f).

Regressivity

Figure 2, which plots the data in column (e) of Table 1, highlights how regressive the scheme would be. Social unemployment insurance schemes are often regressive because payouts are linked to prior earnings. However, the fact that this scheme would have been layered on top of New Zealand's pre-existing tax-funded and targeted social security provisions makes it far more regressive in its net impacts than simply replicating the labour market inequality of gross wage differences. For the two couple family examples, there are differences in the net value of six months' insurance payouts between the minimum wage earners and the scheme maximum earners of $29,400 and $34,000. And in the cases of the single person and the single person with two children the differences between minimum and maximum earnings situations are $21,600 and $18,100 respectively.

The regressivity is greatest in the upper half of the income distribution. The main winners from the proposal would have been higher-earning individuals or families where one or both workers earn well over the median wage. Even then, of course, that is only true of people with a relatively high risk of job loss combined with a low probability of being able to find comparably remunerated work reasonably quickly. Many higher-earning workers face relatively low risk of job loss, or a high probability of being able to find similarly well-paid work quite quickly if they are laid off.

Discussion

One major criticism made of the insurance proposal was that it would have created a two-tier welfare system, with significantly more generous support for insurance recipients than for welfare beneficiaries plus a 'Koru club' level of work-test, case management service and active labour market support compared to that provided to beneficiaries by Work and Income (Child Poverty Action Group, 2022; Fletcher, 2022; Bertram, 2022; Chapple, 2022). As Bertram noted in his submission on the proposal,

> [f]aced with the obvious insufficiency of New Zealand's present levels of welfare benefits to sustain a 'civilised living standard' for all, the Task Force has turned away from the task of bringing the welfare system up to scratch, and has chosen instead to promote an opt-out arrangement for waged workers, enabling them in the event of redundancy or illness to maintain their living standards (often well above the level required to ensure 'civilised' levels of consumption) without being reduced to the stigma and misery presently associated with receipt of a welfare benefit. (Bertram, 2022, p.4)

The discussion document made the claim that the scheme would be complementary to the main welfare system (Tripartite Unemployment Insurance Working Group, 2022, p.9), and, in a similar vein, the minister of finance, Grant Robertson, argued that the scheme would 'fill a gap in our welfare system' (Tibshraeny, 2022). In fact, however, and as others have pointed out, the scheme as proposed was not a complement to the existing system but rather an imperfect substitute, providing an alternative for some of the population and in some circumstances (Chapple, 2022; Bertram, 2022).

The vignette analysis presented here does not address the disparities between people covered by the scheme and people who are not. Rather, the focus is on disparities within the group that would have been covered by the scheme. The results show that, based on the Tripartite Forum's proposed design, the proposal was highly regressive and would apparently have represented poor value for money for most who were covered by it. The main groups likely to have benefitted would have been higher-paid workers with a moderate risk of job loss and unemployment, plus some low- to middle-income earners facing an unusually high risk of repeated job losses and repeated spells of unemployment. For a large number of low- to middle-earning people the scheme would have provided some additional assistance in the event of job loss, but the likely net benefit to them would have been negative.

One rationale for the scheme that was put forward in the discussion document and supported by the NZCTU and ministers was that the scheme would reduce what is called wage scarring, whereby workers who experience a lay-off end up in a lower-paying job once re-employed. There is evidence that this effect does occur (Dixon and Maré, 2013), but there is little or no evidence to support the idea that a high-rate insurance payment would substantially reduce this problem. The theory put forward was that the wage-scarring effect is caused by low benefit payments forcing redundant workers to take sub-optimal jobs quickly rather than searching longer for a better job match. However, there are many other reasons that may account for the observed post-redundancy wage effect. Moreover, the available empirical research suggests that a higher out-of-work benefit rate is not a major factor in reducing wage scarring (Hyslop and Townsend, 2017). Hyslop's conclusion is that '[w]hile the studies were "pretty thin", there was not particularly strong, if any, evidence such schemes [as the NZII proposal] improved employment outcomes, at least when that was measured by the pay rate of the jobs people later landed' (Pullar-Strecker, 2022).

So, if the scheme proposed by the working group fails on both efficiency and equity grounds, what of alternatives? Consideration of alternatives is outside the scope of this article and requires far more information and analysis than was provided in the discussion document. However, it is possible to point to some potential reforms to New Zealand's existing income assistance system – including two that were part of the discussion document proposal – which deserve close consideration.

> One major criticism made of the insurance proposal was that it would have created a two-tier welfare system, with significantly more generous support for insurance recipients than for welfare beneficiaries ...

The first picks up on the bridging payment idea included in the discussion document. Redundancy cover for workers is relatively poor by international standards in New Zealand (OECD, 2017) and there is no compulsory redundancy legislation. Even a modest compulsory redundancy scheme, paid for by employers, would go a long way to meeting the consumption-smoothing problem facing laid-off workers. Such a scheme could be designed to help workers with insecure or short-tenure jobs by, for example, being 'one week's redundancy for every two (or three or four) weeks worked'. Even if limited to, say, six or eight weeks' maximum payout it would provide an effective buffer for many. The scheme could, if preferred, be targeted by setting a cap on the maximum weekly payout. Employers and employees would, of course, be free to negotiate additional redundancy agreements over and above the statutory minimum. The legal incidence of the cost of compulsory redundancy would fall on employers, although, as in the discussion above, it is likely that a considerable part of the final incidence would end up being transferred to workers through reduced wage increases.

A second aspect of the insurance proposal which may be worth including in some limited form in the welfare system is an element of individualisation of entitlements. While social (and private) insurance is usually based on the individual's circumstances because of its compensation-for-loss basis, social assistance benefits are typically assessed on joint couple income based on the family's need (and combined with an assumption that couples share their incomes). There is scope for considering modernising the welfare system to incorporate a degree of individualisation. A relatively simple and targeted way of doing this would be to introduce a disregard on spousal income up to some limit for the purposes of abatement of a person's benefit. For example, if the spousal income disregard was set equal to average full-time weekly earnings, only spousal income above that amount would be taken into account (along with the person's own earnings) when benefit abatement is calculated. Applying the same spousal disregard would also help address a major problem facing other beneficiaries whose benefit entitlement is affected by their partner's income if they enter in a new relationship while on benefit. This is particularly a problem for long-term beneficiaries, such as those living on the supported living payment or on sole parent support.

Lastly, while the Labour government has raised core benefit rates significantly in recent years, they remain low in comparison to minimum living costs and to wages (the single adult rate is less than half the adult minimum wage). A substantial increase in rates would help cushion the income shock of job loss as well as providing much needed assistance to all beneficiaries. Such an increase would be costly. But, then, so too was the estimated $3.3 billion annual cost of the insurance scheme.

1 Letter, 9 March 2023, from MBIE to author.
2 Although named after Lord Beveridge's 1942 report proposing a post-war social security system for the UK, New Zealand's system had been in place since 1938 and Beveridge paid close attention to New Zealand's Social Security Act 1938 when developing his proposals for Britain (Stewart, 2015).
3 One argument that has been put forward is that using the same parameters as the ACC scheme has the benefit of simplicity. Even on its own terms this is arguable, but any putative simplicity is swamped by the massive added complexity inherent in introducing a second tier to unemployment and sickness income support that would apply to some people and some circumstances but not others.
4 With a possible retraining option of up to 12 months.
5 The design of the Working for Families tax credits has other issues, not least of which is the high effective marginal tax rates associated with them. However, these issues, and the options for solving them, are separate from the insurance proposal.

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Appendix

Accommodation cost assumptions for vignette analysis

	Weekly accommodation cost of at least:	
	Rent	Mortgage
Couple with two children	$609	$644
Couple with no children	$470	$497
Sole parent with two children	$578	$607
Single person	$315	$330

The difference between the rental amount and the mortgage amount is due to the fact that the accommodation supplement has a higher entry threshold requirement for mortgage payers than it does for renters.