

# NZ Income Insurance Scheme

Submission to	Ministry of Business, Innovation and Employment
Contact	Mike Collins, Chief Executive Officer
Due date	26 April 2022

## INTRODUCTION

Business South Incorporated welcomes the opportunity to provide a submission on the proposed NZ Income Insurance Scheme. We are pleased to make a submission on behalf of our members in the Otago and Southland region. Our submission is aligned to the support of BusinessNZ's submission.

We consistently work to ensure the business community has a voice in central government reforms by being better aligned to the needs of industry and employers. We provide constructive comments on the proposal and indicate where we would like to see further consultation with industry leaders, small to medium employers (SMEs) if the proposal were to proceed.

## ABOUT BUSINESS SOUTH INC

*Business South Incorporated - Otago Chamber and Southern Employers* is a membership-based service organisation, with the proven history of nearly 300 years' worth of business support, expertise and representation in the region. Business South Inc. has been formed by the merger of two outstanding legacy organisations in the south – the Otago Chamber of Commerce<sup>1</sup> (founded in 1861) and the Otago Southland Employers' Association (founded in 1890).

Comprised of over 1,600 members, Business South Inc. actively provides information, advocacy, and support for business: connecting members through networking events and functions; advocacy; business support; employment relations; health and safety; workforce development; and developing capability and skills through our training workshops and programmes, including the not-for-profit sector.

We also advocate and offer a voice for business concerns and submit on behalf of members on local and national government policy. Representation occurs on behalf of a broad cross-section of business demographics including, location and industry type, with a full range from small businesses through to large employers and stakeholders in the Otago and Southland region.

We are a member of both the national BusinessNZ and NZ Chamber of Commerce networks.

---

<sup>1</sup> Business South Inc excludes the chamber organisations in the Queenstown Lakes District – Queenstown Chamber of Commerce and Ignite Wanaka.

## KEY ISSUES

The views expressed in this submission reflect much of our membership who are small to medium enterprises (SME's), with over 70% of whom have under 50 FTEs. SMEs nationally are 97% of the NZ business landscape.

We note it is a discussion document, and the policy work is still to be undertaken. There is plenty of scope to inform policy, so we therefore provide feedback on the proposal.

### A. POLICY – POSITIVE IMPACTS

1. An income insurance scheme as an option for businesses is more favourable than a compulsory minimum entitlement to redundancy compensation.
2. A business owner having the option to choose to participate in an income insurance scheme for redundancy coverage is positive for those who do not already have provisions in place, for both the employer and employee. We have members who already have provisions in contractual employee agreements.
3. There is merit in having a scheme that invests in people's skills to ensure a highly productive workforce that has well matched skills to job opportunities going forward.

Member feedback: To ensure there was a compulsory requirement to retrain during that pay-out period and employers/employees needing to provide proof of that.

4. The rationale for a scheme that supports retraining and more time to achieve better job/skills matching is that people are not forced to take any job to survive, which might be underutilising their skills and for lower pay, with a loss of productivity to the country.
5. Addressing the increasing risk in a more uncertain future world, where traditional work and jobs could be disrupted such things as an increasingly digital/high tech economy, a move to a low carbon economy, an economy disrupted by global shocks and/or pandemics.
6. An income insurance scheme has the potential to soften the blow for a region where a large employer is no longer viable and winds down their operations quite abruptly.
7. Ideally such a scheme should have a reduction in corporate tax to help fund it (so not an additional cost). Noting, it would make it more palatable to business but make no difference to employees.
8. If the corporate tax rate was reduced, many businesses would be more support of the proposed scheme. When asking members if they could change one thing about the scheme: changing the funding model to make it cost neutral on employees and employers is a common theme.

## B. POLICY - IMPLICATIONS AND GAPS

1. There should be provision for businesses that already have redundancy provisions in place that have the support of employees and not disrupt individual arrangements that people already have with the insurance sector to support them through job losses.

Example: Members have clauses in both the Individual Employment Agreement and the Collective Agreement: 4 weeks pay for the first year of service (or part thereof), 2 weeks for each subsequent year (or part thereof), up to a maximum entitlement of 26 weeks' pay.

Our membership agree, or consider, it should include an opt out provision where they can demonstrate a pre-existing scheme is operating. This option was put in place for the KiwiSaver Scheme and works. There is acknowledgement of the need to have a way to support redundant workers into work.

2. It is poor timing to introduce an income insurance scheme to levy employers and employees at a time when cost pressures on businesses is extremely tough with businesses recovering from the impact of Covid. Let's get the country economically more stable first - the pandemic has cost the country and individuals; costs are rising but not commensurate to rises in remuneration. Members cannot see the benefit of introducing this now, as it could be the straw that breaks the camel's back for many.
3. If an optional scheme was introduced, our members would consider it more appropriate to commence in 2-5 years' time.
4. There will be an additional cost to employers and employees. Productivity depends on the skills and management oversight of workloads. The levy would be an added cost to the employment relationship for many businesses and would only be reaped by those who are made redundant or have health and disability events that terminate their employment.
5. If a scheme were to be introduced, the view is it would be better suited redundancy and not widened to include health and disability, which doubles the cost. The inclusion of health and disability significantly increases the cost to the scheme. If there is the inclusion of health, it puts this burden on business as well in the same realm as redundancy
6. Significant impact on low-income workers, given they must contribute (roughly \$12 per week for a worker on the minimum wage). It will disproportionately affect them in their take home pay.
7. The added compliance costs may limit investment in areas of innovation and development for businesses.
8. As an extra cost, with no intention of having redundancy or health/disability resulting in cessation of employment. It would be a 'peace of mind' insurance, but only if it occurred.

9. The discussion document has no analysis of the impact and opportunity cost of the levies to pay for it. There is no experiential rating and no cap of levying income, yet there is a cap on paying out. How is this fair?
10. When considering the impacts for SME's the capacity to administer and financially contribute to such as scheme is significant. With finite resources, something else must be forgone. For our members who are local government authorities, they are answerable to their ratepayers for the monies spent. It would be unfair to put rates up to cover this cost when there is no defined deliverable that brings benefit to the community at large. It would just be another indirect tax.
11. If a scheme were to proceed, then every employee would need to be covered. It is recognised that self-employed people could not pay once for their trading entity and again as an 'employee' of that entity.
12. Other options: fund it through existing re-prioritising of government spending. If government cannot afford it, then why should employers who cannot afford it do so.

#### CONTACT FOR FURTHER INFORMATION

For further information, contact the Chief Executive Officer, Mike Collins, **Privacy of**