

28 April 2022

Social Unemployment Insurance Tripartite Working Group
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6145

Via email: incomeinsurance@mbie.govt.nz

Dear Sir or Madam

Submission on the New Zealand Income Insurance Scheme

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission on the proposed New Zealand Income Insurance Scheme (the Scheme). We have focused our feedback on those areas where we consider we can add the most value as detailed below.

Appendix A provides our responses to the specific questions raised in the discussion document, Appendix B provides examples of feedback we received about the Scheme from our members, and Appendix C provides more information about CA ANZ.

Key Points:

CA ANZ advocates for the public good on policy matters that affect our members, their clients and communities. Good public policy plays an important role in building a more sustainable, prosperous and resilient future for New Zealand.

We acknowledge that many OECD countries have income insurance schemes already, however, we note that the Discussion Document provides very little comparative detail about these schemes or the extent to which they are meeting relevant policy objectives.

If introduced, the Scheme would have wide-ranging ramifications for all New Zealanders. While we appreciate the Scheme will benefit those unable to afford income insurance and those who are more at risk of financial hardship due to redundancy, the costs of the Scheme are also likely to be felt more significantly by these individuals and small businesses.

Given the significant and wide-ranging implications of the proposed Scheme, we engaged directly with our members (chartered accountants) about the proposal through a variety of different channels, which is detailed further on in the submission. From this engagement, it is very clear that the proposed Scheme has polarised our members.

In our view, there are valid arguments both for and against the policy rationale for the Scheme. Regardless of those arguments, we consider that the design of the proposed Scheme needs significant further work. We would expect to see more robust empirical data about the needs the Scheme purports to address and a much more comprehensive analysis of the problems the Scheme is designed to solve and the alternative solutions that have been or could be considered.

Our comments below in response to the specific questions raised in the Discussion Document should be read in the context of the overall tenor of our submission, which is:

- full consideration must be given to alternatives such as the one we outline in more detail below – mandatory minimum statutory redundancy entitlements and expansion of the Accident Compensation Corporation (ACC) model to include the provision of insurance cover for health events and disabilities. The consideration of alternatives should include comprehensive modelling and full costing, which should be made public, as must the modelling and detailed costing of the current proposed Scheme's design; and
- the timeframe for the introduction of the Scheme (or alternatives) should be sufficient to allow detailed policy design and more widespread consultation on that detailed design. A proposal with such significant implications for all New Zealanders must not be rushed. The rationale for the ultimate policy outcome should be comprehensive and compelling and the chosen 'solution' must be fair to all New Zealanders, fully transparent as to cost and compliance burden, and effective in achieving policy outcomes that are supported by affected New Zealanders, including small and large employers.

We are surprised and disappointed that the economic modelling underpinning the proposed Scheme has not been made public as part of the consultation process. Access to the modelling is critical to allow submitters to provide effective feedback on the reasonableness of the underlying assumptions and is necessary to enable them to answer some of the questions in the Discussion Document. In our view, this lack of transparency is unacceptable for a proposal that will impose significant costs on all New Zealand employers and employees and considerable costs on the public purse.

Should you have any questions about our submission or wish to discuss it with us, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone +61 2 8078 5451.

Yours sincerely

Peter Vial FCA
New Zealand Country Head

Karen McWilliams FCA
Business Reform Leader
Advocacy & Professional Standing

Appendix A

Responses to consultation document questions

Chapter 4 – How a new income insurance scheme could achieve our objectives (Pg 30-48)

The Forum considers the benefits of income insurance for job loss due to displacement or health conditions would outweigh its costs.

1

Do you agree New Zealand should introduce an income insurance scheme for displacement and loss of work due to health conditions or disabilities?

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Our members' response to the proposal

Given the significant and wide-ranging implications of the proposed Scheme, we engaged directly with our members (chartered accountants) about the proposal through a variety of different channels. In addition to communicating the proposal to chartered accountants across the country via our newsletters, direct emails and social media, we met with our New Zealand Council (responsible for representing all New Zealand members), our Tax Advisory Group and our Rural Sector Committee whose members work in or with primary sector businesses.

We ran a webinar (with the Forum) about the Scheme and gave the 550 chartered accountants in attendance the opportunity to ask questions and provide feedback about the intent and design of the scheme.

We also conducted a survey of our New Zealand members, broadly asking whether members supported the Scheme or not, which proposed design features added to or detracted from the proposed Scheme in their view, and what Scheme design challenges the respondents foresaw.

From all this engagement, it is very clear that the proposed Scheme has polarised our members. In the survey, while 46 per cent strongly supported or somewhat supported the proposed Scheme, 43 per cent were strongly or somewhat against the proposed scheme and 11 per cent were neutral about the Scheme.

Appendix B provides examples of the verbatim feedback we received from our members about the Scheme, mostly as part of the webinar mentioned above.

Request for modelling

We are surprised and disappointed that the economic modelling underpinning the proposed Scheme has not been made public as part of the consultation process. Access to the modelling is critical to allow submitters to provide effective feedback on the reasonableness of the underlying assumptions and necessary to enable them to answer some of the questions in the Discussion Document.

Our first request for modelling was made on 21 February 2022 and the first response we received was on 18 March 2022 indicating that our request was being processed. Subsequent requests for the modelling were met with a similar response. In this time, we have not been provided with an acceptable reason for the modelling to be withheld (or for its release to be delayed). In our view, this lack of transparency is unacceptable for a proposal that will impose significant costs on all New Zealand employers and employees and considerable cost on the public purse.

Alternative approaches

Rather than introducing a comprehensive income insurance scheme, we recommend that serious consideration be given to introducing a statutory mandatory redundancy framework to address the gap in the existing employment law framework. This would align with the approach in Australia under the *Fair Work Act 2009* (Commonwealth). The statutory redundancy entitlement could be similar in nature to the bridging payment as proposed under the Scheme. For fairness for smaller businesses, we also encourage policymakers to consider whether payment of the redundancy could be staggered in time with normal pay cycles, rather than having to be paid as a lump sum. This would ease cash flow pressure on smaller businesses.

In our view, the arguments for insurance cover for loss of income due to health conditions or disabilities are more compelling than those for insurance cover for loss of income due to redundancy. However, in our view, consideration should be given to including insurance for health conditions and disabilities within the scope of the *Accident Compensation Act 2001* and the ACC's existing operating model.

Adopting the Australian approach to redundancy (mandatory statutory redundancy entitlements) and expanding the ACC framework to cover non-accidental health conditions and disabilities would go a long way to achieving the current proposal's key objectives at much lower cost to New Zealand's 600,000 businesses and approximately 2.8 million employees. We strongly recommend that these alternatives be fully costed by Treasury so that meaningful comparisons can be made with the modelling underlying the current proposal. The costs and benefits of each should be made public.

Proposed timeframe for implementation

We have significant concerns about the proposed timeline for the implementation of the Scheme. The proposed timing (introduction of the Scheme as early as 2023) is unworkable against the backdrop of the necessary infrastructure and resource needed to finalise the design of the proposed Scheme and implement it, including making the required consequential amendments to a number of current statutes. Further, we are concerned that the proposed 18 month period for collecting levies from when the Scheme commences could be insufficient to adequately fund the first claims subsequently made under the Scheme. However, as noted earlier, the modelling has not been made available to enable us to give due consideration to this aspect.

New Zealand businesses (large and small) and employers are grappling currently with the ‘perfect storm’ created by the pandemic, global supply chain issues, the effects of geopolitical unrest and significant inflationary pressures. In our view, to impose an additional significant cost and compliance burden on them at the same time – and in a rushed process and short timeframe – risks the Government being perceived as ignoring the significant issues and pressures businesses are currently facing.

Funding model

The Discussion Document lacks transparency about the proposed funding model. We make the following observations about it.

In our view it would be unfair and inappropriate for employers to be required to pay 50 per cent of the cost of the proposed full scheme, as health and disability related insurance cover is a private benefit that is not related to employment. Most health events and disabilities are not caused by employment. The Forum should at least clearly acknowledge that the proposed Scheme would require employers to subsidise private benefits provided to their employees.

The fact that employers would effectively be funding over 50 per cent of the employee benefit and funding the four weeks bridging payment it is disingenuous for the Discussion Document to refer to a 50/50 funding model.

The compulsory nature of the proposed scheme will result in cross subsidisation by, and unfair costs falling on, those employees who do not need cover and/or are happy to manage their redundancy and health risks independently.

In our view, the challenge of accessing income protection insurance at a reasonable cost for health events and disability should not be the driver for introducing a comprehensive income insurance scheme that includes coverage for redundancy.

Based on comments made by Officials, we understand that the proposed levy rates are expected to be on the conservative side, although the validity of assumptions and the veracity of the modelling performed are key to the accuracy of that assertion.

If the Scheme is introduced, it will be critical for levy/contribution rates to be reviewed, and actual Scheme payment data assessed within the first two years of the Scheme’s commencement and at regular intervals thereafter.

An income insurance scheme is likely to result in savings being made by the welfare system and we question whether consideration has been given to factoring this benefit when determining the levy rates. In our view any such savings should be considered in determining the costs to be borne by employers and employees.

We support retaining existing tax settings for income protection insurance, i.e. deductibility of levy payments and taxation of income received. Levy payments made by employees should not take on the same tax characteristics as ACC earner premiums simply because the scheme is to be administered overall by ACC. In our view, all payments made by employees for income protection insurance (whether by way of levy or premium) should be treated the same regardless of whether cover is provided by the public or private sector.

Chapter 5 – Honouring Te Tiriti o Waitangi (Pg 49-51)

Kawanatanga – Good governance and partnership

2 *How can we ensure the proposed income insurance scheme honours Te Tiriti o Waitangi?*

We recommend the Forum engage fully with iwi leaders and Māori business organisations.

3 *What are the opportunities for partnership and Māori representation in the proposed income insurance scheme’s governance and operations?*

As noted above in our response to question 2.

4 *How can we ensure equity of access, participation, and outcomes for Māori in the proposed income insurance scheme?*

As noted above in our response to question 2.

5 *How can we reflect and embed te ao Māori in the proposed income insurance scheme's design?*

As noted above in our response to question 2.

Chapter 6 – Coverage for displaced workers (Pg 53-72)

Displacement and standard employment (full- and part-time permanent employees)

6 *Do you agree with defining displacement as the involuntary loss of work due to the disestablishment of a job?*

Yes, we are broadly comfortable with the proposed definition. However, we also suggest policymakers consider whether proven constructive dismissal (i.e. where an employee resigns in response to a breach of contract by the employer) should be included, particularly as this situation is also not the fault of the employee but would not fall within the typical parameters of redundancy.

7 *Do you agree with excluding poor performance and gross misconduct as reasons for claiming insurance?*

Yes, we agree with this proposed exclusion given the underlying policy intent is to cover no-fault loss of work.

8 *Do you agree with excluding resignation as a reason for claiming insurance?*

Yes, we agree with this proposed exclusion. However, we note that this exclusion could result in unintended consequences in circumstances in which an employer pressurises or encourages an employee to resign so that they fall outside the scope of the Scheme, as noted in our response to question 6. We therefore encourage policy designers to consider how best to mitigate actions taken by employers to deliberately avoid their income insurance obligations.

Coverage provided for complete job loss only

9 *Do you agree that income insurance should cover only the complete loss of a job, and cover situations where a person loses only one of several jobs that they hold?*

Yes, we broadly agree with the proposed scope of coverage, but note that there are many complexities here with individuals who are employed in multiple part-time roles.

10 *Do you agree that insurance would be payable only where income loss was greater than a minimum threshold, such as a 20 percent loss of total earnings, counting income from all of their jobs?*

We consider that this threshold is too low against the backdrop of the policy intent of the Scheme and raising it would reduce the overall cost of the Scheme, while still ensuring that employees eligible for insurance payments are adequately supported for the period of the insurance coverage. If the proposed scheme were to proceed we would recommend a 30 or 40 per cent threshold rather than a 20 percent one. A higher threshold would reduce the number of eligible claimants and, importantly, the levies imposed on both employers and employees.

Displacement and non-standard employment – a principle-based approach

11 *Do you agree that it is important to provide income insurance coverage to non-standard workers, where practical?*

We broadly agree with the proposal to extend the Scheme's coverage to non-standard workers where practical. However, we note that there are challenges with doing so. In particular, the non-standard working arrangements contemplated here are likely to be variable and bespoke, and therefore difficult to determine eligibility and efficiently and fairly administer the Scheme. If the Scheme's coverage were to be extended to these types of working arrangements, we consider that more specific research and engagement is required to determine which arrangements are covered and how they are defined (as well as the behavioural impacts of such parameters).

12 *Do you agree that income insurance should cover the 'loss of reasonably anticipated income'?*

Yes, we broadly agree with the coverage of 'loss of reasonably anticipated income' but consider that this should only apply in prescribed and carefully defined circumstances, such as with non-standard workers, to limit the risk of fraudulent claims being made.

13 *Do you agree that income insurance entitlements should be based on an 'established pattern of work'?*

Yes, we are broadly comfortable with this proposal so long as the definitions used align with the existing employment law regime, and that a similar timeframe of 18 months is used for assessing this pattern of work.

Coverage provided for fixed-term and seasonal employees

14 *Do you agree that income insurance should cover fixed-term and seasonal employees if they are displaced before the end of an employment agreement, with the duration of the payment running to the scheduled end of the employment agreement, or the maximum insurance entitlement duration, whichever is shorter?*

While we broadly agree with the proposal for the Scheme to cover fixed-term and seasonal employees in some way, we note that there will be administrative challenges with implementing such coverage (see our response to question 11). The transient and temporary nature of these roles heightens the risk of gaming by workers and employers. If the Scheme were extended to cover these types of working arrangements, we consider that further research and engagement would be required to determine which arrangements are covered and how they are defined (as well as the behavioural impacts of such parameters).

15 *Do you agree that income insurance should cover fixed-term and seasonal employees, where their employment agreements are not renewed, and they can show a regular pattern of work and reasonable expectation of future income?*

Please see our responses to questions 11 and 14.

Coverage provided for casual employees

16 *Do you agree that income insurance should cover casual employees who can show a regular pattern of work with an employer and a reasonable expectation of future income?*

Please see our responses to questions 11 and 14.

17 *How would these design choices work in practice? What risks can you see with the approach to establishing a regular pattern of work?*

We anticipate that some employment agreements may be structured in such a way to either take advantage of the coverage provided by the Scheme or to cause an employer/employee to fall outside of the Scheme (depending on its scope). In both circumstances, there is a risk of fraud and inequity that would need to be carefully managed in the design of the legislative and regulatory provisions and in the operationalisation of the Scheme.

Coverage for self-employed workers

18 *What risks do you see with covering, or not covering, people in self-employment?*

Self-employed people cannot be made redundant. We believe there would be significant risks in including the self-employed in the redundancy cover and recommend that detailed consideration be given to providing the self-employed only with health and disability insurance, at a reduced levy. In our view, it would be inappropriate and unfair to require the self-employed to pay levies for redundancy insurance that they are unlikely to want or be able to access (other than in a distortionary way).

19 *Are there some groups of self-employed who should and should not be covered?*

Refer to our response to question 18.

20 *How can we practically distinguish between contractors who resemble employees, and those with a high degree of independence?*

Drawing such distinctions is fraught with difficulty. We recommend excluding the self-employed from entitlement to redundancy insurance.

21 *Because a self-employed person cannot technically be made redundant, what types of events would be appropriate 'triggers' for insurance payments?*

As noted above in our response to question 18, the cover for self-employed should be limited to health and disability, with a commensurately lower levy imposed on them.

22 *How do you think the levy should be collected from self-employed workers?*

Refer to our response to question 18.

A modest minimum contribution period

23 *Do you agree with the proposed minimum contribution period of six months over a period of 18 months preceding the claim?*

We consider that the proposed minimum contribution period is too short given the benefits under the Scheme are for seven months. We consider increasing the minimum contribution period to 12 months would be more appropriate. Another option would be to retain the proposed minimum contribution period at six months but reduce the entitlement period under the Scheme for those who have contributed for less than 12 months.

Redundancy payments are generally calculated by reference to length of tenure. The proposed scheme would provide up to seven months of income to employees regardless of their length of

tenure e.g. an employee who has worked for an employer for six months would be supported for the same maximum period as an employee who has worked for the same employer for 30 years. That seems inherently unfair.

Limits on subsequent claims

24 *Do you agree limits should be placed on the number of claims people can make?*

Yes, we agree that limits should be placed on the maximum lifetime number of claims a person can make. This will preserve the integrity of the scheme and reduce the cost.

25 *Do you agree with limiting claims to a total of six months within an 18-month period?*

Yes, it is important that the costs and integrity of the Scheme are controlled. In addition, as explained in our response to question 23, the contribution period for claims is also important from the perspective of fairness.

26 *Could the risks associated with a low contribution history be managed in other ways?*

Setting minimum contribution thresholds would reduce the risk and cost of the proposed Scheme. There is, however, a need to balance the risks and costs with the need to support the workers most vulnerable to redundancy, health events and disability. For completeness, please note our earlier comments that health and disability should be addressed separately by way of extension to the current ACC legislative remit and operational framework.

Coverage for New Zealand citizens and residents

27 *Do you agree with limiting coverage of the proposed income insurance scheme to New Zealand citizens and residents?*

Yes.

28 *To ensure New Zealand workers are not disadvantaged by lower cost international workers, do you agree that working holiday makers, international students and temporary work visa holders – and their employers – should contribute to the proposed income insurance scheme's costs?*

Excluding these groups from the need to contribute could create real risks of displacement of New Zealand workers in some sectors. That said, requiring such groups and their employers to contribute to a scheme the benefits of which they are much less likely to access, particularly due to eligibility criteria (on the assumption they are likely to return home on being made redundant or becoming ill or disabled) seems unfair.

Chapter 7 – Entitlements for displaced workers (Pg 73-95)

Income caps and income replacement rates that match the accident compensation scheme

29 *Do you agree with a replacement rate set at 80 percent?*

Given the proposed base entitlement period, we recommend that policymakers consider whether reducing or abating the replacement rate would be more appropriate (for example, reducing the rate to 65 or 70 -percent or abating the rate starting at 80 percent for the first month, 70 percent for the next and so on).

An abating replacement rate could be useful to incentivise claimants to find suitable employment sooner. For completeness, we acknowledge that a stepped replacement rate would be more administratively complex.

If the base entitlement period were shortened, it may be that a stepped replacement rate is not necessary. Please also see our response to question 41.

30

Do you agree with a cap on insurable (and leviable) income set at the same rate as the accident compensation scheme (currently \$130,911)?

We broadly agree with the need for a cap on insurable and leviable income. It is difficult to assess whether setting it at the same rate as the ACC cap is appropriate in the absence of detailed modelling.

See also our comments below in relation to the inclusion of an opt-out / self-insurance option.

Only personal exertion income would abate (reduce) insurance entitlements

31

Do you agree that only the insurance claimant's personal exertion income should affect their insurance entitlements?

Yes. We broadly favour the Scheme being universal and not including an assets and other (non personal exertion) income test. We acknowledge that for some claimants the absence of means-testing will mean that the insurance payments are not essential to ensure they can meet their living costs until they find new employment but the alternative (means-testing) would be very complex administratively and would also be unfair on people who contributed to the Scheme and were not then entitled to the insurance payments.

32

Do you agree that income insurance should have individualised entitlement, meaning a partner's income would not affect the rate payable?

Yes, for the same reasons outlined in our response to question 31.

Abatement rates would ensure a claimant is not financially better off as a result of their loss of work

33

Do you agree that someone should be able to earn some income from paid employment before it affects their entitlements to income insurance?

Yes, we broadly agree with this suggestion, particularly as illustrated on pages 81 and 82 of the Discussion Document.

34

Do you agree that insurance should abate 'dollar for dollar' when earned income and insurance combined reach 100 percent of previous income?

Yes, we broadly agree with this suggestion.

Insurance would generally be treated as income, to determine eligibility for welfare and student support

35

Do you agree that insurance should be treated as income for assessing eligibility for income support such as main benefits and Working for Families tax credits and student support?

Yes. The insurance payments are replacing employment income that is treated as income for social assistance purposes and should be similarly treated.

36

Given the purpose of the In-Work Tax Credit and Minimum Family Tax Credit in encouraging people into employment and helping with in-work costs, do you agree that income insurance claimants would not be eligible for these tax credits?

Yes.

Insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension

37

Do you agree that income insurance claimants could also receive New Zealand Superannuation or the Veteran's Pension?

Yes, New Zealand Superannuation and the Veteran's Pension are 'universal' and paid to people who are earning personal exertion income. The fact that a person is receiving income insurance in lieu of wages or salary should not affect their entitlement to NZ Superannuation or the Veteran's Pension.

38

Do you think a limit should be placed on the amount of time someone can receive New Zealand Superannuation or the Veteran's pension and income insurance?

Yes, the same six month maximum period should apply.

Where eligible, insurance claimants could choose whether to access Paid Parental Leave or income insurance and may receive both sequentially

39

Do you agree that income insurance and Paid Parental Leave could be accessed sequentially but not at the same time?

Yes, we broadly agree with this proposal, particularly as is illustrated on page 86 of the Discussion Document.

Insurance claimants could also receive ACC weekly compensation where it covers a different income loss

40

Do you agree that claimants should be able to receive both ACC weekly compensation and income insurance at the same time for differing income loss subject to independently meeting the eligibility criteria for both?

Yes, we broadly agree with this suggestion, particularly as is illustrated on page 87 of the Discussion Document.

A sufficient base entitlement period

41

Do you agree with a base insurance entitlement length of six months, plus a four-week bridging payment paid by the employer?

While we appreciate the policy intent of this proposal, we are concerned that the length of the base insurance entitlement could have significant behavioural implications.

To be eligible for insurance payments, claimants need to show efforts are made to search or prepare for suitable employment. The proposed obligation is only broadly defined and the

Discussion Document lacks detail regarding how a claimant's efforts are assessed at a case management level. There are risks that, after the six months, claimants instead opt to stop working entirely either because they now find it too hard to find suitable employment or have decided that they prefer not working.

Alternatively, claimants may only expend the minimum level of required effort to find a job, while seeking to make the 'best use' of the six months on other activities or leisure and, employers might consider that individuals who have taken the full six months as less employable for this reason (or because they have been perceived to have taken a career break) even when this might not have been the case.

The proposed case management approach could result in significant costs given the different claimant support arrangements that could be on offer – e.g. triaging claimants through the process, assessing efforts to find work, and facilitating retraining or new business opportunities.

42 *Would you support a longer or shorter length of base insurance entitlement?*

We support a shorter length of base insurance entitlement given the possible behavioural implications of a longer extension allowed in specified circumstances – as commented on above in question 41 and below in question 43. A shorter length of base entitlement should incentivise faster efforts to find suitable roles and should reduce the cost and therefore the levies payable by both employers and employees.

Extending the maximum period in specified circumstances

43 *Do you think the scheme should allow extensions to the base period of income insurance entitlements for training or vocational rehabilitation?*

Yes, we are broadly supportive of this proposal. We would prefer a shorter base insurance entitlement and longer extensions in prescribed and limited circumstances.

Enhancing the income insurance scheme with notice periods

44 *Do you agree that employers should give at least four weeks' notice to employees, and the insurer, before redundancy takes effect?*

While we broadly agree with this proposal we do not support both a notice period and a bridging payment. In the case of a business under financial stress, having both a notice period and bridging payment will require the employer to fund employees for 8 weeks placing further pressure on the business. Please see our comments above about adopting the Australian approach of minimum mandatory redundancy entitlements as an alternative to redundancy insurance.

We note this view is in line with the position of the Restructuring Insolvency and Turnaround Association of New Zealand who, in their submission, note this disproportionate cost to employers if they will have to provide a minimum of 8 weeks salary where both a notice period and bridging payment are implemented.

Avoiding unnecessary redundancies

45 *Do you agree that employers should pay former workers for the initial period of unemployment for four weeks?*

Yes, we are broadly supportive of this proposal. In line with our response to Q44, the four weeks bridging payment should be considered as 'notice' where immediate redundancy is determined by a licensed insolvency practitioner.

As noted minimum statutory mandatory redundancy entitlements would address the existing gap in the employment law framework and would be a preferable approach. We note that this would also align with the approach in Australia under the *Fair Work Act 2009* (Cth).

46 *Should bridging payments be applied to all workers, including those not eligible for income insurance?*

As noted above in our response to question 45, we consider that statutory minimum redundancy payment entitlements would address an existing gap in the employment law framework.

47 *Should the income insurance scheme finance bridging payments in circumstances where the payments are not forthcoming from employers, and refund employers for bridging payments if workers find work within this period?*

Yes, we agree with part of this proposal, namely that the Scheme pay employees where an employer is not forthcoming with the bridging payment. As employees are contributors to the Scheme they should not be disadvantaged by the actions of their employer.

Adopting this part of the proposal would create a risk that employers could choose not to pay or to defer payment for as long as possible. Accordingly, the Scheme would need to prescribe the period by which a bridging payment must be paid, and significant penalties should apply for non-compliance. If an employer's failure to pay is due to an inability to pay, this should trigger insolvency. The Scheme would then need to be considered as standing in the employee's shoes with the bridging payment being treated as a priority payment to a preferential creditor under the *Insolvency Act 2006*. This would be in line with the approach taken in Australia under the *Fair Entitlements Guarantee Act 2012* (Cth).

48 *Do you consider that stronger integrity measures are necessary to manage the risk of spurious claims to the income insurance scheme?*

Strong integrity measures are essential. The integrity and the cost of the Scheme would both be at risk if the penalties for fraud or other non-compliance are not drafted and enforced robustly. Broad public and employer support for the Scheme are critical for its success and New Zealanders have the right to expect the design and operationalisation of the rules for compliance with the Scheme to be robust.

Chapter 8 – Coverage and entitlements for loss of work due to health conditions or disabilities (Pg 96-112)

No restrictions on the types of conditions covered by the income insurance scheme

49 *Do you agree there should be no restrictions on the types of conditions covered by the scheme?*

While we broadly agree that, if the Scheme were implemented as proposed, broad coverage would be important, we reiterate our comments above about our strong preference for the ACC framework to be expanded to cover health events and disability and for mandatory redundancy entitlements to be introduced rather than the comprehensive insurance scheme proposed.

Given we consider that coverage for health conditions or disabilities should not form part of the Scheme and should instead be addressed as part of an expansion of the ACC framework, we have opted not to respond to the questions below that relate to this part of the Discussion Document.

No restrictions on the working arrangements covered by the scheme

Coverage for loss of at least 50 percent of capacity to work, for at least four weeks

Claimants' medical practitioners would assess work capacity, with final eligibility assessed by the scheme administrator

Employers would remain responsible for taking reasonable steps to support an employee to continue working

Employers would be expected to make reasonable efforts to keep a job open where a return to work within six months is likely

The scheme would generally meet the full cost of income replacement once a claim is accepted

59 *Do you agree that employers should only pay a bridging payment to employees leaving work because of a health condition or disability when the employment is terminated by the employer?*

As noted above, in our view termination of employment due to health conditions or disabilities should be included in an expanded scope of the existing coverage for accidental injuries provided under the *Accident Compensation Act 2001*.

With respect to the bridging payment, please see our response to question 45. In particular, we consider that implementing minimum statutory redundancy entitlements would address an existing gap in the employment law framework and would be a sensible alternative to the proposed Scheme. We note that this would also align with the approach in Australia under the *Fair Work Act 2009* (Cth).

Chapter 9 – Insurance claimants' obligations (Pg 113-120)

Reasonable obligations for people receiving income insurance payments

60 *Do you agree claimants should be obligated to look for work or prepare to return to work while receiving insurance?*

Yes, we agree that claimants should be obliged to look for work while receiving insurance. The absence of such an obligation would strike at the heart of the Scheme's integrity. Please also note our response to question 41. Namely, that the obligation as described in the Discussion Document is broad and lacks detail regarding how a claimant's efforts are assessed at a case management level. As such, more guidance about what constitutes an effort by the claimant will be needed.

61 *Do you agree that claimants would not be expected or required to accept offers of employment that provide lower wages or conditions?*

It should not be mandatory for a claimant to accept an offer of employment but there will be circumstances where the proposed Scheme should not discourage them from doing so voluntarily. Consideration needs to be given to the reasonableness of the prior wage in the current labour market as well as respective wage levels when an individual changes occupation or industry and enters it with a lower level of, or no, experience.

62 *Do you agree the insurer could waive obligations partially or fully where a claimant is unable to meet those obligations?*

No, in principle this seems inappropriate and unfair on other contributors.

63 *Do you agree claimants should be obligated to remain in New Zealand to remain eligible for income insurance?*

Yes.

64 *Do you think a period of time, such as 28 days, should be allowed for travel overseas, for example, to support ill family?*

Yes but by exception only – with evidence of the reason for overseas travel being required to ensure the entitlement continues.

Specific obligations for claimants with a health condition or disability

Consequences for non-compliance

67 *Do you think financial penalties should be in place for people who do not meet their obligations while receiving insurance payments?*

Yes, we broadly agree that penalties in the form of reduced or cancelled entitlements should be in place.

68 *Do you agree that payments could be fully suspended in cases of serious, intentional non-compliance with obligations?*

Yes, this would be critical to maintain the proposed Scheme's integrity.

69 *Do you think any other consequences should be in place for people repeatedly not meeting their obligations, such as permanent suspension of entitlements?*

Yes, such as the example provided or alternatively, that person's future access to the Scheme.

Chapter 10 – Delivering income insurance (Pg 121-134)

Independent and effective delivery

70 *Do you think it is best for ACC to deliver the income insurance scheme alongside the accident compensation scheme?*

Yes.

71 *Would the income insurance scheme be better delivered by a government department or a new entity?*

We would not support the establishment of a new entity given ACC has an aligned role already.

Accountable and effective governance

72 *How could employer and worker perspectives best be incorporated to strengthen the income insurance scheme's delivery for New Zealanders?*

By including employer and worker representatives in the governance framework and body(ies).

73 *How could Māori perspectives best be incorporated to ensure the income insurance scheme is delivered equitably and with aspiration?*

By including Māori representatives in the governance framework and body(ies).

Displaced workers: Getting back to good jobs

Health condition and disability claimants: Getting back to good jobs

Dispute resolution

81 *Do you agree with the proposed four-step dispute resolution process for the scheme?*

Broadly, yes.

82 *Are there specific aspects to the scheme's dispute resolution you think should be considered?*

The disputes resolution process needs to balance accessibility, simplicity and robustness.

Scheme integrity and enforcement

83 *Do you agree with the proposal to establish an effective offences and penalties framework to protect the scheme's integrity?*

Yes, this is essential.

Information collection and sharing

84 *Do you agree with the proposal to develop information sharing agreements and sharing arrangements with employers, other agencies and service providers?*

Yes, this would be essential for the integrity of the Scheme.

Chapter 11 – Funding income insurance (Pg 135-144)

Most funding would come from compulsory levy payments on income

85 *Do you agree the income insurance scheme should be funded from compulsory levies on the income that is insured, rather than from general taxation?*

Yes, we agree with this proposal, but the Government should release the modelling it has done to confirm the relative merits of a levy compared to funding from general taxation. In addition, please see our opening comments in response to question 86.

Levy payments would be shared by employers and workers

86 *Do you agree that levy contributions should be equally split between the employee and employer?*

While we agree in principle with the suggestion of splitting the levy, we are concerned that the proposed levy model will result in adverse and potentially perverse outcomes including:

- Wage or salary suppression when employers include the employee contribution within the current wage or salary levels;

- Conversely some employers will ultimately becoming responsible for the entirety of the levy (i.e. including the employee component), as some employees are unlikely to accept the suppression effect referred to above;
- An increase in opt-outs from KiwiSaver and reduction in KiwiSaver contributions by employees who cannot afford to pay compulsory insurance levies and also contribute to their retirement savings or first home deposits through KiwiSaver.

To expand on this further:

New Zealand's labour market is impacted by many competing factors. Based on current settings (critical shortages of skilled workers to fill available roles) it is likely that the cost of levy contributions will be borne by the employer in the short term. In the longer term, however, we expect that employees will effectively fund the full levy contribution (both employee and employer component) through wage suppression.

A number of employers effectively passed on KiwiSaver employer contribution costs to employees when the retirement savings scheme was introduced. The outcome for the income insurance scheme is likely to be similar where such costs are included within total remuneration in employment contracts. It may be necessary to legislate to achieve a different outcome.

87

Do you agree that levies for health conditions and disabilities and for redundancy should be set separately?

See our comments above recommending separating the two with the former included in an expanded ACC framework and the latter replaced by mandatory minimum redundancy entitlements.

As discussed above, we do not believe that the proposed scheme should provide income protection for workplace absence due to health conditions and disability.

If the proposal to cover both health and disability and redundancy were introduced as part of one scheme, we agree that levies should be set separately. Each element will have its own attributes and specific assumptions (including but not limited to frequency of occurrence and expected time away from employment, impacting cost).

Both the employee and employer would be charged at a flat rate

88

Do you agree that employees should be levied at a flat rate on income below \$130,911?

The questions in this section are difficult to answer in the absence of access to the underlying modelling.

Levying employees at a flat rate on income below the above threshold provides a simple mechanism but is likely to be regressive unless a minimum floor is set. Based on the proposed employee levy income threshold, low-income earners (for whom the Jobseeker support benefit would provide close to the same level of cover) would be subsidising medium to high income earners. This is based on the pay-outs that each group would receive at 80% of their wage or salary income relative to their levy contribution.

However, we understand that if there were a levy floor, there would be a significant increase in the levy payable by middle-income earners as a proportion of their income.

89

Do you have any other suggestions for how the employee levy should be structured?

If the modelling is made public, we will be able to make more informed comments on the structuring of the levy. Please see our response to question 88.

90 *Do you agree that experience rating would not be an appropriate design setting for the employer levy?*

Experience and risk ratings are complex especially when combined. We strongly recommend that the employer contribution be kept as simple as possible – i.e. a flat rate, or if not, that it is priced properly (reflecting the complexity involved).

Adopting a levy design inclusive of an experience rating component comes with high administrative cost and the experience in overseas jurisdictions suggests it would be at risk of becoming adversarial and leading to perverse outcomes.

For completeness, we note that experience rating would only be relevant in terms of the redundancy component of the proposed income insurance scheme employer levy.

Levies would adjust smoothly over time, with independent fund management

91 *Do you agree that an independent fund with a stable levy-setting system should be established to finance the income insurance scheme?*

Yes this would be critical.

92 *Do you favour a Pay As You Go or Save As You Go funding approach?*

The modelling should be made available so sensible conclusions can be drawn.

Building in scheme adaptability, while protecting levy sustainability

93 *Do you agree that the legislation for the income insurance scheme should provide the flexibility to vary entitlements and eligibility in times of crisis, over and above the proposed income insurance scheme?*

Only in very tightly prescribed circumstances.

94 *Does such flexibility create risks that require additional mitigations?*

Possibly, depending on the nature of the flexibility provided.

Other comments

Please refer to Appendix B which provides examples of the verbatim comments we have received from our survey respondents and our members generally.

Unfairness of universal approach

New Zealand has significant numbers of employees who are close to retirement and/or who work in sectors, professions or industries in which redundancies are extremely rare and very unlikely, such as teaching and health. Requiring such employees to pay for a scheme, the redundancy component of which they are never likely to access, seems unfair and punitive. Consideration should be given to allowing such employees to opt out of the compulsory scheme.

Some employees have chosen to take out private redundancy and health and disability insurance. In our view the Scheme should allow employees to opt out of the Scheme and self-insure instead.

Some employers operate their own accident insurance schemes. Employers should be allowed to operate their own income insurance schemes too.

Appendix B: Feedback received from CA ANZ members (verbatim comments sourced from our webinar)

- So a business is really struggling with COVID causing the business extreme financial issues and they have to give 4 weeks' notice whilst paying an employee, and then pay them for another 4 weeks at 80% after that date? This applies to all businesses i.e. no threshold - seems to me that small businesses will be crippled by the additional cost and will have another reason not to take staff on.
- I can't believe anyone on the minimum wage is going to be able to survive weekly on 80% - i.e. just like ACC this looks good for politics but in practice leaves people frustrated, disappointed and no better off
- Will this reduce the social cost of redundancies for employers? Therefore giving employers further scope for increased redundancies (knowing that employees will have another way of putting food on the table via this scheme)?
- This seems to protect higher income earners (who have a greater ability to save and prepare and pay for these situations/pay for private cover). Lower income earners (especially in the current climate) will struggle to survive on 80% of their income, which contradicts the argument that this is to stop people from settling on any job; they will take any job that puts enough food on the table.
- It sounds like employees will be contributing to their own scheme by deductions from pay - this means less money in the hand, thereby causing low and middle income earners to have less disposable income when they are already struggling. Two options - they end up with less in hand, or it drives hourly rates up again, which once again, the small business owner has to pay for.
- Under ACC the employer has to pay 1 week, why is this putting 4 weeks cost on the employer?
- The scheme is conceptually fine but is paid for by levying both the employee and employer and is therefore a "tax by stealth". Is there any compensatory adjustment to tax rates being considered?
- Perhaps there is no market for redundancy insurance in NZ because of the low unemployment rate and people backing themselves to pick up other "good" work?
- How does the ACC case manager know what job has future sustainability?
- What impact do you see on standard/current redundancy provisions in employment contracts? Secondly with any perceived barriers to laying off staff removed due to the lack of supports what impact are you anticipating on turnover/redundancy rates?
- Why combine insurance for Health & Disability with insurance for Displacement? They are quite different no fault situations
- My concern is that ACC was a wonderful scheme when it was started. But it has been eroded over time and I believe it has become an insurer that appears keen to minimise payouts. What is to prevent this wonderful proposal being eroded once it becomes law?
- If these types of schemes are in place overseas and work so well, I would like to know what other supports those countries have to help the small business to survive as all of these new changes and the associated compliance burden seem to fall on the business owner.

- Will people near the end of their career e.g. with less than six months to work be able to opt out of a scheme that they cannot benefit from? Or conversely, what risk is there that the business/employee works together to "make" the person redundant instead of retire in order to access payment they would not otherwise receive?
- Will the tax bandings be changed to account for the 1.4% additional cost borne by employees and employers - considering the inflationary pressures now and in the future?
- We have been through an unprecedented period of low unemployment; however those of us brought up in the 1970s know this can change in an instant. Anyone brought up in a household where a/the breadwinner is suddenly out of work will know the hardship this can cause. Some of the political classes have forgotten the cyclical nature of the world economy and have unrealistic expectations of the speed with which the newly unemployed can move to areas of higher employment opportunities. People need time and families need time to adjust.
- The idea of an insurance that gives employees a back-up while they look for a new job is good.
- Logical extension of ACC principle. Gives employee time to discover a better position without panicking due to cash flow problems.
- Brings NZ into line with other OECD countries and makes the NZ employment scenario more competitive when trying to attract talent
- The objective of the scheme makes a lot of sense.
- Employees no longer work for only one firm they are very mobile so a scheme to help with losing a job I see as valuable. My view is that most / a large portion of people would not purchase this cover without it being compulsory, especially the lower earners.
- I think it is important that workers have a safety net for unexpected life occurrences.
- It means that most employees will have some support if their jobs are lost through no fault of their own, not just those lucky enough to have redundancy agreements or insurances that cover such things. And for those who would get redundancy pay, if the company fails, that can mean so does that redundancy fail
- A scheme that taxes everyone that could be managed better individually
- Added burden on employers
- It's another tax to benefit the few. Get out and get another job
- Additional cost for SMEs which are already struggling g.
- An additional tax on wage earners instead of meaningful welfare reform is further erosion of disposable income.
- We are already paying ACC and therefore why can't medical injuries be covered under that scheme. Loss of income insurance should be taken by individuals and not funded by businesses and working people to fund those that wish to take 6 months paid holiday, in case of redundancy take up to 7 months to find alternative employment. Less take home pay for those working.

- Income protection cover is the responsibility of the individual not the employer. There are insurance products that already provide similar cover.
- This is another barrier for everyday wage and salary earners as well as employers, who are already facing inflation and living cost pressures. It is unfair and unlikely to benefit those who need income protection the most (those on lower incomes and thus cannot afford further reduction to their cash in the hand), while those who can afford to contribute (higher earners) are unlikely to be put in a position to need income protection themselves. This is not a public good.
- 2 tier welfare system, will discourage re-entry into the workforce, removes personal accountability from individuals, could increase redundancies, paid for by all but used by only a few, if I want income protection insurance I would get it myself, not equitable in distribution.
- On a personal level I don't want or need such cover & would object to paying for it. On a more general level there is already policy in place to provide income for people who are made redundant & need assistance. This seems like a way of moving the cost from government i.e. taxpayers to employers & employees.
- From a social justice point of view it seems like a good idea but trying to balance that with a scepticism that it could be abused by those who least need it.
- I think it's a good initiative, however there is already private redundancy insurance available, so this will have a significant impact on that sector. It would be interesting to know if the levy is comparable to private insurance. I like the fact that this scheme will make it universal, allowing individuals who may not have the financial ability to obtain private insurance or even contemplate it, to have this protection. I expect there's also a flow on effect to less people going on other benefits when they're out of work too (until the time lapses obviously).
- I believe that the intention is correct, as employees do need support with income protection. My reservations are around costs to employees especially those on low/middle incomes as they are already struggling to meet costs. Employers have just faced Covid19 issues and this may be another cost they don't need right now either.
- May be seen as encouraging business to make people redundant then government and employers pays for business decision
- Better to be more transparent with that type of tax and build it into the tax system
- I support the concept subject to detail around the employer / employee employment relationship environment as prescribed by legislation and or bargained protocols. I do not support the administration being with ACC
- The scheme needs to have broad coverage and be general in nature however there are a great number of different employment relationships therefore the scheme will not be specific enough to be of great use which will mean the outliers will probably get a poor outcome; think self employed as an example.
- It takes no account of people who just can't afford to have 2.8% of their wages/salary diverted. And can you opt out. Sounds great in theory but like all such broad schemes the detail will make it unworkable or inefficient. And ACC have a terrible track record of making eligibility decisions.

- The jobseeker benefit scheme should be made to work well, and be taxpayer funded. Charging employers and employees for an insurance that many do not want, and have little to gain from adds complexity and waste to our redistribution and social safety net policy
- Additional cost to both employees and employers at a time when every dollar is important. Those employees concerned about redundancy, health or disability do have the ability to obtain insurance to cover these events.
- Covering employees with the insurance scheme will help as NZ is one of the most under-insured countries in the developed world, and often employees can't afford income-related insurance.
- There are many people who, while they have redundancy in the contract, do not receive it due to employer collapse, when the company is insolvent and there is insufficient funds left to pay anyone. Ultimately those employees find their contract not honoured as there are no funds left, through no fault of their own and often have no safety net.
- Coverage for health and disability - allows income protection for those less well off and reduces need for private income insurance due to illness etc
- I think it has limited merits, well meaning conceptually but it does not look as though other policy levers settings were examined and tested before selecting this option
- Not sure how well the case management side will really work. There seems to be enough problems with unemployed people getting support to get back to work, so another system to match that - not sure how workable it will be
- Easy for people to take advantage of and keep claiming redundancy every 18months, it is compulsory, Additional cost of up to 6mths wages for employers, this will encourage people to not look for jobs straight away and will probably result in more beneficiaries.
- It looks like it's targeted to middle aged and middle income office workers.
- The devil lies in the detail and we have not got the detail
- Difficult for those with redundancy and notice provisions already in contracts to remove these and replace with the government scheme
- Making it equitable and able to cover all New Zealanders who lose jobs without being sorted by people who it isn't applicable to. Defining when something is a job could be problematic
- I believe it should be limited to only cover redundancy. I don't think cover of health or disability should be included. I also think it should be a opt- in scheme much like kiwisaver. If you opt in and have been contributing for X amount of months you are eligible. If you opt out, neither you or your employer have to pay the levy, and the individual can either look for cover in the likes of income protection insurance or accept that they will get nothing should something happen to them, as is the status quo!
- Key challenge is for the system not to be abused and how to administer.
- How do you build this into existing employment agreements; what if that agreement already includes provision for redundancy, how will the change be negotiated?
- This is not the time to impose further costs on NZ businesses and individual taxpayers. Due to high inflation we cannot deal with extra costs right now.

- The main challenges will be keeping the system simple enough for the general public to understand, while providing sufficient carve outs or opt outs (full or partial) for those who prefer private insurance.
- Equity across all types of employment arrangement; making sure people don't find ways to live off this rather than seeking further employment.
- Is it an insurance scheme or is it a social benefit scheme? the accounting is vastly different.
- For small businesses, every dollar of redundancy paid to an employee is a dollar the family of the small business owner does not have for paying their own living costs. In difficult trading conditions, the small business owner may be unable to afford to pay 4 weeks of redundancy pay.
- Is timing appropriate currently with a potential recession?
- I have concerns regarding the imposition on the employer having to pay the first four weeks of the insurance policy. Generally the business would be under some stress to have to make someone redundant and this would add to their cashflow liabilities. Or if they have had to employ someone else to do the job they are paying them wages as well.
- the Income Insurance Scheme should not apply to casual labour or seasonal employment. There is just too much variability within different employment arrangements to allow such a scheme to be administered efficiently and accurately. As an example, let's say there is an employee employed by a pack house on a casual contract to pack kiwifruit. As you would be aware, a casual employee can decide not to work when the employer offers them work. If an employee continually turns down work as they have other things happening, the packhouse is likely to stop calling them and offering them hours of work. Could the employee then claim they had lost their job and claim the Income Insurance? Like KiwiSaver, I do not think that working holiday makers, international students or temporary visa holders should be part of the scheme. These types of workers tend to be very transient and often move on to other jobs within quite short time frames. I believe the administration for these types of workers would be a severe burden.
- I note that the scheme is proposing that the cost is shared between the employer and the employee. At the end of the day, it will be the employer that carries the ultimate cost of the scheme as the employees will demand more income to cover the loss of wages due to the extra deductions.
- As a small business owner we now plan to close the business and terminate our staff before this legislation comes in. We may pay staff a redundancy payment if there is enough cash in the business at the end but our current agreement says that there will be no redundancy payment in staff contracts. We have had to deal with the extra admin of Pay Day filing and now this additional tax, on top of the 6% increase in April, plus increases in staff costs over the last few years (sick pay, statutory day). This is the final straw for a small business.

Appendix C

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.