

26 April 2022

Ministry of Business Innovation and Employment

From: Business Central Group, which includes members of Business Central, Wellington and Porirua Chambers of Commerce, and ExportNZ Central

Submission: New Zealand Income Insurance Scheme

About Us:

The Business Central Group, which includes members of Business Central, Wellington Chamber of Commerce, Porirua Chamber of Commerce, and Export NZ Central (Business Central) is a business membership association, representing around 3,600 members across Central New Zealand (Gisborne to Taranaki and down to Nelson). We have represented business in the Wellington Region for 165 years, and advocate for the interest of business, and development of our region's economy.

Summary

The Business Central Group cannot support the scheme in its current form.

As part of the wider BusinessNZ network, we have engaged with the goal of creating an income insurance scheme that works equitably for employers and employees – one that helps us match skills in a 21st century economy and limits the economic damage of future employment shocks. We still hope such a scheme is possible for New Zealand.

The NZ Income Insurance Scheme, as currently proposed, does neither. NZIIS has seen significant scope creep from its inception as a redundancy insurance programme. The inclusion of health and disability coverage doubles the cost and makes the forward planning of the scheme's liability deeply uncertain.

The introduction of a 2.78% payroll tax – with 1.39% falling on employers – will make doing business harder and hurt the very people the scheme is intended to help. A tax on payroll is a tax on jobs. Introducing one, without offsetting costs or providing taxation relief for business will discourage employers from taking on new staff – adding to the number of long term unemployed.

Our submission recommends a better, focused, and flexible social insurance scheme to pursue the original goal of redundancy insurance and employee retraining. We hope to support such a scheme in the future.

Cost Neutrality

The economic context of a proposed legislation is important. In recent times, the economy has considerably changed with inflationary pressures not seen for decades. Rising prices have shot up the agenda on our quarterly Business Confidence Survey, and the Consumer Price Index sits at its highest point in over 30 years. The solution to these cascading costs is not to add another.

Much of this pressure is beyond the control of our business settings – the global energy shortage and supply chain backlog are taking place because of factors out of New Zealand's control. But still – they add to the plethora of cost increases hitting business.

Beyond international factors though, this reform does not occur in a vacuum. It comes at a time when businesses are being asked to pay for multiple new reforms – such a Fair Pay Agreements, a rapidly rising minimum wage, additional public holiday, and increased sick leave, all while we manage and recover from Covid-19 impacts.

An additional 1.39% tax increase on *all payroll* would hit employers hard, and risk sending many struggling businesses under or facing reducing cost/overhead as wages rise. In our current tight labour market, business would have a possible 1.39% levy on employees, through a demand for higher wages, this could amount to a 2.78% payroll tax on business – right at the peak of ongoing inflationary pressures.

Employers will make choices, and one of those choices could be a disinclination to employ and seek the kind of growth an economy needs to sustain a programme like this. In a high-cost environment for business, the levy offers a disincentive to hire new staff, with those missing out being the most at-risk of long-term unemployment after a future economic shock.

The payments to employees who lose their jobs would replace a significant portion of government spending on the traditional social welfare system, so in effect this would be a transfer for costs from government to employers.

The government has not made the case that the NZIIS will deliver value to businesses, equivalent to 2.78% of payroll, and we cannot support such a scheme in the current environment.

Inclusion of Health Condition Coverage

Much of the scheme's cost could be avoided by a return to its initial intent: a system of redundancy insurance that takes steps to reskill, and place workers who lose their jobs.

As we have noted, Business Central would welcome a redundancy insurance scheme with appropriate parameters, particularly as we prepare for technological change, climate adaptation, and future pandemic-like shocks.

The inclusion of health coverage not only fails to address redundancy – it detracts from the attempt to help employees who are laid off in the future.

The discussion document estimates that coverage for health and disability services nearly doubles the cost of the income insurance scheme. Doing so has to be paid for by employers and employees, both in the premiums they pay, and through the risk that the scheme they pay into will not be sustainable long term.

No actions are taken to reduce the likelihood that someone with a health condition would claim social insurance, leaving the proposed scheme out of line with standard practice in the private insurance market.

Under a redundancy insurance scheme, a worker who is laid off could be placed into a job the very next day. The scheme could take measures to improve training and job placement to limit liabilities into the future. Neither would be possible under a system which included health conditions. We cannot plan for how long an employee may be sick and disabled, yet the scheme is required to include this cost.

Individuals with health conditions will, in the vast majority of cases, require further intensive and individualised support. This should be accessed through the currently provided health, disability, or welfare services, and resourced accordingly rather than placing these costs onto employers.

Business Central urges the Government narrow the focus to employment alone.

What Would a Better Income Insurance System Look Like?

A strong social safety net is important for New Zealand, and employers desperately need skilled staff. Our latest business confidence survey shows that nearly four in five businesses are finding it harder to hire skilled staff and the labour shortage is a major setback for 58% of businesses.

While no income insurance scheme should take away from the important role that immigration plays in growing our economy, and filling essential skills gaps, Business Central strongly endorses programmes to upskill New Zealanders, and help them find work.

We support the original intent of a narrower scheme, focussed on placing employees with prospective employers, and providing high quality skills training for workers who lose their jobs.

Other proposals to solve the problem of job displacement – such as compulsory redundancy payments – would be devastating for New Zealand businesses. It would ramp up the cost of hiring, raise unemployment, and leave businesses unable to restructure and adapt to a changing economy. Income insurance is a preferable alternative.

We echo suggestions highlighted by BusinessNZ for a more effective Income Insurance Scheme, including provision that:

- Employers who already provide redundancy compensation could opt out of the scheme.
- Such a scheme is not introduced until education and training programmes can deliver on helping employees back to work with improved skills and knowledge.
- Case management of participants can be contracted out in similar fashion to ACC, and that “accredited” employers be included as a vehicle for this.

Were these recommendations included, they would fit well with a narrower scheme, focused on redundancy that is cost neutral to business. Parameters for remaining on the scheme should be crystal clear, and the need for the affected individual to be actively involved their return to work is critical.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Arcus', with a stylized flourish at the end.

Simon Arcus

Chief Executive

Business Central Group