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Social Security Coverage**

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COUNTRY PAPERS

NEW ZEALAND

Employer Paper

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Introduction

New Zealand has a broad based social security system. One of only two countries in the OECD, our system is not insurance based, instead it is funded from general tax payer funds (with one exception).

Mostly, social security is income tested with a reducing entitlement according to self-generated income. There are however, some universal entitlements everyone gets irrespective of their own means. Universal entitlements are usually provided as a service (for example public healthcare and public education), however, the pension is a payment made to all who are 65 years and over.

New Zealand provides an income for all citizens irrespective of whether they work or not. New Zealand provides a wide variety of schemes based on the reason people are not working; for example child caring, old age, sickness, accident, unemployment. In addition, extra payments are provided to supplement the incomes of some groups, such as families.

Public opinion plays a major part in the social security system. Funded out of general taxation, those New Zealander's paying the taxes to fund the social security system tend to support assisting those in need, but have a limited tolerance if they believe people are 'gaming' the system.

Core types of social security available in NZ

New Zealand has a wide range of social security coverage. Those most important to employers are:

Universal health and education services – free public education and health care is available to all New Zealanders.

Universal pension – everyone receives a pension at aged 65 years irrespective of that person's working status or income.

Unemployment benefit – this is a payment to those unable to find employment. They are required to search for work and undergo training to assist them. The amount of the benefit they receive depends upon their personal circumstances such as how many dependents they have.

Sickness and Invalids benefits – these payments are for those who are unable to work due to sickness or they are classified as an invalid. Once again the amount they receive depends upon their own circumstances. There is a view that people are transferring from the unemployment benefit to these benefits as the job search requirements for the unemployment benefit becomes more rigorous. (See graph below).

Domestic Purposes Benefit – this is mainly a payment made to caregivers raising children on their own and are unable to work as a result.

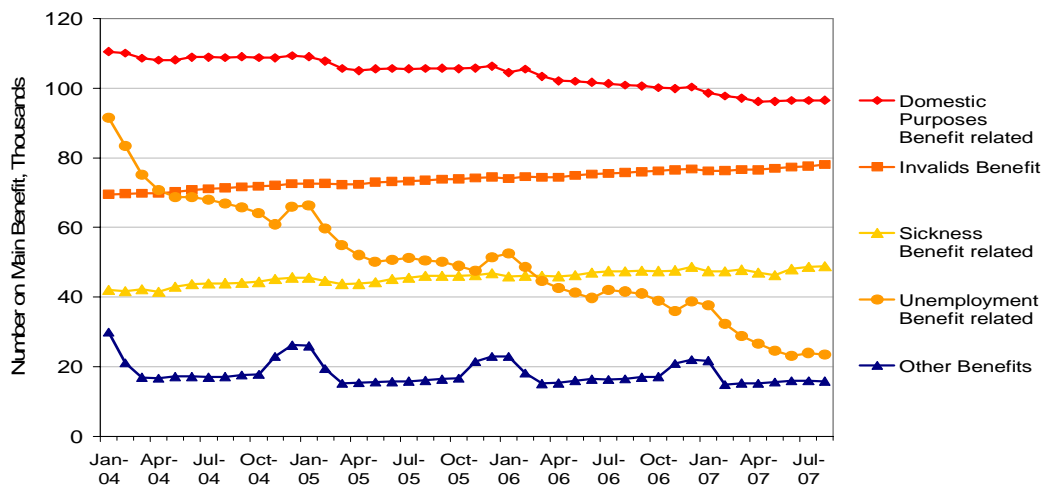
Accident Compensation (ACC) – a complex system, but essentially New Zealand has adopted a 'no fault no liability' approach to avoid litigation. A person injured through an accident has access to free medical care (up to certain amounts set by regulation) and income compensation of 80% of their earnings. The injured party cannot sue the person they believe to be responsible for their injury. ACC is an insurance based system paid through levies. Motor vehicle drivers pay a levy to fund motor vehicle accidents, employers pay a levy to fund workplace accidents and employees pay a levy to fund other accidents including sports and home injuries.

Paid parental leave – those employees who take time off work to care for their child after birth (or adoption) receive a payment for the first 14 weeks.

Working for Families – a benefit is paid to those working families who apply to supplement their self-generated income. This benefit is based on the number of children and decreases according to the amount of the income the household generates.

Additional benefits – there are a number of additional benefits available to assist with issues that most people incur. For example, there is an accommodation supplement for those who are paying high accommodation costs with low incomes.

Total working age clients by main benefit, January 2004 to August 2007.



Working age is 18 to 64. DPB related include sole parents, caring for sick or infirm person, and women alone. Transitional Retirement Benefit is included in the group 'Other Benefits' and only for the time period January 2004 to February 2004 as it ceased to exist in March 2004.

Source: MSD Information Analysis Platform (IAP).

Phasing out of payments

One of the most problematic areas of a means tested social security system is the phasing out of the payments as incomes rise. If ceasing a social security payment when a person achieved a certain level of self-generated income meant the overall money they received was lower, it would create a perverse incentive for people to not seek to work and not to increase their own self-reliance.

The multitude of social security payments and the amounts causes the phase out periods to become very long. New Zealand has ended up with families on quite high incomes still receiving social security payments to ensure the phase out of benefits does not result in an overall decrease in the money they receive. For example, households earning NZ\$120,500 can still receive a social security benefit. This then raises the issue of the purpose of a social security system.

The *Working for Families* in New Zealand provide social security payments for:

- almost all families with children earning under NZ\$70,000 a year
- many families with children earning between up to NZ\$100,000 a year
- some larger families earning more

Phasing out of benefits as incomes increase is a particular problem for New Zealand.

Public opinion impacts on NZ system

A social security system paid from general taxpayer funds means those taxpayers have a view about how the tax they pay is being spent. It is also within the power of the Government of the day to change payments as they see fit because the source of funding is from general taxation. Both these issues means public opinion towards social security tends to also become a political issue.

From time to time, a backlash has been seen in New Zealand as the balance of those who receive social security payments is perceived as becoming too generous and creating dependency on the social security system, or conversely, the limits placed on access to social security is seen as too restrictive for those in genuine need.

In very general terms, universal social security (such as healthcare, education, pensions) enjoys very strong public and political support. The pendulum of public opinion on means tested social security swings backwards and forwards over time.

Social security services

Social security services such as public health care and education are provided on a universal basis and is well supported. In general, the quality of these services are good and careful attention is paid to ensure this continues. The system would be undermined if a significantly better level of services were available for a fee with those relying on free social security services receiving low quality care and education. The good quality and universal nature of these services is an aspect of New Zealand's social security system that employers endorse and support.

These services are offered both solely through the public service and in partnership with the private sector. The degree of public/private partnership depends on the government of the day.

The universal availability of these services is of benefit to employers as the level of literacy, numeracy and well-being of the workforce is high relative to countries which do not provide these social security services. Higher productivity is a result.

Social security payments and tax cuts

Two issues arise out of the social security payments made.

Firstly, there are payments made to those who cannot support themselves. The level of those payments and the criteria for receiving them is a constant source of public debate about whether or not those receiving the payments cannot support themselves or choose not to support themselves preferring to be dependent on the system. There is also debate over what is an acceptable minimum standard of living the social security system should provide. However, overall there is wide-spread support for a system to assist those who cannot support themselves.

Secondly, there are social security payments paid from general taxation to those who are generate their own income – the cornerstone of this policy is known as *Working for Families* and has seen a 114% increase in non-beneficiary families receiving assistance. These people pay taxes and the government redistributes that tax back to them as they see fit, currently based on issues such as the number of children, accommodation costs, etc. The issue is whether a person should pay tax and then receive it back again after it goes through a government redistribution model or whether it

would be better not to take that tax from the person in the first place. The problems of phasing out social security payments is discussed earlier in this paper.

Overall, NZ employers prefer to encourage a culture of being rewarded for your own efforts and independence from the social security system, therefore favouring an overall reduction in tax rates instead of the *Working for Families* type redistribution model. The cost of administering NZ's current redistribution model is high.

Incentives or disincentives to obtain work or increase work

Despite the efforts to phase out income tested social security payments without causing an overall reduction in income, this has not been entirely successful.

Even though the phase out may mean a person does not have reduced income as a result of extra efforts such as working extra hours, sometimes the additional money earned is less than and disproportionate to the extra effort required to earn it. The end result is that some decline to work extra hours.

A parent not caring for their own children must make a payment to the Government if the other parent is receiving a social security payment. A wage increase from the workplace will increase the amount the non-caring parent must pay, creating a disincentive to work extra hours or accept a higher income.

There are examples where the phase out is not successful at all and a pay increase from the employer has the effect of reducing the total income.

Role of employers in a social security system

NZ employers generally support the NZ social security system. Like other sectors of society, the delivery of education and health care services is widely supported.

Three issues of particular importance for employers arise from our social security system:

1. A social security system impacts significantly on the availability of labour. It creates incentives and disincentives to work depending on its structure. An insurance based system has quite different effects on the labour market to a system funded out of general taxation.
2. The labour market can be seen to respond differently to means tested social security payments and universal social security payments. The pension is available to everyone 65 years and over. Because there is no pre-requisite to leave work before receiving the payment, the pension does not have a significant effect on the operation of the labour market. Compare with the unemployment payment which is means tested. It is a very sensitive balance between the amount of the unemployment payment and maintaining the incentives to work.
3. New Zealand employers believe there is a trend developing where they are being required to pay for the costs of some social security coverage which should rightly be a cost to all of society.

Example 1

ACC has definitions of the types of injuries that can be categorised as workplace, motor vehicle and non-work. The definition of workplace accidents is being broadened so that injuries that are uncertain as to whether they are work related or non-work related are more likely to be classified as caused in the workplace and must therefore be funded by the employer.

Example 2

New Zealand Government is currently considering whether an employer who can no longer employ an employee must be pay redundancy compensation to that employee. NZ has a social security payment available for these people in the unemployment benefit. If employers were required to pay redundancy compensation, the Government would effectively shift the cost of its social security coverage to the employer.

Encouraging voluntary social security initiatives in the workplace

The labour market in New Zealand is tight and it is difficult to recruit and retain skilled and experienced staff. Employers' seek to make their workplace attractive by offering a range of benefits.

As a result, some employers have voluntarily offered benefits based on social security concepts. For example superannuation, paid parental leave, redundancy compensation.

An unfortunate trend in New Zealand has been to make some of these benefits compulsory for employers to offer with an implementation model that disadvantages those employers who voluntarily offered them before. The result is a trend towards employers not voluntarily offering benefits which may be the subject to compulsion later on. Two recent examples in New Zealand have been the introduction of paid parental leave and a workplace superannuation scheme called KiwiSaver.

Conclusion

1. Social security coverage based on an insurance model or a system funded from general taxation is a fundamental decision that impacts on the operation of the labour market. New Zealand, as only one of two countries in the OECD, does not operate an insurance based system with the exception of accidents (ACC).
2. *Social security services* - the provision of universal social security services in New Zealand has been a success, for example healthcare and education. Ensuring the quality of these services is comparable to similar services available for a fee has been paramount and NZ has been successful in achieving that. Employers benefit from such a system through a better educated and healthy workforce.
3. *Social security payments* - the provision of social security payments for those who cannot support themselves adequately is broadly supported. Social security payments for those people already generating their own income is more complex and can create perverse incentives, although employers recognise and support that there is a point at which even those generating their own income do need assistance. The criteria for who is deserving and the amount of the payments oscillate as public opinion transfers itself in to politics. Compare to the success of providing universal social security under a tax-payer funded arrangement.

4. New Zealand's only insurance based model of ACC offering a 'no fault no liability' system is broadly supported.
5. Employers prefer a general reduction in the amount of tax taken over the model of redistribution of general taxation back to the people who paid it.
6. The phasing out of means tested social security payments is particularly problematic.

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