From: Privacy of
To: IncomeInsurance
Subject: Income Insurance Scheme- submission in opposition.
Date: Saturday, 26 March 2022 3:05:07 pm
Attachments: NZ needs to make better expenditure decisions. .docx

---

Dear Future of Work Forum.

I am opposed to this proposed new income insurance scheme. I attach an article I wrote (and which the NZ Herald published). Starting about a third of the way through the article, you will see I discuss the proposed new income insurance scheme, and make the point that a major consequence of the proposed new scheme, is that realistically it will prevent reform of Superannuation in NZ.

My firmly held view is that NZ`s very low level of institutional savings is a major detriment for our economy. The NZ savings rate needs lifting dramatically, through the introduction of compulsory superannuation. Anything (such as the proposed new scheme) which impedes the introduction of compulsory superannuation saving in this country at an equivalent rate to the Australian rate, in my view would be a major policy mistake.

I also point out, that Accident Compensation was introduced in the 1970`s, with high hopes that it would successfully supercede court litigation as a way of compensating for accidental injury. In fact, ACC cost far more than was originally expected, and the cost of ACC grew at a compound rate of around 15% for some years, forcing benefit levels to be cut back, qualifying periods to be introduced, etc.

The unfortunate reality, is that when a new benefit or new form of assistance becomes available, people adjust their behaviour to qualify for, and to take advantage of the new scheme- pushing its cost up considerably. If this new Income insurance scheme is introduced, it is highly likely the running costs of the scheme will end up being much higher than originally projected.

Why Business NZ, in an economic climate where business costs are already rising rapidly, would be supporting such a proposed new scheme bringing with it likely further high future costs, is unclear.

Best regards,

David Schnauer.

NZ needs to make better expenditure decisions

A cynic once described Economics as `Common sense made complicated'. This description is apt for the economic concept called `Opportunity Cost'. Simply put, the concept means if you have $5 and choose an ice cream over a drink, the Opportunity Cost of buying the ice cream, is loss of the ability to quench your thirst. It is common sense: choice of one option, means foregoing benefits offered by alternatives.

Has NZ ignored this concept, in recent expenditure decisions? The airport light rail project, and the plan to help jobless, both recently announced, are proposed expenditures where Opportunity Costs appear overlooked.

Consider investment into Auckland infrastructure. Three major projects were proposed. A new harbour crossing, duplicating the harbour bridge. Moving the Port out of the harbour. Light rail to the airport. Each comes with a price tag exceeding $10 billion.

Funding is limited to paying for one project. Choice of one project, necessitates the two alternative projects being shelved for years.

Yes, light rail offers benefits. But did the Government in approving this project, acknowledge that as a result, the Port will not be moved, and the harbour bridge will remain as the sole harbour crossing? It would be surprising if a proper balancing of all three projects found light rail provides greater benefits than a second harbour crossing. The apparently disregarded Opportunity Cost of choosing Light Rail, is that major gridlock on the bridge will remain for years. It is a high cost for Auckland to bear, which follows directly from selecting light rail.

The same comparative approach is needed when considering new annual expenditure programmes, such as a safety net for jobless, costing $3 billion annually. Yes, there is benefit in helping people who lose their jobs. But these proposed benefits come at a major new cost- 2.8% of worker incomes. Employers and employees will each pay half.

Are there other alternative programmes, to which 2.8% of worker incomes could be applied? Would those alternative programmes deliver greater social benefit, than the jobless plan? Unfortunately, analysis suggests there are, and the new jobless assistance programme is not a good expenditure decision.

Since the Muldoon government abolished compulsory superannuation saving in 1975, NZ has seriously lacked institutional saving. Kiwisaver has been a belated introduction to address this major omission, but it is voluntary; at a low rate of income (usually 6%); and not supported with tax concessions. Australia established compulsory superannuation saving decades ago. It is currently moving to 12.5% of incomes- twice our voluntary rate. Australia has more than $3 trillion in its super funds. NZ has approximately 3% of Australia`s total. Our super funds are currently minnows.

This lack of NZ superannuation saving causes three major detriments. First, retirees with minimal savings must be supported by taxpayers. With a rapidly aging population, the cost of that taxpayer support is rising steeply. One Retirement Commissioner described the projected future increases as `terrifying'. Increased compulsory super saving will help offset this future cost to taxpayers of supporting retirees.

Secondly, NZ's economy has been seriously damaged by having minimal institutional savings. Fund managers invest saved funds into local business. Without large savings, NZ has lacked funding for its business sector. NZ business has therefore looked offshore for capital. Result: major swaths of NZ business have passed into overseas ownership in the last 50 years. The transfer overseas of NZ corporate wealth continues apace. This loss of ownership of much of our business sector, is a continuing tragedy for the country. Increased super saving will begin to reverse it.

Finally, without compulsory saving, Kiwis have instead used their money to buy houses- pushing house prices to dangerous levels. More superannuation saving will limit funds driving house inflation.

These are three critical problems for NZ. They would begin to be addressed, if we introduced compulsory super at 9% and progressively raised the rate to 12.5 %. Kiwisaver is voluntary, and currently around 6%. Adding 3% to that figure, (being the estimated cost of the new jobless scheme), and bringing in compulsory super at 9% would soon start to make progress in improving NZ`s current dismal level of savings. Introducing compulsory super at 9%, offers far greater societal benefit at no extra cost, than introducing the new jobless scheme.

Kiwis will need time to embrace 12.5% superannuation contributions. The total imposition would rise to 15.5% if the levies required to fund the proposed new Income Insurance scheme are added on top. Kiwi voters would surely not be impressed, if asked to pay total compulsory new levies of 15.5%

The Opportunity Cost of the new jobless scheme is seriously to impede badly needed future reform of NZ superannuation. The new jobless scheme is an unfortunate mistake.

David Schnauer.